



AEGIS / VALUE FUND

ADVISOR'S REPORT
FEBRUARY 28, 2007



Advisor's Report

April 20, 2007

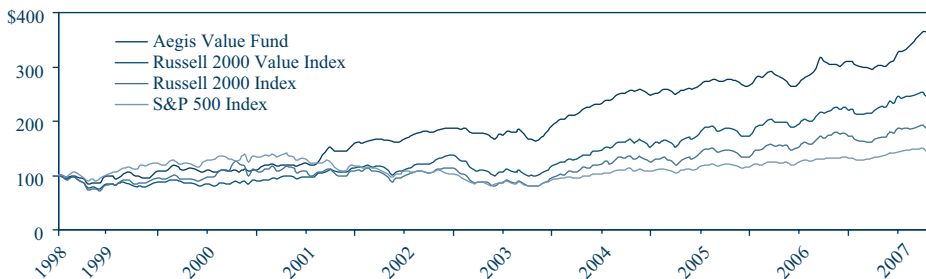
To the shareholders of the Aegis Value Fund:

We are pleased to present the Aegis Value Fund Advisor's Report for the six months ending February 28, 2007.

Since inception of the Fund on May 15, 1998, nearly 9 years ago, performance has been strong relative to the benchmark indices. As can be seen in **Figure 1**, the Fund posted a cumulative gain of 264.4 percent through March 31, 2007, compared to cumulative gains of 149.4 percent in our primary small-cap benchmark, the Russell 2000 Value Index. During this period, the Russell 2000 Index of small cap stocks posted cumulative gains of 89.6 percent, and the S&P 500 posted cumulative gains of 47.4 percent.*

For the six-month period ending February 28, 2007, the Aegis Value Fund posted a gain of 21.9 percent, versus a gain of 10.4 percent for the Russell 2000 Value Index. The Russell 2000 Index returned 10.8 percent while the S&P 500 Index returned 8.9 percent.

Figure 1: Historical Investment Return (5/15/98 Through 3/31/07)



Source: Aegis Financial Corporation

* Aegis Value Fund's one-year, three-year, five-year, and since inception (5/15/1998) average annual returns for the period ending March 31, 2007 are 19.7%, 12.3%, 14.6%, and 15.7% respectively. Returns include reinvestment of dividends and capital gains. Russell 2000 Value Index one-year, three-year, five-year, and since inception (AVALX-5/15/1998) average annual returns for the period ending March 31, 2007 are 10.4%, 14.5%, 13.6%, and 10.8%. All historical performance returns shown in this shareholders' letter for the Aegis Value Fund Inc. are pre-tax returns. This report does not constitute an offer or solicitation of any transaction in any securities. The Aegis Value Fund is offered by prospectus only.

We are particularly pleased with our six-month results given they have been generated while keeping our risk exposure at levels we believe remain significantly reduced compared to the current elevated levels of risk present in the small-cap equity benchmark indices like the Russell 2000. One obvious measure of this decreased risk results from the benchmark indices being, by definition, fully-invested over this 6-month period while our Fund, on average, held approximately 25 percent of its assets in cash and Treasury bills resulting in this portion of our assets being unexposed to any equity market risk whatsoever.

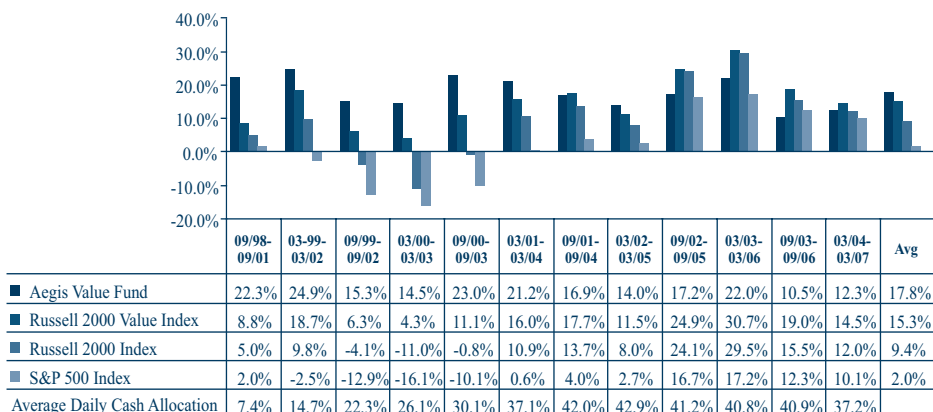
On the other hand, as can be seen in **Figure 2**, the impact of holding high cash levels in the Fund in recent years, a period when prices and valuations of small-caps have rapidly escalated, acted to dampen Fund performance relative to the small-cap indices. The fact that we were more recently carrying heavy amounts of cash and still outperformed the benchmarks during the first half of our fiscal year, a bullish time for the indices, is a good showing for our Fund. Strong investment performance was instrumental in achieving our results.

