

Aegis Value Fund, Inc.

Seventh Annual Report

August 31, 2004

Shareholders' Letter

October 1, 2004

To the shareholders of the Aegis Value Fund:

We are pleased to present the Aegis Value Fund's annual report for the year ended August 31, 2004.

We take this opportunity to welcome new shareholders to the Fund and provide a brief overview of the objectives and strategy of the Fund.

The Aegis Value Fund seeks to achieve long-term, above market returns while minimizing risk of capital loss. Our strategy is to invest in well-researched, small-cap equities trading at a fraction of their intrinsic worth. We believe the equity markets are often inefficient, and we are contrarian, bottom-up stock selectors. We generally buy stocks trading at low price-to-book and price-to-earnings ratios, a segment of the market where academic research shows historical returns to be significantly higher than the overall market. We look for indications of strong corporate governance and ethical stewardship as evidenced by high insider ownership, proper use of corporate profits including bargain-priced share repurchases, and appropriate executive salary and options levels. We tend to purchase companies when they are misunderstood, out of favor, or neglected, and hold these companies until share prices reach our estimates of intrinsic value.

Since inception of the Aegis Value Fund on May 15, 1998, performance has been strong relative to benchmark indices. The Fund has posted a cumulative gain of 159.1 percent through September 30, 2004, compared to cumulative gains of 68.0 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 31.7 percent, and the S&P 500 posted cumulative gains of 10.4 percent.*

For the year ended August 31, 2004, the Aegis Value Fund posted a gain of 16.6 percent, versus a gain of 19.5 percent for the Russell 2000 Value Index. The Russell 2000 Index returned 11.4 percent, while the S&P 500 Index returned 11.5 percent.

The Fund's performance was affected by a broad rise in valuation of small-cap value stocks. We believe this broad rise in valuation may have been driven at least in part by the decisions of many equity investors to increase their positions in small-cap value stocks following the excellent performance of the sector in recent years. During rises in valuation of small-cap value stocks, our investment strategy has historically slightly underperformed our benchmark index. Conversely, when values of small-cap value stocks have declined, we have historically outperformed our benchmark index.*

We believe the rise in valuations this year was quite broad: many sectors of the stock market rose in valuation. The breadth of this rise left us with fewer than usual opportunities to invest in securities trading at low price-to-book multiples. Rather than respond to rising valuations by purchasing stocks at higher valuation measures, we have responded by conserving cash, anticipating better future investment opportunities. Because cash returns have been below benchmark index returns during the period, this decision was a factor in our performance versus the benchmark.

As you are probably aware, we regularly review whether to accept new investors to the Fund. Due to the recent, sustained reduction in deep value investment opportunities, we have determined to close the Fund to new investors as of November 30th, 2004.

For more detailed commentary and analysis of the Fund's performance and our outlook on the investing climate, please read our annual Advisor's Report dated August 31, 2004.

There are a few changes shareholders will notice in this year's report.

First, the Fund has changed independent auditors. We are grateful for the work done by PricewaterhouseCoopers LLP in 2002 and 2003. However, they informed us this year that due to increased audit requirements resulting from the Sarbanes-Oxley Act, they have shifted their practice to focus on larger clients. Therefore the Fund's Board of Directors has approved the selection of an auditing firm that is better matched to our size.

Second, we have changed the name of our investment advisory firm. Formerly we were known as Berno, Gambal & Barbee, Inc. Today we are known as Aegis Financial Corporation. Our new name reflects the primary importance of our mutual fund operations. We would like to reassure you that only our name has changed: our investment philosophy and our key investment professionals remain in place.

We look forward to serving as your investment partner in the coming year.

Aegis Financial Corporation
Scott L. Barbee, CFA
Managing Director, Portfolio Manager

** - Aegis Value Fund's one-year, three year, five year, and since inception (5/15/1998) average annual returns for the period ending September 30, 2004 are 16.0%, 16.9%, 18.5%, and 16.1% 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 September 30, 2004 are 25.7%, 17.7%, 14.7%, and 8.5%. Past performance is no guarantee of future results. Share prices will fluctuate, so that shares may be worth more or less than their original cost when redeemed. All historical performance returns shown in this shareholders' letter for the Aegis Value Fund Inc. are pre-tax returns.*

Important Note:

As a shareholder of the Fund, you incur ongoing costs, including management fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire semi annual period, March 1, 2004 - August 31, 2004.

