

# **ANNUAL REPORT**

**Queens Road Value Fund  
Queens Road Small Cap Value Fund**

Each a series of the  
**Bragg Capital Trust**

**May 31, 2009**

Dear Fellow Shareholders:

For the fiscal year ending May 31, 2009, the Queens Road Value Fund returned -30.90% and the Queens Road Small Cap Value Fund returned -18.14% (see each fund's section below for more detailed performance information). It has been, needless to say, a disappointing year. Both funds outperformed their respective benchmarks in a year that is arguably part of the worst bear market since the Great Depression.

Fear Came and Went....

The first half of our fiscal year saw the global banking system, long inflated by speculative leverage, brought down to earth and with it overall market valuations, at least until early March of this year. But beginning on March 9<sup>th</sup> stocks have staged an impressive rally, led by what we believe are the lowest quality companies. Recent market correlations are reminiscent of the 2005 & 2006 markets when momentum dominated fundamentals. There are many hypotheses about this situation, including the new dominance of High Frequency Trading quant strategies and wholesale short squeezes due to de-leveraging. There is factual evidence to support these theories and others. While it's interesting to study these, our focus remains not on short term movements in the broader markets or even in individual companies, rather we remain focused on the underlying businesses in which we invest. While the previously mentioned explanations may (or may not!) drive stock prices in the short run, our investment philosophy continues to be grounded in the time tested truth that over long periods of time companies are worth the amount of economic profits they earn for their shareholders. Have you ever seen a well managed company with attractive prospects and a strong balance sheet trade for 5x earnings (or discretionary free cash flow, which we prefer to earnings)? It is this disciplined focus that we believe offers us the opportunity to provide long-term above average performance.

As economic data comes out, it is starting to appear that the news is becoming less bad, that is, the negative rates of change are slowing. Although this is positive, the much talked about green shoots don't seem all that green. We believe it's reasonable to expect many more bank failures (albeit much smaller banks), continued stress in commercial real estate and commercial real estate backed securities, and increased savings (and less spending) by consumers. Furthermore, the future effects of record budget deficits create additionally uncertainty. But one thing history teaches us is that our economy is more robust than economists typically give it credit for. Moreover, history typically shows us that the deeper the recession, the sharper the rebound. This is no typical recession and we imagine the rebound will be subdued but stronger than some are anticipating. We pay close attention to what goes on in the economy and realize that the stronger the economy is, the better it is for our portfolio of investments, but we do not try to predict the economy or any macro trend. We spend our time and energy relentlessly searching for companies that have strong balance sheets and effective managements that provide a valuable product to their customers at a price which allows them to recoup their total costs and allow them to earn an adequate return on the investments they've made. This approach may seem boring to many, but there is no other approach that we believe will be as successful over a full market cycle and longer periods of time.

As always, thank you for your support.

Sincerely,

Steve Scruggs, CFA

President, Portfolio Manager

Benton Bragg, CFA

Chairman

## Queens Road Value Fund

Managers Commentary May 31, 2009

The Queens Road Value Fund was down -30.90% for the fiscal year ending 5/31/2009. We beat both our primary benchmarks, the S&P500/Citi Value Index, which was down -36.32% and the S&P 500 Index, which was down -32.57%.

Every portfolio security we owned except for McDonald's was down over the 12-month period. Exceptionally poor performance from Lexmark International, CBS and Leucadia National detracted from our overall performance. We continuously examine and re-examine our portfolio securities and continue to believe that in spite of the woeful 12-month period just ended, the companies we are invested in should, over time, generate above average risk adjusted returns.

The chart below shows the Fund's performance for the fiscal year ended 5/31/2009, along with the returns for the S&P500/Citi Value Index and the S&P 500 Index. We try to outperform the index through security selection, investing only in those companies we believe are trading at attractive valuations and have the best prospects for long-term performance.

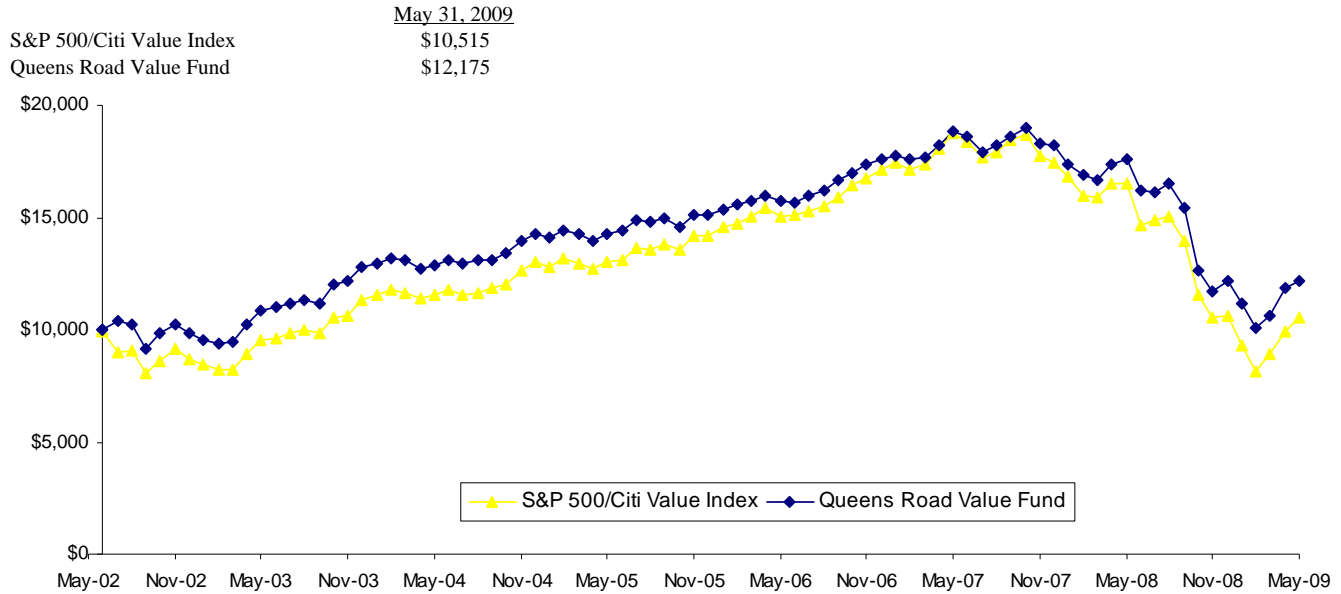
Below is our month-by-month performance comparison with both the S&P500 Citi\Value Index and the S&P 500 Index.