Our focus on risk mitigation and capital preservation in the Fund dictates the exclusion of many investments found in the benchmark indices that are not sound investments. As a result, when sufficient investments are not available at bargain prices, the Fund will hold cash (i.e. short term U.S. Treasuries) rather than attempt to remain fully invested in overpriced securities, a flexibility unavailable to index investors.

Cash holdings can drag on performance and be especially frustrating when stocks we've refused to buy because of their lofty trading valuations and poor risk-return characteristics continue to move higher. Six months ago, our cash-heavy Fund was experiencing above average levels of investor redemptions following the opening-up of a performance gap against the small-cap value benchmarks that occurred during a 3-year period of rising small-cap valuations. Primarily before calendar year-end, the Fund received approximately \$65 million in net redemptions over the six months ending in February. Despite our continued holdings of cash, as the performance of our overall portfolio increased and our 3-year relative rankings improved, the net redemptions of last year reversed.

We provide a lengthy discussion of the impact of cash on our results because we want to attract like-minded investors who will understand our process and invest with us over the long-term. It is a fact in the fund business that fund flows tend to be highly correlated with recent trailing performance relative to the benchmarks. If the trailing 1-year and 3-year results outperform the benchmarks, the money pours in. If the trailing 1-year and 3-year results underperform the market, investors race for the exits. While in a sense this activity is clearly not surprising, our hope is that the better understood our investment approach, the less likely our investors will be to suffer from making counterproductive fund purchase and sale decisions based-on naturally occurring results volatility.

Figure 2: Aegis Value Fund Rolling 3-Year Annualized Performance Record



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please call us at 1-800-528-3780 to obtain performance data current to the most recent month-end.

We point out a well-documented new study by Matthew Rice and Geoffrey Strotman at DiMeo Schneider & Associates that was released in March of 2007, which is currently available on their website. The study evaluated 402 top-quartile performers measured over a 10-year time span among 1,596 funds across 17 categories in the Morningstar fund universe. As can be seen in **Table 1**, the results showed that of these 402 top-quartile performers, 89% experienced a 3-year period of below-median performance. On average, once a fund dropped into the bottom half, it remained a 3-year trailing underperformer for a median of 5 quarters. Over the same 10-year time span, 51% of 10-year top-quartile funds experienced a 5-year period of performance landing them in the bottom half of the pack. As we look back over the nearly 9 years that the Aegis Value Fund has been in operation, we too have experienced rolling 3-year periods of poor relative performance as can be clearly seen in **Figure 2**. However short-term relative underperformance is at times the cost paid for moving cautiously in high-adrenaline markets when valuations become unrealistically high. Since nobody can perfectly time the market, it's often better financially to leave before the last inning of the game even though you may miss out on a play or two, especially if there's likely to be a big wreck in the parking lot afterwards.

Table 1: Ten-year top quartile funds (ending December 31, 2006) that fell below median during one or more three and five year periods