Actual expenses

The table below provides information about actual account values and actual expenses.

Fund	<u>Actual</u>			<u>Hypothetical</u> (5% annual return before expenses)	
	Beginning Account Value (03/01/2004)	Ending Account Value (08/31/2004)¹	Expenses Paid During Period²	Ending Account Value (08/31/2004)	Expenses Paid During Period²
Aegis Value Fund	\$1,000.00	\$1,006.90	\$7.57	\$1,017.60	\$7.61

¹ The actual ending account value is based on the actual total return of the Fund for the period March 1, 2004 to August 31, 2004 after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's actual expense ratio and a hypothetical annual return of 5% before expenses. The actual cumulative returns at net asset value for the period March 1, 2004 to August 31, 2004 were 0.69%.

² Expenses are equal to the Fund's annualized expense ratio (1.5%) multiplied by the average account value over the period, multiplied by 184/366 (to reflect the period between 03/01/2004 and 08/31/2004)

You may use the information in this table, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the table under the heading entitled "Actual Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

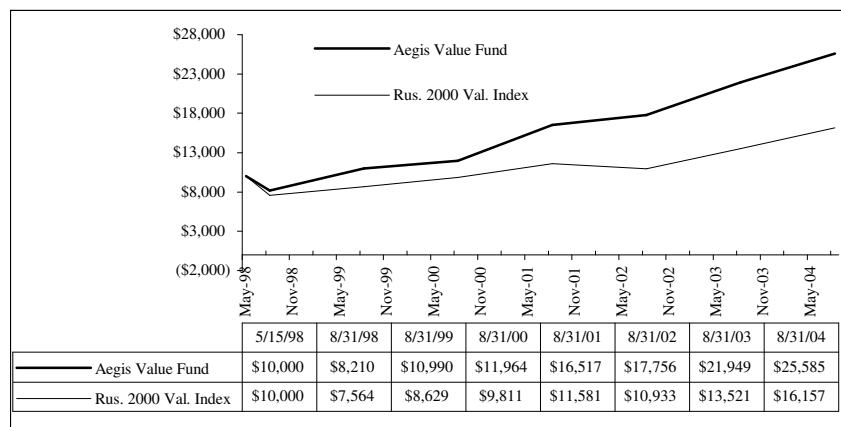
Hypothetical example for comparison purposes

The table above also provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your on-going costs only. The Fund is a pure no-load fund and does not charge any sales charges (loads), distribution or service fees, or redemption fees.

Key statistics

Results of a \$10,000 Investment



Average Annual Total Returns (As of August 31, 2004)

	<u>AVALX</u>	<u>Rus. 2000 Val.</u>
Trailing 5 Year	18.4%	13.4%
Trailing 3 Year	15.7%	11.7%
Trailing 1 Year	16.6%	19.5%
Since inception (May 15, 1998)	16.1%	7.9%

Industry Breakdown

	<u>% of the Fund's total assets</u>
Common Stocks	
Finance and Real Estate	13.5%
Agriculture	6.0%
Energy & Natural Resources	5.9%
Retail and Entertainment	5.6%
Industrial Cyclical	4.6%
Transportation	3.4%
Textiles and Apparel	2.1%
Wholesale and Distribution	1.0%
Consumer Non-Durables	1.0%
Consumer Durables	0.8%
Technology	0.6%
Basic Materials	0.6%
Commercial Services	0.0%
Preferred Stocks	0.3%
Warrants	0.1%
Cash and Short-Term Investment	54.0%
Other Assets	0.5%
Total Assets	100.0%