	<u>QRVLX</u>	<u>S&amp;P 500/Citi Value</u>	<u>S&amp;P 500</u>
June 2008	-8.26%	-11.21%	-8.43%
July 2008	-0.43%	1.36%	-0.84%
August 2008	2.53%	1.34%	1.45%
September 2008	-6.70%	-7.48%	-8.91%
October 2008	-17.85%	-17.11%	-16.80%
November 2008	-7.37%	-8.97%	-7.18%
December 2008	4.03%	0.95%	1.06%
January 2009	-8.67%	-12.16%	-8.43%
February 2009	-9.38%	-13.08%	-10.65%
March 2009	5.41%	9.87%	8.76%
April 2009	11.61%	11.04%	9.57%
May 2009	3.20%	6.36%	5.59%
One Year	-30.90%	-36.32%	-32.57%

## Queens Road Value Fund

Performance Illustration May 31, 2009

### Cumulative Performance Comparison \$10,000 Investment Since Inception\*



Average Annual Total Return  
For the Periods Ended May 31, 2009

	Queens Road Value Fund	S&P 500/Citi Value Index
1 Year	-30.90%	-36.32%
Since Inception	2.85%	0.71%

Annual Operating Expense 0.95% \*\*

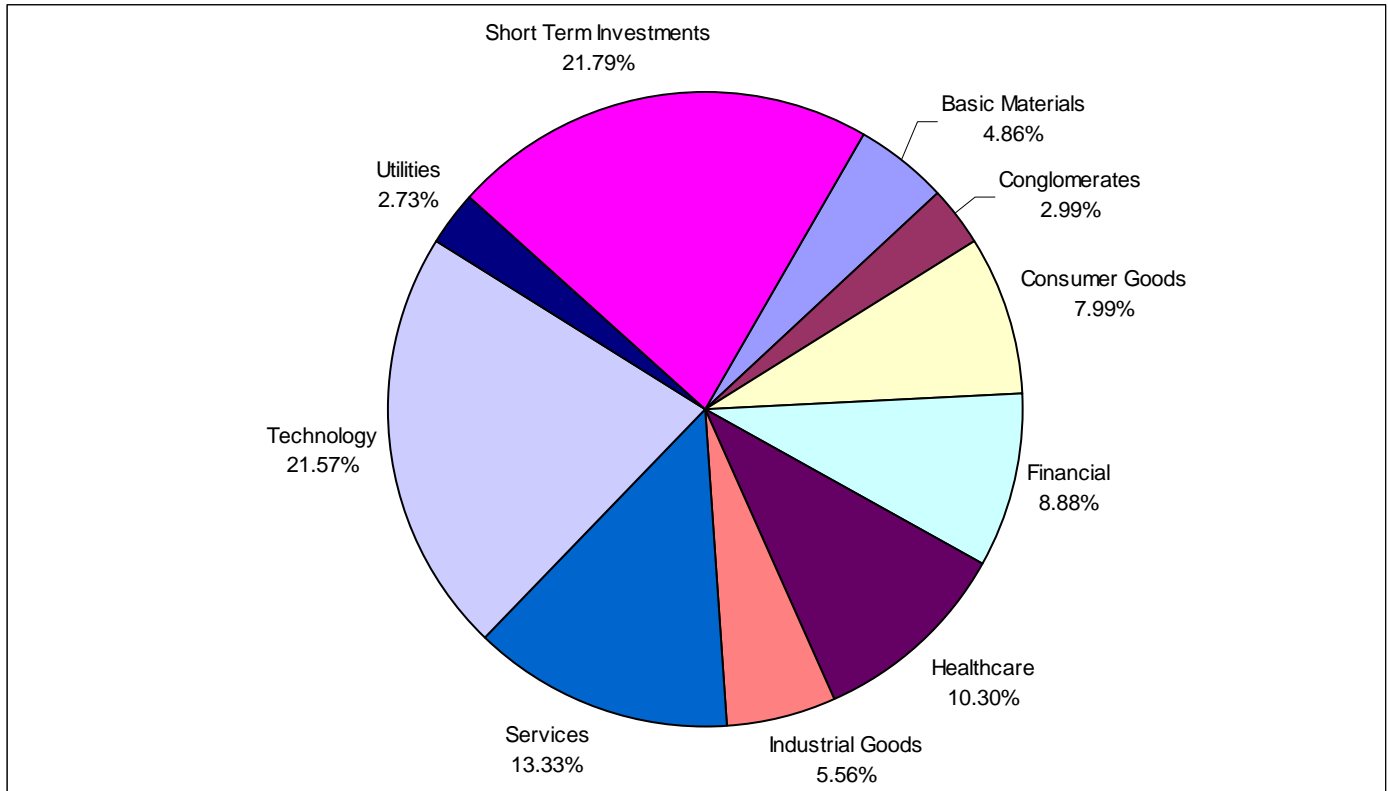
*\*Past performance is not predictive of future performance. The value of shares will fluctuate and will be worth more or less than their original cost at the time of redemption.*

\*\*As disclosed in the Fund's Prospectus.

## Queens Road Value Fund

Graphical Illustration May 31, 2009

The following chart gives a visual breakdown of the Fund by the industry sectors the underlying securities represent as a percentage of the portfolio of investments.



# Queens Road Value Fund

## Schedule of Investments

May 31, 2009

<u>Shares</u>		<u>Value</u>
<b>COMMON STOCKS - 75.16%</b>		
<b>Advertising - 0.12%</b>		
500	Omnicom Group, Inc.	\$ 15,250
<b>Aerospace &amp; Defense - 1.52%</b>		
3,600	United Technologies Corp.	189,396
<b>Alternative Carriers - 0.97%</b>		
5,166	Time Warner, Inc.	120,988
<b>Apparel &amp; Accessories - 1.60%</b>		
3,500	V.F. Corp.	198,870
<b>Beverages - 1.51%</b>		
4,287	Brown Forman Corp. Class-B	187,985
<b>Broadcasting &amp; Cable TV - 3.69%</b>		
50,490	CBS Corp. Class-B	372,616
2,800	Dish Network Corp. Class-A *	45,920
1,296	Time Warner Cable, Inc.	<u>39,904</u>
		458,440
<b>Computer Storage &amp; Peripherals - 7.80%</b>		
20,000	Dell, Inc. *	231,400
3,000	International Business Machines Corp.	318,840
20,000	EMC Corporation *	235,000
4,600	Lexmark International Group *	75,164
12,500	Seagate Technology	<u>108,875</u>
		969,279
<b>Electric Utilites - 2.73%</b>		
10,900	Duke Energy Corp.	154,235
1,700	Progress Energy, Inc.	60,367
4,400	Southern Co.	<u>125,004</u>
		339,606
<b>Finance Services - 0.80%</b>		
4,000	American Express Co.	99,400
<b>Financials-Asset Management &amp; Custody Banks - 1.27%</b>		
3,900	T. Rowe Price Associates, Inc.	158,223
<b>Food &amp; Kindred Products - 1.22%</b>		
6,400	Unilever PLC ADR	151,040
<b>Healthcare Distributors &amp; Services - 1.61%</b>		
4,300	Wellpoint Health Networks, Inc. *	200,251

The accompanying notes are an integral part of these financial statements.