Category	Funds with 10-year records	10-year top quartile funds	Number of 10-year top quartile funds below median for a 3-year period	Percent of 10-year top quartile funds below median for a 3-year period	Median years spent in bottom half during next rolling 3-years	Percent of 10-year top quartile funds below median for 5-year period
Intermediate Bond . . .	182	46	34	74%	0.5	38%
High Yield Bond	63	16	15	94%	1	50%
Foreign Bond	20	5	4	80%	2.5	60%
Large Cap Value	171	43	41	95%	0.75	40%
Large Cap Blend	270	67	61	91%	1.25	41%
Large Cap Growth . . .	217	54	48	89%	1.25	46%
Mid Cap Value	32	8	6	75%	1	25%
Mid Cap Blend	70	18	17	94%	1.5	72%
Mid Cap Growth	119	30	29	97%	1.25	53%
Small Cap Value	42	11	11	100%	1	64%
Small Cap Blend	68	17	17	100%	1.25	41%
Small Cap Growth . . .	115	29	27	93%	1.25	48%
REIT	27	7	6	86%	2	71%
Foreign Value	35	9	9	100%	1	56%
Foreign Blend	90	23	19	83%	1	35%
Foreign Growth	37	9	6	67%	0.75	56%
Emerging Markets . . .	38	10	9	90%	1	70%
Total:	1,596	402	359	89%	1.2	51%

Source: DiMeo Schneider & Associates, LLC Research & Analysis

Aegis Value Fund — A “Third Way” to Invest

The equity management business increasingly seems split into two distinct camps:

On one side lies the vast preponderance of mutual funds. As a means to gather assets, they focus on relative returns and the minimization of “benchmark tracking error”. This camp generally strives for “style-box purity”. Managers try to fit the totality of their investments into the latest asset allocation grid. Whether a manager is small-cap value or large-cap growth focused, style drift is minimized. Fund managers are expected to hold little cash, and full-investment is generally pursued.

The other investment camp is generally referred to as “alternative investments” or “hedge funds”. Believers in alternative investing encourage active management, and absolute returns are the focus. High levels of cash are sometimes held and investments can be made across multiple segments of the market. Managers are highly focused on minimizing the monthly, weekly or even daily fund declines to ensure that

“drawdown” of capital during difficult market conditions is minimized. Typical fee structures in this segment are a hefty 2 percent of assets plus an additional 20 percent of annual returns, which tends to drive risk taking among these managers as they seek to lever up their returns by borrowing money, or by frenetically trading in and out of positions.

At the Aegis Value Fund, we’d like to think we are offering investors a needed alternative to both camps. Like the alternative camp, we are intensely focused on absolute returns. We pay little attention to benchmark tracking error over short time frames. Also, like the alternative camp, we are active managers and continually do intense research to find bargain-priced securities in the market. When we are confident, we tend to be concentrated in our positions. When well-priced investments are scarce, we will hold cash rather than hold benchmark-tracking equities. However, in the Fund we avoid several common “alternative” strategies that we believe can increase risk to clients and be detrimental to long-term performance. By choosing our investments with care, we keep turnover and trading costs low. We do not borrow money to enhance returns and perhaps most importantly, we offer our investors a much lower fee and better transparency than is available at most hedge funds. While not always flashy, small-cap value stocks have historically been a promising hunting ground for investment. You may sleep better at night knowing there is no one in the “other room” speculating vast sums of shareholder capital on leveraged futures positions as one hedge fund did when they reportedly lost \$6 billion of investor money in soured commodity trades over two weeks last September.

Portfolio Gainers and Losers

In most 6-month periods, any portfolio of 60-80 stocks will likely have some investments that work out extremely well and others that perform poorly. In the first half of fiscal 2007, we experienced an unusual period where no single investment in the portfolio experienced losses in an amount in excess of one percent of Fund assets. **Table 2** shows stocks held by the Fund that during the first six months of the fiscal year contributed gains, both unrealized and realized, in excess of one percent of fund assets. Average net assets during the first six months of Fiscal 2007 were \$388 million, so the table shows any stocks that contributed in excess of \$3.88 million in gains.

Table 2 – Significant Contributors to Net Gains in Semi-Annual Period

Investments Contributing Gains in Excess of 1% of Average Net Assets (8/31/06 – 2/28/07)

Investment	Ticker	Realized Gains *	Unrealized Gains *	Total Gains
Alliance One International Inc.	AOI	\$13.8M	\$4.1M	\$17.9M
CF Industries Holdings, Inc.	CF	\$ 6.8M	\$9.5M	\$16.3M
Steel Technologies	STTX	—	\$5.6M	\$ 5.6M
Air France	AKH	\$ 3.7M	\$1.5M	\$ 5.2M
Exide Technologies	XIDE	\$ 1.6M	\$3.2M	\$ 4.8M

* *Realized and unrealized gains in Table 2 are calculated employing the period start price as basis for period gains.*

As can be seen in **Table 2**, the Fund's performance benefited significantly from our investments in Alliance One International and CF Industries, two large Fund holdings that we've described in previous reports. In the case of Alliance One, a world-wide processor of tobacco leaf, the impact of better crop performance in Brazil, the flow-through of consolidation savings, and increased industry pricing finally began to impact reported results, leading to a significant increase in valuation.