Aegis Value Fund, Inc.
Schedule of Portfolio Investments
August 31, 2004

<u>Common Stock - 45.3%</u>	<u>Shares</u>	<u>Market Value</u>
<u>Industrial Cyclicals - 4.6%</u>		
Allied Defense Group, Inc.*	210,200	\$3,815,130
American Pacific Corp.* ⁽¹⁾	670,534	4,995,478
Ampco-Pittsburgh Corporation	65,000	859,950
Commonwealth Industries, Inc.	47,996	404,126
International Aluminum Corp.	32,300	927,333
Pope & Talbot, Inc.	109,100	2,010,713
Quipp, Inc.* ⁽¹⁾	78,300	1,054,701
RTI International Metals Inc.*	148,600	2,212,654
Ryerson Tull, Inc. - Class A	951,700	15,170,098
Steel Technologies Inc.	30,743	614,860
Stewart & Stevenson Inc.	33,900	<u>566,469</u>
		<u>32,631,512</u>
<u>Wholesale and Distribution - 1.0%</u>		
Nash Finch Company	244,276	<u>7,213,470</u>
		<u>7,213,470</u>
<u>Finance and Real Estate - 13.6%</u>		
Acceptance Insurance Companies, Inc.*	229,400	2,523
Allmerica Financial Corp.*	224,000	6,496,000
Amnet Mortgage Inc.*	363,685	2,836,743
Boykin Lodging Company *	100,000	837,000
California First National Bank Corp.	531,330	6,947,140
First Union Real Estate Equity and Mortgage Investment SBI*	1,039,800	3,098,604
Medallion Financial Corp.	11,400	96,786
Meristar Hospitality Inc.*	653,800	3,765,888
The MIIX Group Inc.*	720,000	126,000
PMA Capital Corp. - Class A* ⁽¹⁾	1,608,951	11,343,105
Prime Group Realty Trust* ⁽¹⁾	2,158,700	12,390,938
Prime Hospitality Corp. *	1,923,200	23,116,864
PXRE Group Ltd.	590,000	13,711,600
SCPIE Holdings, Inc. ⁽¹⁾	975,000	8,716,500
SWS Group Inc.	117,300	<u>1,718,445</u>
		<u>95,204,136</u>

See page 8 for explanation of footnotes

Aegis Value Fund, Inc.
Schedule of Portfolio Investments
August 31, 2004

<u>Common Stock - Continued</u>	<u>Shares</u>	<u>Market Value</u>
<u>Textiles and Apparel - 2.1%</u>		
Delta Apparel, Inc.	171,000	\$4,215,150
Delta Woodside Industries* ⁽¹⁾	428,700	385,830
Haggar Corporation	195,863	3,680,266
Nitches, Inc.*	37,620	198,634
Quaker Fabric Corporation ⁽¹⁾	845,085	5,704,324
Tandy Brands Accessories	56,978	<u>773,191</u>
		<u>14,957,395</u>
<u>Transportation - 3.4%</u>		
Air France ADR *	436,700	6,646,574
International Shipholding Corp.*	95,700	1,320,660
MAIR Holdings, Inc.*	359,680	2,970,957
Maritrans, Inc.	73,800	1,111,428
National RV Holdings*	276,300	3,669,264
Sea Containers Ltd. - Class A	507,500	<u>8,018,500</u>
		<u>23,737,383</u>
<u>Energy & Natural Resources - 5.9%</u>		
Alliant Energy Corp.	160,000	4,158,400
Atwood Oceanics Inc.*	155,000	6,474,350
Avista Corporation	45,800	818,904
Global Industries, Inc.*	747,217	3,997,611
Horizon Offshore Inc.*	1,222,024	684,333
Idacorp Inc.	80,800	2,353,704
PNM Resources, Inc.	255,000	5,449,350
Reliant Resources Inc.*	1,125,900	11,213,964
USEC Inc.	740,500	<u>6,309,060</u>
		<u>41,459,676</u>
<u>Commercial Services - 0.0%</u>		
LQ Corporation*	52,115	<u>104,230</u>
		<u>104,230</u>
<u>Agriculture - 6.0%</u>		
The Andersons, Inc.	324,351	5,741,013
Dimon Inc. ⁽¹⁾	2,381,200	13,668,088
Imperial Sugar* ⁽¹⁾	565,300	7,857,670
Seaboard Corporation	1,330	707,627
Standard Commercial Corporation ⁽¹⁾	936,800	<u>14,333,040</u>
		<u>42,307,438</u>