<b>Shares</b>		<b>Value</b>
<b>Healthcare Facilities - 1.38%</b>		
6,500	Community Health Systems *	171,535
<b>Household Products - 1.22%</b>		
2,900	Clorox Co.	152,076
<b>Housewares &amp; Specialties - 1.80%</b>		
6,380	Fortune Brands, Inc.	223,364
<b>Industrial Conglomerates - 2.28%</b>		
3,162	Covidien Ltd.	112,947
6,162	Tyco International Ltd.	<u>170,133</u>
		283,080
<b>Industrial Instruments For Measurement, Display And Control - 0.56%</b>		
1,150	Danaher Corp.	69,402
<b>Industrial Machinery - 0.85%</b>		
5,200	Ingersoll-Rand Co. Ltd.	105,196
<b>Insurance Brokers - 0.84%</b>		
5,500	Marsh & McLennan Companies, Inc.	104,060
<b>Integrated Oil &amp; Gas - 0.95%</b>		
1,700	Exxon Mobil Corp.	117,895
<b>Integrated Telecommunication Services - 5.56%</b>		
11,100	AT&T, Inc.	275,169
6,000	CenturyTel, Inc.	185,100
27,333	Windstream Corp.	<u>229,870</u>
		690,139
<b>Internet Software &amp; Services - 4.61%</b>		
6,000	Intel Corp.	94,320
11,500	Microsoft Corp.	240,235
15,000	Yahoo! Inc. *	<u>237,600</u>
		572,155
<b>Leisure Products - 0.55%</b>		
2,700	Hasbro, Inc.	68,607
<b>Movies &amp; Entertainment - 3.80%</b>		
44,500	News Corp. Class-A	435,210
1,690	Viacom, Inc. Class-B *	<u>37,467</u>
		472,677
<b>Multi-Sector Holdings - 3.16%</b>		
18,800	Leucadia National Corp. *	392,544
<b>National Commercial Banks - 1.19%</b>		
4,000	JPMorgan Chase & Co.	147,600
<b>Oil &amp; Gas Exploration &amp; Production - 0.81%</b>		
1,200	Apache Corp.	101,112
<b>Personal Products - 0.09%</b>		
475	Alberto-Culver Co. Class-B	11,039
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<u>Shares</u>		<u>Value</u>
<b>Pharmaceuticals - 7.32%</b>		
6,000	Glaxosmithkline, PLC ADR	202,260
5,050	Johnson & Johnson	278,558
7,820	Merck & Co., Inc.	215,676
14,000	Pfizer, Inc.	<u>212,660</u>
		909,154
<b>Property &amp; Casualty Insurance - 3.28%</b>		
14,400	Progressive Corp. *	232,272
4,300	Travelers Companies, Inc.	<u>174,838</u>
		407,110
<b>Publishing &amp; Printing - 0.84%</b>		
3,300	John Wiley & Sons, Inc. Class-A	104,313
<b>Refuse Systems - 1.55%</b>		
7,000	Waste Management, Inc.	193,130
<b>Reinsurance - 1.51%</b>		
4,100	RenaissanceRe Holdings Ltd.	187,657
<b>Restaurants - 2.01%</b>		
4,225	McDonalds Corp.	249,233
<b>Services-Electronic Information - 1.46%</b>		
5,900	Thomson Reuters Corp.	180,894
<b>Systems Software - 1.76%</b>		
14,000	Symantec Corp. *	218,820
<b>Trading Companies &amp; Distributors - 0.44%</b>		
700	W.W. Grainger, Inc.	55,181
<b>Wireless Telecommunication Services - 0.49%</b>		
1,586	America Movil S.A.B. de C.V. Series-L ADR	60,791
TOTAL FOR COMMON STOCKS (Cost \$10,700,103) - 75.16%		<u>\$ 9,337,492</u>
<b>EXCHANGE TRADED FUND - 3.10%</b>		
<b>Gold &amp; Silver Ores - 3.10%</b>		
4,000	iShares Comex Gold * (Cost \$394,359)	<u>385,120</u>
<b>SHORT TERM INVESTMENTS - 21.80%</b>		
2,708,677	AIM Short Term Investment Company Prime Portfolio 0.24% ** (Cost \$2,708,677)	<u>2,708,677</u>
TOTAL INVESTMENTS (Cost \$13,803,139) - 100.06%		12,431,289
LIABILITIES IN EXCESS OF OTHER ASSETS - (0.06)%		<u>(7,524)</u>
NET ASSETS - 100.00%		<u>\$ 12,423,765</u>

\* Non-income producing security during the period.

ADR - American Depository Receipt

PLC - Public Limited Company

\*\* Variable rate security; the coupon rate shown represents the yield at May 31, 2009.

The accompanying notes are an integral part of these financial statements.

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# Queens Road Value Fund

## Statement of Assets and Liabilities

May 31, 2009

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Assets:

Investments, at Value (Cost \$13,803,139) \$ 12,431,289

Receivables:

Dividends and Interest 29,459

Total Assets 12,460,748

Liabilities:

Accrued Management Fees (Note 3) 9,385

Shareholder Redemptions 27,598

Total Liabilities 36,983

Net Assets \$ 12,423,765

Net Assets Consist of:

Paid In Capital 15,588,980

Accumulated Undistributed Net Investment Income 73,659

Accumulated Undistributed Realized Loss on Investments (1,867,024)

Unrealized Depreciation in Value of Investments (1,371,850)

Net Assets, for 1,210,694 Shares Outstanding (Unlimited number  
of shares authorized with a par value of \$0.001) \$ 12,423,765

Net Asset Value, Offering and Redemption Price Per Share (\$12,423,765/1,210,694) \$ 10.26

The accompanying notes are an integral part of these financial statements.

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# Queens Road Value Fund

## Statement of Operations

For the year ended May 31, 2009

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Investment Income:

Dividends (net of foreign withholding taxes of \$442)	\$	266,038
Interest		<u>22,234</u>
Total Investment Income		288,272

Expenses:

Advisory Fees (Note 3)		<u>98,408</u>
Total Expenses		<u>98,408</u>

Net Investment Income 189,864

Realized and Unrealized Loss on Investments:

Realized Loss on Investments	(1,712,893)
Net Change in Unrealized Depreciation on Investments	<u>(2,045,399)</u>
Net Realized and Unrealized Loss on Investments	<u>(3,758,292)</u>

Net Decrease in Net Assets Resulting from Operations \$ (3,568,428)

The accompanying notes are an integral part of these financial statements.

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# Queens Road Value Fund

## Statements of Changes in Net Assets

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	Years Ended	
	<u>5/31/2009</u>	<u>5/31/2008</u>
Increase (Decrease) in Net Assets From Operations:		
Net Investment Income	\$ 189,864	\$ 181,269
Net Realized Loss on Investments	(1,712,893)	(7,521)
Net Change in Unrealized Depreciation on Investments	<u>(2,045,399)</u>	<u>(782,193)</u>
Net Decrease in Net Assets Resulting from Operations	(3,568,428)	(608,445)
Distributions to Shareholders From:		
Net Investment Income	(187,792)	(174,900)
Realized Gains	<u>(199)</u>	<u>(141,843)</u>
Net Change in Net Assets from Distributions	(187,991)	(316,743)
Capital Share Transactions:		
Proceeds from Sale of Shares	5,676,262	3,025,830
Shares Issued on Reinvestment of Dividends	94,784	137,805
Cost of Shares Redeemed	<u>(1,114,743)</u>	<u>(444,730)</u>
Net Increase in Net Assets from Shareholder Activity	4,656,303	2,718,905
Net Assets:		
Net Increase in Net Assets	899,884	1,793,717
Beginning of Period	<u>11,523,881</u>	<u>9,730,164</u>
End of Period (Including Accumulated Undistributed Net Investment Income of \$73,659 and \$74,849, Respectively)	<u>\$ 12,423,765</u>	<u>\$ 11,523,881</u>
Share Transactions:		
Shares Sold	554,655	196,504
Shares Issued on Reinvestment of Dividends	9,564	8,783
Shares Redeemed	<u>(115,238)</u>	<u>(28,057)</u>
Net Increase in Shares	448,981	177,230
Outstanding at Beginning of Period	<u>761,713</u>	<u>584,483</u>
Outstanding at End of Period	<u>1,210,694</u>	<u>761,713</u>

The accompanying notes are an integral part of these financial statements.

# Queens Road Value Fund

## Financial Highlights

Selected data for a share outstanding throughout the period.