CF Industries is a provider of nitrogen fertilizer critical to corn farmers. The tremendous growth in the expected acreage devoted to producing corn, driven in part by increasing ethanol use, has caused demand for CF's products to surge. At the same time, moderating natural gas prices, the primary component of nitrogen fertilizer, have reduced raw material input costs for CF. Investors have recently become aware of how both trends may drive increases in the 2007 and possibly longer-term profit margins at CF and other domestic nitrogen fertilizer producers.

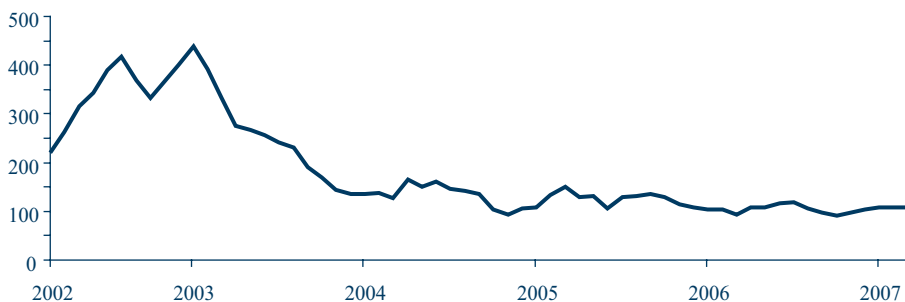
The most significant single detractor to Fund performance during the period was Sea Containers, which lost approximately \$2.0 million of value on continued uncertainty regarding the outcome of their bankruptcy. As of February 28, the Fund had only \$2.3 million, or 0.6 percent of its assets invested in Sea Containers. The second most significant detractor to Fund performance during the period was Allied Defense Group, which lost approximately \$1.8 million in the first half of the fiscal year. In both cases we have generally continued to hold our positions pending the possibility of a recovery.

View From the Trenches

As can be seen in **Figure 3**, the number of stocks on our low price-to-book value watchlist has continued to remain relatively stagnant over the last 3 years, hovering at slightly more than 100 names. Recently homebuilders and a group of highly levered financials holding mortgage loans and mortgage-backed securities have flooded onto the list.

As increases in the interest rates by the Fed brought skyrocketing home prices to a halt, many in the mortgage lending community, their lending standards all but forgotten among the home price escalations, suddenly rediscovered the risks of extending 100 percent loan-to-value home loans to purchasers without exercising common sense due diligence. New Century, America's largest sub-prime originator, headed straight into bankruptcy after many of their 2006 borrowers failed to make even their first mortgage payments. New Century wasn't alone. At least 30 sub-prime lenders were recently shuttered for similar behavior, according to *The Economist*.

Figure 3: Number of Securities Selling at or Below Tangible Book Value (Greater than \$70 Million Market Cap)



Sources: Aegis Financial Corporation and Stock Investor Pro Stock Screener

Now bankers the world over are growing concerned about the possibility of a vicious cycle developing where many homes purchased by these sub-prime borrowers, constituting a whopping 20 percent of mortgage originations in 2005 and 2006, are turned back over to the banks. Repossessions and defaults have already risen sharply and appear to be destined to rise further, putting downward pressure on home prices. However, what may be more worrisome than an increase in housing supply from foreclosures will be the decrease in demand from tighter lending. While many believe that strong employment numbers will help dampen any drop in home values, we caution that future home values could be negatively impacted by the coming storm of mortgage rate resets as introductory rates on adjustable rate mortgages (ARMs) expire and higher rates come into effect. Should home values decline by 10 to 20 percent or more, mortgage lenders are likely to experience significantly increased defaults, accelerating the unwinding of housing prices.