See page 8 for explanation of footnotes

Aegis Value Fund, Inc.
Schedule of Portfolio Investments
August 31, 2004

<u>Common Stock - Continued</u>	<u>Shares</u>	<u>Market Value</u>
 <u>Consumer Durables - 0.8%</u>		
Bassett Furniture Industries, Inc.	306,654	\$5,765,095
		<u>5,765,095</u>
 <u>Technology - 0.6%</u>		
Audiovox Corporation - Class A*	120,934	1,965,178
IDT Corporation*	10,000	146,200
IDT Corporation - Class B*	86,000	1,292,580
Integrated Telecom Express Inc.* ⁽²⁾	308,300	30,830
Printware, Inc.* ⁽²⁾	32,000	0
Technology Solutions Company*	828,594	828,594
		<u>4,263,382</u>
 <u>Retail and Entertainment - 5.7%</u>		
Books-A-Million Inc. ⁽¹⁾	858,822	5,951,636
Bowl America Inc. - Class A	9,481	135,578
Duckwall-ALCO Stores, Inc.*	140,100	2,416,725
Luby's, Inc.* ⁽¹⁾	2,032,300	13,209,950
Marsh Supermarkets, Inc. - Class B	205,206	2,296,255
Nathan's Famous, Inc.*	132,400	808,964
ShopKo Stores, Inc.	176,500	2,986,380
Toys R Us, Inc.*	703,100	11,418,344
Ultimate Electronics, Inc.*	200,614	473,450
		<u>39,697,282</u>
 <u>Basic Materials - 0.6%</u>		
NewMarket Corp.*	185,360	3,835,098
		<u>3,835,098</u>
 <u>Consumer Non-Durables - 1.0%</u>		
CPAC, Inc. ⁽¹⁾	306,998	1,617,572
Head N.V.	1,881,000	4,984,650
National Presto Industries, Inc.	15,000	610,500
		<u>7,212,722</u>
 Total Common Stocks - (Cost \$254,417,537)		 <u>\$318,388,819</u>

See page 8 for explanation of footnotes

Aegis Value Fund, Inc.
Schedule of Portfolio Investments
August 31, 2004

<u>Preferred Stocks - 0.3%</u>	<u>Shares</u>	<u>Market Value</u>
Glenborough Realty 7.75% Convertible Preferred	9,633	\$242,270
La Quinta Properties 9% Series A Preferred	76,800	1,977,600
Total Preferred Stocks - (Cost \$1,841,600)		<u>2,219,870</u>

<u>Warrants -0.1%</u>	<u>Shares</u>	<u>Market Value</u>
Air France ADW*	397,000	408,910
Total Warrants - (Cost \$627,260)		<u>408,910</u>

<u>Investment Companies - 2.5%</u>	<u>Shares</u>	<u>Market Value</u>
Federated Prime Obligations Fund	17,502,282	17,502,282
Total Investment Companies - (Cost \$17,502,282)		<u>17,502,282</u>

<u>Short-Term Investments - 50.8%</u>	<u>Face Value</u>	<u>Market Value</u>
U. S. Treasury Bill due 9/2/04	\$65,000,000	64,995,892
U. S. Treasury Bill due 9/9/04	55,000,000	54,984,088
U. S. Treasury Bill due 9/16/04	52,000,000	51,973,314
U. S. Treasury Bill due 9/23/04	30,000,000	29,975,427
U. S. Treasury Bill due 9/30/04	50,000,000	49,945,950
U. S. Treasury Bill due 10/7/04	65,000,000	64,914,408
U. S. Treasury Bill due 10/14/04	40,000,000	39,937,092
Total Short-Term Investments - (Cost \$356,726,171)		<u>356,726,171</u>

Total Investments - 99.0% (Cost \$631,114,850) # **695,246,052**

Other Assets and Liabilities - 1.0% **6,990,978**

Net Assets - 100.0% **\$702,237,030**

* Non-income producing securities

Definitions of Abbreviations:

SBI: Shares of Beneficial Interest, ADR: American
 Depository receipts, ADW: American Depository Warrants

Aggregate cost for tax purposes of \$631,114,850

(1) The fund owns more than 5% of outstanding securities- see Note 7

(2) Company is in liquidation and security is being
 fair valued by the Fund Board of Directors.

See page 13 for notes to the financial statements

Aegis Value Fund, Inc.
Statement of Assets and Liabilities
August 31, 2004

Assets

Investments in unaffiliated issuers	
at market value (cost \$537,751,088)	\$594,017,220
Investments in affiliated companies	
at market value (cost \$93,363,762)	101,228,832
Cash	5,758,815
Receivable for fund shares sold	2,089,276
Interest and dividends receivable	443,554
Other assets	<u>51,475</u>
Total assets	<u>703,589,172</u>

Liabilities

Payable for investment securities purchased	739,101
Payable for fund shares redeemed	535,602
Accrued expenses	<u>77,439</u>
Total liabilities	<u>1,352,142</u>