	For the Years Ended				
	<u>5/31/2009</u>	<u>5/31/2008</u>	<u>5/31/2007</u>	<u>5/31/2006</u>	<u>5/31/2005</u>
Net Asset Value, at Beginning of Period	<u>\$15.13</u>	<u>\$16.65</u>	<u>\$14.17</u>	<u>\$13.00</u>	<u>\$12.54</u>
Income From Investment Operations:					
Net Investment Income *	0.20	0.27	0.33	0.15	0.16
Net Gain (Loss) on Securities (Realized and Unrealized)	<u>(4.88)</u>	<u>(1.30)</u>	<u>2.46</u>	<u>1.15</u>	<u>1.20</u>
Total from Investment Operations	(4.68)	(1.03)	2.79	1.30	1.36
Distributions from:					
Net Investment Income	(0.19)	(0.27)	(0.21)	(0.05)	(0.26)
Capital Gains	<u>0.00</u> ***	<u>(0.22)</u>	<u>(0.10)</u>	<u>(0.08)</u>	<u>(0.64)</u>
	(0.19)	(0.49)	(0.31)	(0.13)	(0.90)
Net Asset Value, at End of Period	<u>\$10.26</u>	<u>\$15.13</u>	<u>\$16.65</u>	<u>\$14.17</u>	<u>\$13.00</u>
Total Return **	(30.90)%	(6.34)%	19.83%	10.03%	10.79% (a)
Ratios/Supplemental Data:					
Net Assets at End of Period (Thousands)	\$12,424	\$11,524	\$9,730	\$4,946	\$1,388
Before Reimbursement					
Ratio of Expenses to Average Net Assets	0.95%	0.95%	0.95%	0.95%	0.95%
Ratio of Net Investment Income to Average Net Assets	1.83%	1.75%	2.12%	1.05%	0.89%
After Reimbursement					
Ratio of Expenses to Average Net Assets	0.95%	0.95%	0.95%	0.95%	0.57%
Ratio of Net Investment Income to Average Net Assets	1.83%	1.75%	2.12%	1.05%	1.27%
Portfolio Turnover	37.64%	14.05%	8.66%	6.54%	54.53%

\* Net Investment Income per share amounts were calculated using the average share method.

\*\* Total return in the above table represents the rate that the investor would have earned or lost on an investment in the fund assuming reinvestment of dividends.

\*\*\* Amount is less than \$0.005

(a) Total return before the waiver of related party broker commissions of \$332 is 10.79%.

The accompanying notes are an integral part of these financial statements.

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**BRAGG CAPITAL TRUST**  
**QUEENS ROAD VALUE FUND**  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2009

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**Note 1. Organization**

The Queens Road Value Fund (the "Fund"), a managed portfolio of the Bragg Capital Trust, is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management company. The Fund is one of a series of Funds of the Bragg Capital Trust, which also includes the Queens Road Small Cap Value Fund. The Fund's investment objective is to seek growth of capital. It invests primarily in common stocks which are believed by the Advisor to be undervalued and have good prospects for capital appreciation. The Fund's registration statement was declared effective on June 13, 2002, and operations began on that date.

**Note 2. Significant Accounting Policies**

The following is a summary of accounting policies followed by the Fund in the preparation of its financial statements.

*Security Valuation:* Securities, which are traded on a national securities exchange or on the NASDAQ over-the-counter market, are valued at the last quoted sales price. If there are no sales reported the Fund's portfolio securities will be valued using the last reported bid price. Short-term obligations having remaining maturities of 60 days or less are valued at amortized cost. Securities for which market quotations are not readily available are valued at fair value as determined in good faith by and under the direction of the Fund's Board of Trustees.

*Federal Income Taxes:* The Fund's policy is to continue to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Therefore, no provision for income taxes is required.

As of and during the period ended May 31, 2009, the Fund did not have a liability for any unrecognized tax benefits. The Fund recognizes interest and penalties, if any, related to recognized tax benefits as income tax expense on the statement of operations. During the year, the Fund did not incur any interest or penalties. The Fund is not subject to examination by the U.S. federal tax authorities for the tax years before 2005.

*Use of Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

*Other:* The Fund follows industry practice and records security transactions on the trade date. The specific identification method is used for determining gains or losses for financial statement and income tax purposes. Dividend income is recorded on the ex-dividend date, except that certain dividends from foreign securities are recorded as soon as information is available to the Fund. Interest income is recorded on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities.

*Distributions to shareholders:* Distributions to shareholders, which are determined in accordance with income tax regulations, are recorded on the ex-dividend date. The treatment for financial reporting purposes of distributions made to shareholders during the year from net investment income or net realized capital gains may differ from their ultimate treatment for federal income taxes purposes. These differences are caused primarily by differences in the timing of the recognition of certain components of income, expense or realized capital gain for federal income tax purposes. Where such differences are permanent in nature, they are reclassified in the components of the net assets based on their ultimate characterization for federal income tax purposes. Any such reclassifications will have no effect on net assets, results of operations or net asset value per share of the Fund.

*Fair Value Measurements:* The Fund adopted Financial Accounting Standards Board Statement on Financial Accounting Standards (FAS) No. 157 "Fair Value Measurements" effective June 1, 2008. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosure about fair value measurements. FAS No. 157 applies to fair value measurements already required or permitted by existing standards. In accordance with FAS No. 157, fair value is defined as the price that would be

received by the Fund upon selling an asset or paid by the Fund to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of a principal market for the asset or liability, the assumption is that the transaction occurs on the most advantageous market for the asset or liability. FAS No. 157 established a three-tier fair value hierarchy that prioritizes the assumptions, also known as "inputs", to valuation techniques used by market participants to measure fair value. The term "inputs" refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. The three-tier hierarchy of inputs is summarized in three levels with the highest priority given to Level 1 and the lowest priority given to Level 3: Level 1 - quoted prices in active markets for identical securities, Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The following is a summary of the inputs used as of May 31, 2009 in valuing the Fund's assets carried at fair value:

<u>Valuation Inputs:</u>	<u>Investments In Securities</u>	<u>Other Financial Instruments</u>
Level 1 – Quoted Prices	\$12,431,289	\$ -
Level 2 – Significant Other Observable Inputs	-	-
Level 3 – Significant Unobservable Inputs	-	-
Total	\$12,431,289	\$ -

The Fund did not hold any Level 3 securities during the year.

### **Note 3. Investment Advisory Fee and Other Transactions with Affiliates**

The Fund retains Bragg Financial Advisors, Inc. (the "Advisor") as its investment advisor. Under the terms of the management agreement, the Advisor provides investment management and administrative services for the Fund. For its services as Advisor, the Fund pays a fee, computed daily and payable monthly at the annual rate of 0.95% of the Fund's average daily net asset value. For the year ended May 31, 2009, the Advisor earned \$98,408. From these fees and its own resources the Advisor agreed to pay other operating expenses of the Fund including transfer agent fees, fund accountant fees, registration fees, custodial fees, and other ordinary expenses of the Fund. However, the agreement does not require the Advisor to pay interest, taxes, brokerage commissions, and extraordinary expenses of the Fund. The amount due to the Advisor at May 31, 2009, is \$9,385.

Certain Trustees and officers of the Advisor are "interested persons" (as defined in the Investment Company Act of 1940) of the Trust. Each "non-interested" Trustee is entitled to receive an annual fee of \$1,000 plus expenses for services relating to the Trust which is paid by the Advisor.

Queens Road Securities ("QRS") acts as the principal underwriter in the continuous public offering of the Fund's shares. Certain officers of the Trust are also officers of QRS. QRS did not receive or waive any brokerage fees on executions of purchases and sales of the Fund's portfolio investments during the year ended May 31, 2009.

### **Note 4. Capital Stock**

At May 31, 2009, there were an unlimited number of shares authorized and 1,210,694 shares outstanding, each with a par value of \$0.001, and paid-in capital amounted to \$15,588,980 for the Fund.