While many mortgage loan holders have hit our screens, we have been so far reluctant to commit capital primarily given the significant use of leverage among mortgage investors. Many of these companies trading below recent GAAP book value borrow a large multiple of their equity in the short-term money markets to hold these mortgages, leaving them subject to margin calls when capital contracts. The levered nature of these companies can dramatically magnify the damage done by any credit issues or liquidity discounts that can arise within a portfolio of mortgage loans.

We have continued to monitor the dozen or so homebuilders that have also entered our list. These companies have resumed their decline over the last few months as cancellation rates remain high and new orders appear anemic compared to previous years. Large debt levels and oversized real estate holdings are serving to drive land write-downs, especially given the lower order rate. We have yet to make a significant commitment to companies in this sector.

Despite the very low level of suitable investment candidates overall, even outside the builders and mortgage-oriented financial stocks, we did make \$49.6 million worth of purchases in stocks that we thought offered good risk/return characteristics.

Our largest single stock purchase over the last six months was an \$8.4 million purchase of Steel Technologies stock at an average price of \$17.60 per share. We were past investors in this well-managed, non-unionized leader in automotive steel processing and were particularly attracted by its rapidly growing unconsolidated joint venture with Mitsui. When we saw its shares drop to a reasonable discount to tangible book value, we bought a significant position. We were quite pleased when just a short time later Mitsui made an offer to buy the company at \$30 per share, a premium of 63 percent over the previous day's close. The transaction has not yet closed, and shares currently trade just under the buy-out price.

In our efforts to manage overall portfolio risk, we have continued to sell off holdings when prices reached levels inconsistent with good value. With the recent run-ups in the prices of several of our holdings, we have found good selling opportunities in the first half of the fiscal year. We trimmed back our stake in Alliance One, selling \$37.3 million of shares, realizing a taxable gain of \$2.8 million. We also scaled back our holdings of CF Industries, selling \$15.2 million of shares, realizing taxable gains of \$6.6 million. Overall we sold \$133.6 million of stock realizing net taxable gains of \$35.5 million during the six months ending February.

Portfolio Valuation

Because we focus on absolute returns, one of the ways we have sought to mitigate portfolio risk is to concentrate our Fund holdings on companies with valuations among the lowest available in the market. As **Figure 4** demonstrates, the Fund portfolio currently trades at 0.79 percent of book value as of March 31, 2007. While this is up from 0.72 times book value at September 30, 2006, the ratio is down from 0.87 times book value at year-end as we sold securities at high valuations and reinvested in new

stocks trading at lower levels. Overall our price-to-book value ratio remains very much in line with the Fund’s average historic valuation levels. Key valuation ratios of the Fund and the common indices can be seen in **Table 3**.

Figure 4: Historical Price-to-Book Value – Aegis Value Fund



Source: Aegis Financial Corporation

Table 3: Key Valuation Ratios

Benchmark	Price-to-Book
S&P 500 Index	3.1x
Russell 2000 Value Index	1.9x
Aegis Value Fund	0.8x

Source: Aegis Financial Corporation, Barron’s, and Russell Investment Group

Fund Administrative Notes

As many of you already know, Aegis Financial Corporation, the advisor to the Aegis Value Fund and the Aegis High Yield Fund, undertook a reorganization, whereby it has become fully owned by Scott Barbee and William Berno. Of course, Scott continues to manage the Aegis Value Fund and Bill continues to manage the Aegis High Yield Fund. However, because Scott became the majority stockholder, a change of control of the advisor had technically occurred, and a shareholder vote was then required at each of the Funds to approve a new management agreement, which had substantially the same terms as the previous investment advisory agreement. We appreciate all the votes that were cast, and appreciate your response to our proxy solicitors as they have sought to assemble the required number of shareholder votes.

Additionally, we are very pleased that Scott Soler has agreed to join our Board. Scott is currently a Managing Director of Quantum Energy Partners, a \$3.2 billion, Houston-based, energy-focused private equity group. Prior to his time at Quantum, Scott was a Managing Director at Morgan Stanley where he was perennially ranked as Institutional Investor Magazine’s #1 sell-side natural gas analyst. Scott is a CPA, has served as a senior auditor for Ernst & Young, and has also covered homebuilding

stocks and oil service equities in the course of his career. I have known Scott Soler for more than 10 years, and think we are all fortunate to have someone of his caliber and experience on our board.