<i>Net assets</i> (40,000,408 shares of \$0.001 par value capital stock outstanding; 100,000,000 shares authorized)	<u>\$702,237,030</u>
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Net assets consist of:

Capital stock at par value	\$40,000
Paid-in capital	608,294,661
Accumulated net realized gain	29,771,167
Net unrealized appreciation	<u>64,131,202</u>

<i>Net assets</i>	<u>\$702,237,030</u>
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<i>Net asset value per share</i>	<u>\$17.56</u>
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See page 13 for notes to the financial statements

Aegis Value Fund, Inc.
Statement of Operations
For the Year Ended August 31, 2004

<i>Investment Income</i>	
Dividends from unaffiliated companies	\$1,554,243
Dividends from affiliated companies	2,097,253
Interest	<u>2,491,516</u>
Total income	<u>6,143,012</u>
 <i>Expenses</i>	
Investment advisory fees	6,362,381
Transfer agency and administration fees	1,325,496
Registration fees	105,649
Custody fees	47,007
Printing and postage costs	47,365
Legal and accounting fees	47,300
Directors fees	14,292
Insurance and other	<u>39,063</u>
Gross expenses	7,988,553
Less: fees paid indirectly	(21,451)
Less: fees reimbursed by investment advisor	<u>(14,227)</u>
Net expenses	<u>7,952,875</u>
 <i>Net investment loss</i>	 <u>(1,809,863)</u>
 <i>Realized and unrealized gain on investments</i>	
Net realized gain on investments - unaffiliated companies	37,078,702
Net realized gain on investments - affiliated companies	128,908
Change in unrealized appreciation of investments for the year	<u>29,039,201</u>
 <i>Net realized and unrealized gain on investments</i>	 <u>66,246,811</u>
 <i>Net increase in net assets resulting from operations</i>	 <u>\$64,436,948</u>

See page 13 for notes to the financial statements

Aegis Value Fund, Inc.
Statement of Changes in Net Assets
For the Years Ended August 31

	<u>2004</u>	<u>2003</u>
<i>Increase in net assets from operations</i>		
Net investment income (loss)	\$(1,809,863)	\$569,250
Net realized gain on investments	37,207,610	5,791,605
Change in unrealized appreciation	<u>29,039,201</u>	<u>38,255,796</u>
Net increase in net assets		
resulting from operations	<u>64,436,948</u>	<u>44,616,651</u>
 <i>Distributions</i>		
Investment income - net	(288,823)	(264,495)
Realized capital gains	<u>(10,802,270)</u>	<u>(6,480,141)</u>
Total distributions	<u>(11,091,093)</u>	<u>(6,744,636)</u>
 <i>Capital share transactions*</i>		
Subscriptions	551,631,825	189,367,956
Distributions reinvested	10,198,864	6,417,295
Redemptions	<u>(207,138,493)</u>	<u>(94,165,592)</u>
Total capital share transactions	<u>354,692,196</u>	<u>101,619,659</u>
 Total increase in net assets	 408,038,051	 139,491,674
 <i>Net assets at beginning of year</i>	 <u>294,198,979</u>	 <u>154,707,305</u>
 <i>Net assets at end of year</i>	 <u>\$702,237,030</u>	 <u>\$294,198,979</u>
 <i>Undistributed net investment income at end of year</i>	 <u>\$0</u>	 <u>\$288,823</u>
 <i>* - Share information</i>		
Subscriptions	32,480,885	14,037,728
Distributions reinvested	617,364	511,727
Redemptions	<u>(12,158,873)</u>	<u>(7,396,560)</u>
Net increase	<u>20,939,376</u>	<u>7,152,895</u>