### **Note 5. Investment Transactions**

For the year ended May 31, 2009, the cost of purchases and the proceeds from sales, other than short-term securities, aggregated \$6,201,622 and \$3,350,236, respectively.

### **Note 6. Distributions to Shareholders**

The tax character of distributions paid during the fiscal years ended May 31, 2009, and May 31, 2008, was as follows:

Distributions paid from:	<u>May 31, 2009</u>	<u>May 31, 2008</u>
Ordinary Income	\$187,792	\$174,900
Short-Term Capital Gain	0	9,614
Long-Term Capital Gain	<u>199</u>	<u>132,229</u>
	<u>\$187,991</u>	<u>\$316,743</u>

As of May 31, 2009, the components of distributable earnings on a tax basis were as follows:

Undistributed Ordinary Income	\$73,659
Undistributed Capital Losses	(639,656)
Unrealized Depreciation	<u>(2,599,218)</u>
Net Total	<u>\$(3,165,215)</u>

At May 31, 2009, the composition of unrealized appreciation (excess of value over tax cost) and depreciation (the excess of tax cost over value) on a tax basis was as follows:

<u>Appreciation</u>	<u>Depreciation</u>	<u>Net Appreciation (Depreciation)</u>
588,259	(3,187,477)	(2,599,218)

The difference between book-basis and tax-basis unrealized appreciation (depreciation) resulted from the deferral of Post-October losses of \$1,218,733 and wash sales of \$8,635.

The aggregate cost of securities for federal income tax purposes at May 31, 2009, was \$15,030,507.

#### **Note 7. Control**

The beneficial ownership, either directly or indirectly, of more than 25% of the voting securities of a fund creates a presumption of control of the Fund, under section 2 (a) (9) of the Investment Company Act of 1940. As of May 31, 2009, Pershing, LLC., for the benefit of its customers, owned 99.11% of the Fund.

#### **Note 8. Capital Loss Carryforwards**

At May 31, 2009, the Fund had available for federal tax purposes an unused capital loss carryforward of \$639,656, which expires in 2017. To the extent that these carryforwards are used to offset future capital gains, it is possible that the amount which is offset will not be distributed to shareholders.

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# Queens Road Value Fund

## Expense Illustration May 31, 2009 (Unaudited)

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### Expense Example

As a shareholder of the Queens Road Value Fund, you incur ongoing costs which typically consist of 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 the 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 period, December 1, 2008 through May 31, 2009.

### Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, 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 first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes

The second line of the table below 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 this 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.

	<b>Beginning Account Value</b>	<b>Ending Account Value</b>	<b>Expenses Paid During the Period *</b>
	<u>December 1, 2008</u>	<u>May 31, 2009</u>	<u>December 1, 2008 to May 31, 2009</u>
Actual	\$1,000.00	\$1,039.30	\$4.83
Hypothetical (5% Annual Return before expenses)	\$1,000.00	\$1,020.19	\$4.78

\* Expenses are equal to the Fund's annualized expense ratio of 0.95%, multiplied by the average account value over the period, multiplied by 182/365 (to reflect the one-half year period).

## **Bragg Capital Trust**

### **Queens Road Value Fund**

Additional Information  
May 31, 2009(Unaudited)

**Proxy Voting** - A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities and information regarding how the Fund voted proxies during the most recent 12 month period, are available without charge upon request by (1) calling the Fund at (800) 595-3088 and (2) from Fund documents filed with the Securities and Exchange Commission ("SEC") on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Portfolio Holdings** - The Fund files a complete schedule of investments with the SEC for the first and third quarter of each fiscal year on Form N-Q. The Fund's first and third fiscal quarters end on August 31 and February 28. The Form N-Q filing must be made within 60 days of the end of the quarter, and the Fund's first Form N-Q was filed with the SEC on October 8, 2004. The Fund's Forms N-Q are available on the SEC's website at <http://sec.gov>, or they may be reviewed and copied at the SEC's Public Reference Room in Washington, DC (call 1-800-732-0330 for information on the operation of the Public Reference Room). You may also obtain copies by calling the Fund at 1-800-595-3088.

<u>Interested Trustees</u>		<u>Term of Office</u>	<u>Principal Occupations</u>	<u>Number of Portfolios</u>	<u>Other Directorships</u>
<u>Name (Age)</u>	<u>Position with Fund</u>	<u>and Length of Time Served</u>	<u>During Past Five Years</u>	<u>in Fund Complex</u>	<u>Other Directorships</u>
				<u>Overseen By Trustee</u>	<u>Held By Trustee</u>
Steve Scruggs, 40	Trustee, President Secretary	Unlimited; 7 years	Bragg Financial Advisors, Portfolio Manager/CCO (2000- present)	Two	None
Benton Bragg, 41	Trustee, Chairman Treasurer	Unlimited; 7 years	Bragg Financial Advisors, President, CEO (1996- present)	Two	None
<b><i>Independent Trustees</i></b>					
Philip Blount, 54 <sup>2</sup>	Trustee	Unlimited; 7 years	Icons, Inc., President (2001- present) Marketing Merchandise	Two	None
Christopher Brady, 38 <sup>2</sup>	Trustee	Unlimited; 7 years	Brady Distributing, Vice President (1995-present) Machinery Distribution	Two	None
Harold Smith, 43	Trustee	Unlimited; 7 years	Raftelis Financial, Vice President (1996 – present) Public Finance Consulting	Two	None
Timothy Ignasher, 47	Trustee	Unlimited; 7 years	Colony Signature Bank, Exec.Vice President & COO (2007 – present) Commercial Loan Officer	Two	None

Steve Scruggs and Benton Bragg are Interested Trustees of the Funds (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940) by reason of their affiliation with the Funds' adviser, Bragg Financial Advisers, Inc. and their affiliation as registered principals with the Funds' underwriter, Queens Road Securities, LLC. Benton Bragg and Steve Scruggs are brothers-in-law.

(1) Member of the Audit Committee of the Board of Trustees, which makes recommendations regarding the selection of the Funds' independent public accountants and meets with representatives of the accountants to determine the scope of and review the results of each audit.

(2) Member of the Nominating Committee of the Board of Trustees, which identifies qualified candidates and recommends nominees for election as Trustees.

## Queens Road Small Cap Value Fund

Managers Commentary May 31, 2009

For the 12-month period ending 5/31/2009, the total return for the Queens Road Small Cap Value Fund was -18.14%. This compares with returns of -32.20% for the Russell 2000 Value Index and -31.79% for the Russell 2000 Index.

The Fund's best performers for the year were Village Super Markets, Arden, and Tellabs. During the course of the year, most notably in February and March of 2009, we initiated new positions and added to some current holdings when prices appeared extremely depressed. Many of these investments, including new positions in Movado, Horsehead Holdings, TIBCO and Janus, as well as increased positions in Valassis and Epicor Technologies, helped our relative performance over their respective holding periods. Among our worst performing investments were Hurco, Sadia, Oshkosh and ATC Corp. Over the course of the year, we held more cash than we would normally, this also helped our relative performance.

Below is our month-by-month performance comparison with both the Russell 2000 Value Index and the Russell 2000 Index.