In Closing

Please know that we take our fiduciary obligation to you very seriously and work diligently to ensure shareholders are treated properly and earn a good return on capital. Should you ever have any basic account questions, our representatives at UMB Investment Services Group are available at (800) 528-3780. Of course, you can also continue to reach the offices of Aegis Financial Corporation through our direct line at (703) 528-7788. We would like you to know that employees of Aegis Financial Corporation and their families own in excess of \$10 million in Aegis Value Fund shares, so we remain personally committed to our investment approach.

Aegis Financial Corporation

Scott L. Barbee, CFA

Managing Director, Portfolio Manager

This Advisor's Report is for the information of shareholders of the Aegis Value Fund Inc. Information contained herein has been obtained from sources we believe to be reliable, but can not be guaranteed. The views of the Advisor are subject to change without notice and are not a guarantee of future results, a forecast of future events or investment advice. Any recommendation made in this report may not be suitable for all investors. The Advisor's Report does not constitute a solicitation or offer of any transaction in any securities. Its use in connection with any offering of fund shares is authorized only in the case of a concurrent or prior delivery of a prospectus. The securities of small, lesser-known companies may be more volatile than those of larger companies. In addition, investing in foreign securities involves additional risks beyond the risks of investing in U.S. securities. These risks involve economic and political considerations not typically found in U.S. markets, including currency fluctuation, political uncertainty, different financial standards and regulatory environments, and overall market and economic factors present in foreign countries. Investors are advised to consider the fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Aegis Value Fund. For a prospectus and more complete information, including charges and expenses, please call us at 1-800-528-3780, or visit our website at www.aegisvaluefund.com where an online prospectus is provided. The prospectus should be read carefully before investing.

** Notes: Aegis Value Fund's one-year, three-year, five-year, and since inception (5/15/1998) average annual returns for the period ending March 31, 2007 are 19.7%, 12.3%, 14.6%, and 15.7% respectively. Russell 2000 Value Index one-year, three-year, five-year, and since inception (AVAX-5/15/1998) average annual returns for the period ending March 31, 2007 are 10.4%, 14.5%, 13.6%, and 10.8%. All historical performance returns shown in this Advisor's Report for the Aegis Value Fund are presented on a pre-tax basis. Returns include reinvestment of income and capital gains. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value will fluctuate so that upon redemption, an investor's shares may be worth more or less than their original cost. The Fund has an annualized expense ratio of 1.38%.*

This article refers to five stocks held by the Fund. As of February 28, 2007, the percentage of total assets of the Fund these stocks represent respectively is as follows: CF Industries Holdings, Inc. 4.03%, Steel Technologies, Inc. 3.51%, Alliance One International, Inc. 1.95%, Exide Technologies 1.47% and Air France-KLM-ADR 1.05%.

Investors should consider the Fund's investment objectives, risks, charges, and expenses. The prospectus contains this and other information about the Fund. For a prospectus that includes more complete information, please call us at (800) 528-3780, or visit our website at www.aegisvaluefund.com, where an online prospectus is available.

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**c/o UMB Fund Services, Inc.
P.O. Box 2175
Milwaukee, Wisconsin 53201-2175
Phone: (800) 528-3780
www.aegisvaluefund.com**

Board of Directors

Scott L. Barbee
William S. Berno
David A. Giannini
Eskander Matta
V. Scott Soler

Officers

William S. Berno, President
Scott L. Barbee, Treasurer and Secretary
Skyler S. Showell, Chief Compliance Officer

Investment Advisor

Aegis Financial Corporation
1100 North Glebe Road, Suite 1040
Arlington, Virginia 22201

Custodian

UMB Bank, n.a.
928 Grand Boulevard
Kansas City, Missouri 64106

Independent Auditors

Briggs, Bunting & Dougherty, LLP
Two Penn Center Plaza, Suite 820
Philadelphia, Pennsylvania 19102-1732

Counsel

Seward & Kissel, LLP
1200 G Street, N.W., Suite 350
Washington, D.C. 20005