See page 13 for notes to the financial statements

Aegis Value Fund, Inc.
Financial Highlights
For the Years Ended August 31

The table below sets forth the financial data for a share of the Fund outstanding throughout each year presented:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<i>Per share data:</i>					
Net asset value - beginning of year	\$15.44	\$12.99	\$12.12	\$9.72	\$10.87
Income from investment operations-					
Net investment income (loss)	(0.06)	0.04	0.01 ²	0.09	0.23
Net realized and unrealized gain on investments	<u>2.59</u>	<u>2.92</u>	<u>0.90</u>	<u>3.25</u>	<u>0.47</u>
Total from investment operations	<u>2.53</u>	<u>2.96</u>	<u>0.91</u>	<u>3.34</u>	<u>0.70</u>
Less distributions declared to shareholders					
Net investment income	(0.01)	(0.02)	-- ³	(0.18)	(0.15)
Net realized capital gains	<u>(0.40)</u>	<u>(0.49)</u>	<u>(0.04)</u>	<u>(0.76)</u>	<u>(1.70)</u>
Total distributions	<u>(0.41)</u>	<u>(0.51)</u>	<u>(0.04)</u>	<u>(0.94)</u>	<u>(1.85)</u>
Net asset value - end of year	<u>\$17.56</u>	<u>\$15.44</u>	<u>\$12.99</u>	<u>\$12.12</u>	<u>\$9.72</u>
Total investment return	16.6%	23.7%	7.5%	37.8%	8.9%
Ratios (to average net assets)/supplemental data:					
Expenses after reimbursement and fees paid indirectly	1.50% ¹	1.50% ¹	1.50% ¹	1.50%	1.50%
Expenses before reimbursement and fees paid indirectly	1.51%	1.56%	1.54%	2.27%	2.82%
Net investment income (loss)	(0.34)%	0.31%	0.04%	0.89%	2.22%
Portfolio turnover	27%	15%	29%	10%	50%
Net assets at end of year (000's)	\$702,237	\$294,199	\$154,707	\$23,202	\$1,520

¹ Ratio after expense reimbursement, before fees paid indirectly, is 1.50% in 2004, 1.51% in 2003 and 1.52% in 2002

² Based on average shares outstanding during the period

³ Less than \$0.01

See page 13 for notes to the financial statements

Aegis Value Fund, Inc.
Notes to Financial Statements
August 31, 2004

1. The Organization

Aegis Value Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a diversified open-end management company. The Fund was incorporated October 22, 1997 in the State of Maryland and commenced operations May 15, 1998. The Fund's principal investment goal is to seek long-term capital appreciation by investing primarily in common stocks that are believed to be significantly undervalued relative to the market based on a company's book value, revenues, or cash flow. Refer to a current Prospectus for additional information about the Fund.

2. Summary of Significant Accounting Policies

Security valuation. Investments in securities traded on a national securities exchange (or reported on the NASDAQ National Market) are stated at the last reported sales price or a market's official close price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, or the average of bid and ask price for NASDAQ National Market securities. Short-term notes are stated at amortized cost, which is equivalent to value. Restricted securities and other securities for which market quotations are not readily available are valued at fair value as determined by the Board of Directors.

Federal income taxes. The Fund's policy is to continue to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to shareholders. Therefore, no federal income tax provision is required.

Expenses paid indirectly. Credits earned on temporarily uninvested cash balances at the custodian are used to reduce the Fund's custody charges. Custody expense in the statement of operations is presented before the reduction for credits, which were \$21,451 for the year ended August 31, 2004.

Distributions to shareholders. Distributions to Fund shareholders, which are determined in accordance with income tax regulations, are recorded on the ex-dividend date. Distributions of net investment income, if any, are made at least annually. Net realized gains from investment transactions, if any, will be distributed to shareholders at least annually.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Aegis Value Fund, Inc.
Notes to Financial Statements
August 31, 2004

2. Summary of Significant Accounting Policies (continued)

Other. The Fund records security transactions based on the trade date. Dividend income is recognized on the ex-dividend date, and interest income is recognized on the accrual basis and includes accretion of discounts and amortization of premiums. Withholding taxes on foreign dividends have been provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates.

In the normal course of business, the Fund enters into contracts that contain a variety of representations, which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

3. Advisory Fees and Other Transactions with Affiliates

The Fund entered into an investment management and advisory services agreement (the "Agreement") with Aegis Financial Corporation, formerly Berno, Gambal & Barbee, Inc. (the "Advisor") that provides for fees to be computed at an annual rate of 1.20% of the Fund's average daily net assets. The Agreement provides for an expense reimbursement from the Advisor if the Fund's expenses, exclusive of taxes, interest, fees incurred in acquiring or disposing of portfolio securities, and extraordinary expenses, exceed 1.50% of the Fund's average daily net assets. The Agreement shall remain in force through March 31, 2005 and may be renewed for additional two-year periods thereafter. Either party may terminate the Agreement anytime upon sixty (60) days written notice to the other party. During the year ended August 31, 2004, the Advisor reimbursed the Fund \$14,227.