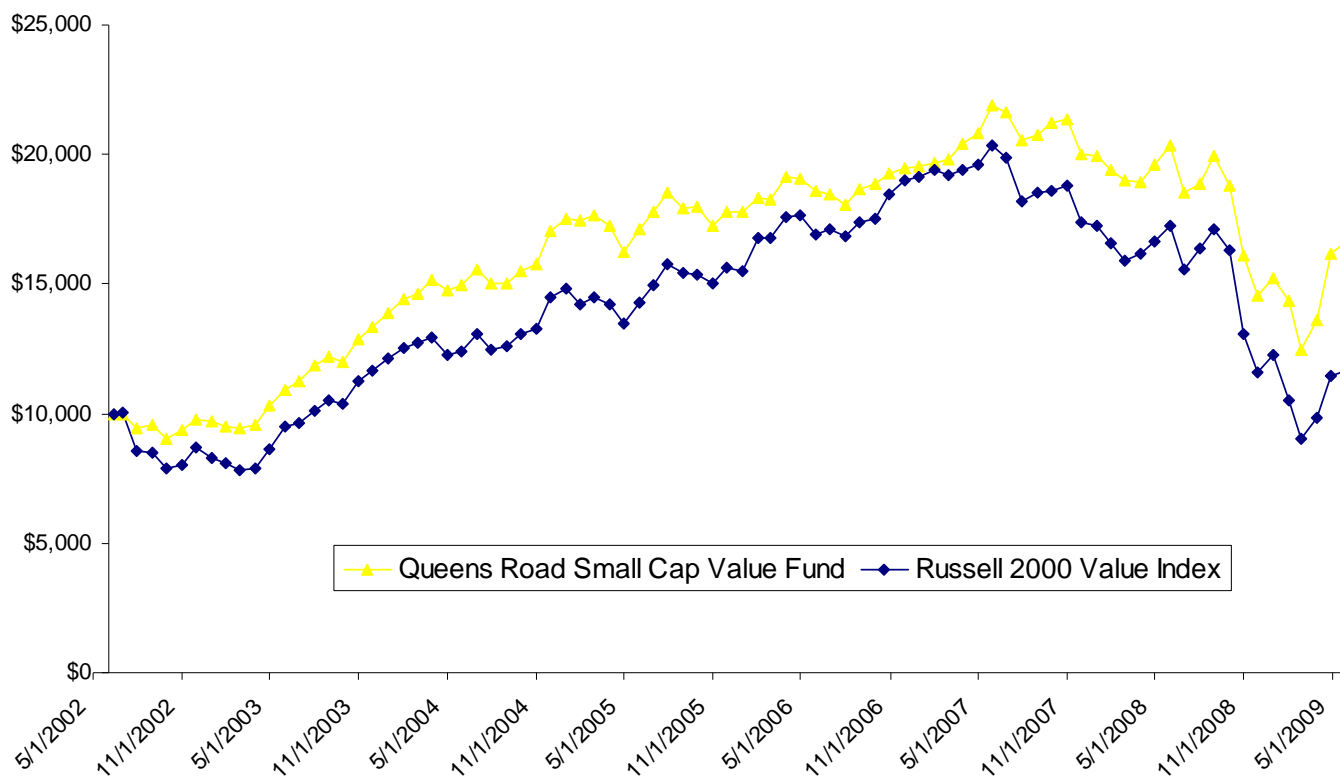
	<u>ORSVX</u>	<u>Russell 2000 Value</u>	<u>Russell 2000</u>
June 2008	-8.80%	-9.59%	-7.70%
July 2008	1.85%	5.13%	3.70%
August 2008	5.58%	4.75%	3.61%
September 2008	-5.76%	-4.69%	-7.97%
October 2008	-14.44%	-19.98%	2.87%
November 2008	-9.29%	-11.58%	-20.80%
December 2008	4.28%	6.15%	5.80%
January 2009	-5.65%	-14.29%	-11.12%
February 2009	-13.23%	-13.89%	-12.15%
March 2009	9.11%	8.88%	8.93%
April 2009	19.07%	15.87%	15.46%
May 2009	2.88%	2.16%	3.01%
One Year	-18.14%	-32.20%	-31.79%

## Queens Road Small Cap Value Fund

Performance Illustration May 31, 2009

### Cumulative Performance Comparison \$10,000 Investment Since Inception\*

	<u>May 31, 2009</u>
Russell 2000 Value Index	\$11,674
Queens Road Small Cap Value	\$16,646



Average Annual Total Return  
For the Periods Ended May 31, 2009

	Queens Road Small Cap Value	Russell 2000 Value Index
1 Year	-18.14%	-32.20%
Since Inception	7.95%	2.25%

Annual Operating Expenses 1.35% \*\*

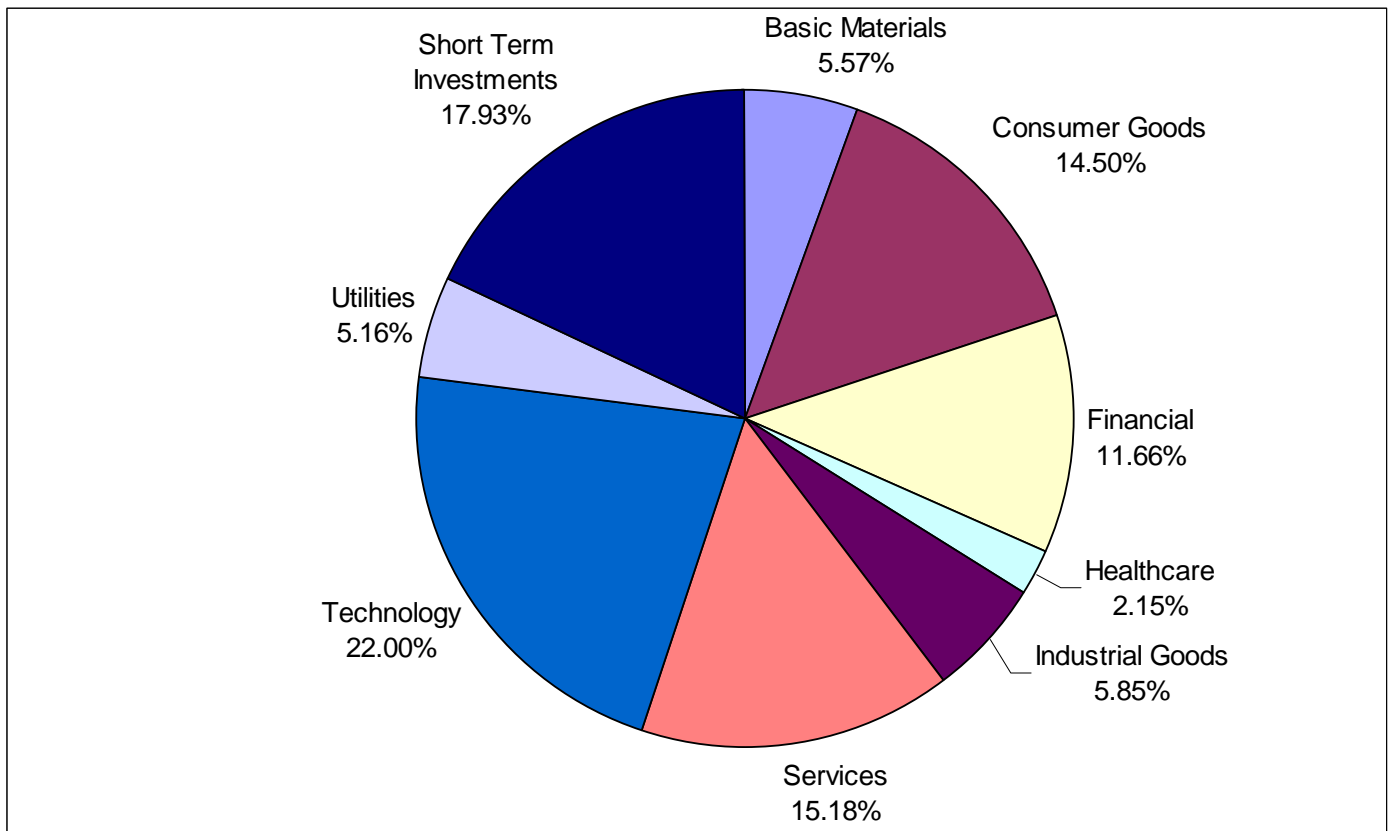
*\*Past performance is not predictive of future performance. The value of shares will fluctuate and will be worth more or less than their original cost at the time of redemption.*

*\*\*As disclosed in the Fund's Prospectus.*

## Queens Road Small Cap Value Fund

Graphical Illustration May 31, 2009

The following chart gives a visual breakdown of the Fund by the industry sectors the underlying securities represent as a percentage of the portfolio of investments.



# Queens Road Small Cap Value Fund

## Schedule of Investments

May 31, 2009

Shares		Value
<b>COMMON STOCKS - 79.71%</b>		
<b>Aerospace &amp; Defense - 0.69%</b>		
30,800	Allied Defense Group, Inc. *	\$ 142,604
<b>Agricultural Products-Livestock &amp; Animal Specialties - 2.26%</b>		
63,600	Sadia S.A. (Brazil) ADR	467,460
<b>Aircraft Parts &amp; Auxiliary Equipment - 2.09%</b>		
22,700	Ducommun, Inc.	431,527
<b>Auto Parts &amp; Equipment - 2.24%</b>		
31,800	ATC Technology Corp. *	463,644
<b>Computer Peripheral Equipment, NEC - 2.30%</b>		
3,900	Rimage Corp. *	59,475
13,100	Avocent Corp. *	183,400
24,000	Imation Corp.	231,840
		474,715
<b>Construction &amp; Farm Machinery - 0.61%</b>		
10,626	Oshkosh Truck Corp.	126,131
<b>Crude Petroleum &amp; Natural Gas - 0.42%</b>		
18,900	Vaalco Energy, Inc. *	86,184
<b>Electric &amp; Other Services Combined - 0.21%</b>		
3,300	Florida Public Utilities Co.	43,395
<b>Electric Utilites - 0.85%</b>		
5,650	MGE Energy, Inc.	175,319
<b>Electronic Equipment &amp; Instruments - 0.27%</b>		
8,800	PAR Technology Corp. *	55,440
<b>Fats &amp; Oils - 3.03%</b>		
The accompanying notes are an integral part of these financial statements.		

<b>Shares</b>		<b>Value</b>
<b>Financials - Asset Management &amp; Custody Banks - 1.18%</b>		
9,000	Eaton Vance	243,900
<b>Fire, Marine &amp; Casualty Insurance - 1.44%</b>		
15,700	Hilltop Holdings, Inc. *	186,673
2,300	United America Indemnity Ltd. Class-A *	10,994
4,700	Zenith National Insurance	<u>100,815</u>
		298,482
<b>Food Retail - 3.11%</b>		
2,317	Arden Group, Inc. Class-A	296,576
11,948	Village Super Market, Inc. Class-A	<u>345,895</u>
		642,471
<b>Footwear - 1.16%</b>		
27,400	K-Swiss Inc. Class A	239,750
<b>Gas Utilities - 2.35%</b>		
7,300	Piedmont Natural Gas Co., Inc.	165,418
13,300	UGI Corp.	<u>320,663</u>
		486,081
<b>Healthcare Distributors &amp; Services - 1.61%</b>		
9,520	Owens & Minor, Inc.	333,771
<b>Healthcare Supplies - 1.28%</b>		
2,402	Atrion Corp.	264,700
<b>Industrial Machinery - 3.10%</b>		
14,700	Graco, Inc.	327,663
21,800	Hurco Companies, Inc. *	<u>313,048</u>
		640,711
<b>Information Technology, Electronic Manufacturing Services - 3.94%</b>		
13,600	Park Electrochemical Corp.	262,344
62,000	TTM Technologies, Inc. *	<u>551,800</u>
		814,144
<b>Insurance Brokers - 0.60%</b>		
10,000	American Safety Insurance Holdings Ltd. *	124,700
<b>Investment Adviser - 0.71%</b>		
14,500	Janus Capital Group, Inc.	147,030
<b>Mining &amp; Quarrying of Nonmetallic Minerals - 0.61%</b>		
23,500	Usec, Inc. *	125,725
<b>Multi-Line Insurance - 1.50%</b>		
34,300	Horace Mann Educators Corp.	309,729
The accompanying notes are an integral part of these financial statements.		

<b>Shares</b>		<b>Value</b>
<b>Natural Gas Distribution - 0.60%</b>		
3,720	New Jersey Resources Corp.	123,764
<b>Networking Equipment - 0.99%</b>		
15,200	Bel Fuse, Inc. Class B	205,200
<b>Office Services &amp; Supplies - 1.62%</b>		
9,371	United Stationers, Inc. *	335,482
<b>Oil &amp; Gas Exploration &amp; Production - 1.04%</b>		
3,000	Encore Acquisition Co. *	106,470
5,000	St. Mary Land & Exploration Co.	<u>108,300</u>
		214,770
<b>Packaged Foods - 1.51%</b>		
7,174	Sanderson Farms, Inc.	312,858
<b>Periodicals: Publishing or Publishing and Printing - 0.13%</b>		
1,000	Meredith Corp.	26,960
<b>Personal Products - 1.90%</b>		
30,875	CCA Industries, Inc.	94,169
35,700	Inter Parfums, Inc.	<u>299,523</u>
		393,692
<b>Primary Smelting &amp; Refining of Nonferrous Metals - 2.29%</b>		
66,000	Horsehead Holding Corp. *	473,880
<b>Property &amp; Casualty Insurance - 2.19%</b>		
13,450	CNA Surety Corp. *	204,036
5,500	Proassurance Corp. *	<u>248,655</u>
		452,691
<b>Publishing &amp; Printing - 2.51%</b>		
26,500	Scholastic Corp.	519,400
<b>Pumps &amp; Pumping Equipment - 1.48%</b>		
16,000	Robbins & Meyers, Inc.	306,240
<b>Reinsurance - 1.42%</b>		
6,000	Endurance Specialty Holdings, Ltd.	164,820
4,500	Platinum Underwriters Holdings, Ltd.	<u>129,735</u>
		294,555
<b>Research &amp; Consulting - 0.45%</b>		
4,900	School Specialty, Inc. *	93,198
<b>Retail - Radio, TV &amp; Consumer Electronics Stores - 1.79%</b>		
27,500	Radioshack Corp.	369,600
The accompanying notes are an integral part of these financial statements.		