As part of the expense limitation agreement, the Fund has agreed to repay the Advisor for amounts waived or reimbursed by the Advisor provided that such repayment does not cause the Fund's expenses, exclusive of taxes, interest, fees incurred in acquiring or disposing of portfolio securities, and extraordinary expenses, to exceed 1.50% and the repayment is made within three years after the year in which the Advisor incurred the expense. The fees reimbursed by the Advisor subject to recapture in varying amounts under this Agreement at August 31, 2004 are \$133,494.

The Fund has an agreement with BGB Fund Services, Inc. to provide fund accounting, administration, transfer agency and shareholder services to the Fund at an annual rate of 0.25% of the Fund's average daily net assets.

Aegis Value Fund, Inc.
Notes to Financial Statements
August 31, 2004

3. Advisory Fees and Other Transactions with Affiliates (continued)

BGB Securities, Inc., a registered broker/dealer, executes portfolio transactions on behalf of the Fund. Brokerage commissions paid to BGB Securities amounted to \$273,413 for the year ended August 31, 2004.

Certain officers and directors of the Fund are also officers and directors of the Advisor, BGB Fund Services, Inc. and BGB Securities, Inc. The Fund pays each director not affiliated with the Advisor fees in cash or Fund shares for attended board and committee meetings.

4. Investment Transactions

Purchases and sales of investment securities were \$131,067,494 and \$69,743,168, respectively, for the year ended August 31, 2004. The specific identification method is used to determine tax cost basis when calculating realized gains and losses.

5. Distributions to Shareholders and Tax Components of Net Assets

The tax character of distributions paid during the years ended August 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Distribution paid from:		
Ordinary income	\$ 2,164,116	\$ 6,215,644
Long-term capital gain	<u>8,926,977</u>	<u>528,992</u>
	<u>\$ 11,091,093</u>	<u>\$ 6,744,636</u>

As of August 31, 2004, the components of net assets on a tax basis were as follows:

Undistributed ordinary income	\$ 11,234
Undistributed long-term gain	29,759,933
Unrealized appreciation	81,658,555
Unrealized depreciation	(17,527,353)
Shares of capital stock	<u>608,334,661</u>
Total	<u>\$ 702,237,030</u>

Temporary book/tax differences are a result of differing treatments of short-term capital gains.

6. Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of net investment loss, on August 31, 2004, undistributed net investment income was increased by \$1,809,863 and accumulated net realized gain was decreased by \$1,809,863. This reclassification had no effect on the net assets of the Fund.

Aegis Value Fund, Inc.
Notes to Financial Statements
August 31, 2004

7. Investments in Affiliated Companies

An affiliated company is a company in which the Fund has ownership of at least 5% of the voting securities. Companies which are affiliates of the Fund at year-end are noted in the Fund's schedule of portfolio investments. Transactions during the period with companies which are or were affiliates are as follows:

	<u>Value</u> <u>Beginning</u> <u>of Period</u>	<u>Purchases</u>	<u>Sales</u> <u>Proceeds</u>	<u>Dividend</u> <u>Income</u>	<u>Value</u> <u>End</u> <u>of Period</u>
American Pacific Corp.	\$5,807,430	-	\$386,066	\$296,730	\$4,995,478
Books-A-Million, Inc.	2,919,995	-	-	128,823	5,951,636
CPAC, Inc.	1,851,198	-	-	85,959	1,617,572
Delta Woodside Industries	1,328,970	-	-	-	385,830
Dimon, Inc.	3,941,280	12,113,989	-	452,175	13,668,088
Head NV	4,175,820	-	-	-	4,984,650 *
Imperial Sugar	-	6,861,905	-	-	7,857,670
Lubys, Inc.	4,746,140	274,215	-	-	13,209,950
PMA Capital	-	7,994,353	-	-	11,343,105
Prime Realty Group Trust	-	13,443,188	-	-	12,390,938
Quaker Fabric Corp.	2,600,015	3,649,140	-	61,262	5,704,324
Quipp, Inc.	995,976	-	-	-	1,054,701
SCPIE Holdings	8,077,342	1,992,335	-	822,692	8,716,500
Standand Commercial Corp.	8,190,000	8,434,138	-	249,612	14,333,040
Total	<u>\$44,634,166</u>	<u>\$54,763,263</u>	<u>\$386,066</u>	<u>\$2,097,253</u>	<u>\$106,213,482</u>

* No longer an affiliate at August 31, 2004.

8. Change of Independent Registered Public Accounting Firm

On July 28, 2004, Briggs, Bunting & Dougherty, LLP ("BBD") was selected to replace PriceWaterhouseCoopers LLP ("PWC") as the Fund's independent registered public accounting firm for the 2004 fiscal year. The Trust's selection of BBD was approved by both the Audit Committee and the Board of Directors.

PWC had served as the principal independent registered public accounting firm for the years ending August 31, 2003 and 2002. PWC's report on the Fund's financial statements as of August 31, 2003 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. At the financial statements' date and through the date of the engagement of BBD, there were no disagreements between the Fund and PWC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which such disagreements, if not resolved to the satisfaction of PWC, would have caused it to make reference to the subject matter of the disagreement in connection with its reports on the financial statements for such years.

Report Of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Aegis Value Fund, Inc.

We have audited the accompanying statement of assets and liabilities of Aegis Value Fund, Inc., including the schedule of portfolio investments, as of August 31, 2004, and the related statement of operations, the statement of changes in net assets and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets for the year ended August 31, 2003 and the financial highlights for each of the four years in the period then ended have been audited by other auditors, whose reports expressed an unqualified opinion on such financial statements and financial highlights.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 2004 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Aegis Value Fund, Inc. as of August 31, 2004, the results of its operations, the changes in its net assets and its financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Briggs, Bunting & Dougherty, LLP

**Philadelphia, Pennsylvania
September 29, 2004**

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, by calling the Fund at 800-528-3780.

The Fund has adopted a code of ethics applicable to its principal executive officer and principal financial officer. A copy of this code is available without charge, by calling the Fund at 800-528-3780.

Aegis Value Fund, Inc.
Fund Directors and Secretary
August 31, 2004

Fund Directors

<u>Name, Age and Address</u>	<u>Position</u>	<u>Business Experience and Directorships During the Past 5 Years</u>
William S. Berno* (50) 1100 North Glebe Road Suite 1040 Arlington, Virginia 22201	President, Director	President and Managing Director of Aegis Financial Corporation since 1994; President and Director of the Fund since 1997
Scott L. Barbee* (33) 1100 North Glebe Road Suite 1040 Arlington, Virginia 22201	Treasurer, Director	Treasurer and Managing Director of Aegis Financial Corporation since 1997; Treasurer and Director of the Fund since 1997
Edward P. Faberman (57) Ungaretti & Harris 1500 K Street N.W. Suite 250 Washington, DC 20005	Director	Attorney with the firm of Ungaretti & Harris since 1996; Director of the Fund since 1997
Eskander Matta (33) Wells Fargo & Co. 550 California Street 2nd Floor San Francisco, California 94111	Director	VP of Enterprise Internet Services, Wells Fargo & Co. since 2002; Director of Strategic Consulting with Cordiant Communications, 2001-2002; Director of Strategic Consulting, Organic, Inc. 1999-2001; Investment banker, CSFirst Boston, 1996-99; Director of the Fund since 1997
Albert P. Lindemann III (41) Faison Enterprises 121 West Trade Street Suite 2550 Charlotte, North Carolina 28202	Director	Director, Faison Enterprises, since 2000; Real estate development, Trammell Crow Co., 1995-2000; Director of the Fund since 2000
Fund Secretary Paul Gambal* (45) 1100 North Glebe Road Suite 1040 Arlington, VA 22201	Secretary	Chairman, Secretary and Managing Director of Aegis Financial Corporation since 1994; Secretary of the Fund since 1997

* Indicates persons who are affiliated with Aegis Financial Corporation, the Fund's investment advisor, and are therefore considered to be "interested persons" under the Investment Company Act of 1940, Section (2)(a).

The Fund's Statement of Additional Information includes additional information about Fund directors and is available, without charge, by calling the Fund's toll-free phone number, (800) 528-3780.

Aegis Value Fund, Inc.
1100 North Glebe Road, Suite 1040
Arlington, Virginia 22201
Phone: (800) 528-3780
Fax: (703) 528-1395
Internet: www.aegisvaluefund.com

Board of Directors

Scott L. Barbee
William S. Berno
Edward P. Faberman
Albert P. Lindemann III
Eskander Matta

Officers

William S. Berno, President
Scott L. Barbee, Treasurer
Paul Gambal, Secretary

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, PA 19102-1732

Counsel

Dechert Price & Rhoads
1775 I Street, N.W.
Washington, DC 20006