<u>Shares</u>		<u>Value</u>
<b>Semi-Conductors &amp; Related Devices - 1.24%</b>		
34,900	Micrel, Inc.	256,515
<b>Services-Advertising - 1.68%</b>		
53,800	Valassis Communications, Inc. *	347,010
<b>Services-Computer Processing &amp; Data Preparation - 1.15%</b>		
22,300	Acxiom Corp.	237,718
<b>Services-Prepackaged Software - 6.03%</b>		
112,000	Epicor Software Corp. *	575,680
4,900	Double-Take Software, Inc. *	45,129
13,100	Progress Software Corp. *	293,702
50,000	Tibco Software, Inc. *	331,500
		1,246,011
<b>Specialized Consumer Services - 0.71%</b>		
8,200	Plantronics, Inc.	146,288
<b>Specialty Chemicals - 1.21%</b>		
40,000	American Pacific Corp. *	251,200
<b>Steel - 1.14%</b>		
11,500	Cleco Corp.	235,290
<b>Sugar &amp; Confectionery Products - 1.49%</b>		
29,700	Imperial Sugar Co.	307,098
<b>Surgical &amp; Medical Instruments &amp; Apparatus - 0.86%</b>		
14,494	Angiodynamics, Inc. *	178,276
<b>Telephone &amp; Telegraph Apparatus - 4.09%</b>		
14,500	Adtran, Inc.	301,310
98,000	Tellabs, Inc. *	543,900
		845,210
<b>Watches, Clocks, Clockwork Operated Devices/Parts - 0.35%</b>		
9,600	Movado Group, Inc.	72,768
<b>Wholesale-Apparel, Piece Goods &amp; Notions - 1.88%</b>		
50,535	Delta Apparel, Inc. *	389,120
<b>State Commercial Banks - 0.40%</b>		
2,776	Penns Woods Bancorp, Inc.	82,864
The accompanying notes are an integral part of these financial statements.		

<u>Shares</u>		<u>Value</u>
TOTAL FOR COMMON STOCKS (Cost \$16,080,926) - 79.71%		\$ 16,482,067
<b>CLOSED-END MUTUAL FUNDS - 2.19%</b>		
2,200	Capital Southwest Corp.	157,520
23,300	Central Fund of Canada Limited ***	294,745
TOTAL FOR CLOSED-END MUTUAL FUNDS (Cost \$524,241) - 2.19%		452,265
<b>SHORT TERM INVESTMENTS - 17.89%</b>		
3,699,893	AIM Short Term Investments Company Prime Portfolio 0.24% ** (Cost \$3,699,893)	3,699,893
TOTAL INVESTMENTS (Cost \$20,305,060) - 99.79%		\$ 20,634,225
OTHER ASSETS LESS LIABILITIES - 0.21%		44,151
NET ASSETS - 100.00%		\$ 20,678,376

\* Non-income producing securities during the period.

\*\* Variable rate security; the coupon rate shown represents the yield at May 31, 2009.

\*\*\* Passive foreign investment company

ADR - American Depository Receipt

The accompanying notes are an integral part of these financial statements.

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# Queens Road Small Cap Value Fund

## Statement of Assets and Liabilities

May 31, 2009

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Assets:

Investments, at Value (Cost \$20,305,060) \$ 20,634,225

Receivables:

Shareholder Subscriptions 78,385

Dividends and Interest 9,465

Total Assets 20,722,075

Liabilities:

Accrued Management Fees 22,653

Shareholder Redemptions 21,046

Total Liabilities 43,699

Net Assets \$ 20,678,376

Net Assets Consist of:

Paid In Capital \$ 21,300,633

Accumulated Undistributed Realized Loss on Investments (951,422)

Unrealized Appreciation in Value of Investments 329,165

Net Assets, for 1,483,388 Shares Outstanding \$ 20,678,376

(Unlimited number of shares authorized with a par value of \$0.001)

Net Asset Value Per Share, Offering and Redemption Price (\$20,678,376/1,483,388 shares) \$ 13.94

The accompanying notes are an integral part of these financial statements.

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# Queens Road Small Cap Value Fund

## Statement of Operations For the year ended May 31, 2009

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Investment Income:	
Dividends (net of foreign withholding taxes of \$408)	\$ 222,309
Interest	<u>17,464</u>
Total Investment Income	239,773
Expenses:	
Advisory Fees (Note 3)	<u>183,769</u>
Total Expenses	<u>183,769</u>
Net Investment Income	<u>56,004</u>
Realized and Unrealized Loss on Investments:	
Realized Loss on Investments	(581,243)
Net Change in Unrealized Appreciation on Investments	<u>(669,693)</u>
Net Realized and Unrealized Loss on Investments	<u>(1,250,936)</u>
Net Decrease in Net Assets Resulting from Operations	<u>\$(1,194,932)</u>

The accompanying notes are an integral part of these financial statements.

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# Queens Road Small Cap Value Fund

## Statements of Changes in Net Assets

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	Years Ended	
	<u>5/31/2009</u>	<u>5/31/2008</u>
Increase (Decrease) in Net Assets From Operations:		
Net Investment Income	\$ 56,004	\$ 73,591
Net Realized Loss on Investments	(581,243)	(24,199)
Net Change in Unrealized Appreciation on Investments	<u>(669,693)</u>	<u>(631,526)</u>
Net Decrease in Net Assets Resulting from Operations	(1,194,932)	(582,134)
Distributions to Shareholders From:		
Net Investment Income	(76,749)	(60,174)
Realized Gains	(2,586)	(478,602)
Return of Capital	<u>(16,701)</u>	<u>-</u>
Net Change in Net Assets from Distributions	(96,036)	(538,776)
Capital Share Transactions:		
Proceeds from Sale of Shares	11,055,055	5,276,194
Shares Issued on Reinvestment of Dividends	50,059	248,143
Cost of Shares Redeemed	<u>(2,110,300)</u>	<u>(1,263,759)</u>
Net Increase in Net Assets from Shareholder Activity	8,994,814	4,260,578
Net Assets:		
Net Increase in Net Assets	7,703,846	3,139,668
Beginning of Period	<u>12,974,530</u>	<u>9,834,862</u>
End of Period (Including Accumulated Undistributed Net Investment Income of \$0 and \$20,400, Respectively)	<u>\$20,678,376</u>	<u>\$ 12,974,530</u>
Share Transactions:		
Shares Sold	887,820	308,822
Shares Issued on Reinvestment of Dividends	4,171	14,674
Shares Redeemed	<u>(164,524)</u>	<u>(72,595)</u>
Net Increase in Shares	727,467	250,901
Outstanding at Beginning of Period	<u>755,921</u>	<u>505,020</u>
Outstanding at End of Period	<u>1,483,388</u>	<u>755,921</u>

The accompanying notes are an integral part of these financial statements.

# Queens Road Small Cap Value Fund

## Financial Highlights

Selected data for a share outstanding throughout the period.

	For the Years Ended				
	<u>5/31/2009</u>	<u>5/31/2008</u>	<u>5/31/2007</u>	<u>5/31/2006</u>	<u>5/31/2005</u>
Net Asset Value, at Beginning of Period	\$ 17.16	\$ 19.47	\$ 17.27	\$ 15.98	\$ 14.67
Income From Investment Operations:					
Net Investment Income *	0.05	0.12	0.10	0.07	0.10
Net Gain (Loss) on Securities (Realized and Unrealized)	<u>(3.18)</u>	<u>(1.53)</u>	<u>2.90</u>	<u>1.26</u>	<u>2.04</u>
Total from Investment Operations	(3.13)	(1.41)	3.00	1.33	2.14
Distributions from:					
Net Investment Income	(0.07)	(0.10)	(0.11)	(0.03)	(0.09)
Capital Gains	0.00 ***	(0.80)	(0.69)	(0.01)	(0.68)
Return of Capital	<u>(0.02)</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(0.05)</u>
Total from Distributions	(0.09)	(0.90)	(0.80)	(0.04)	(0.82)
Net Asset Value, at End of Period	\$ 13.94	\$ 17.16	\$ 19.47	\$ 17.27	\$ 15.98
Total Return **	(18.14)%	(7.15)%	17.90%	8.31%	14.38% (a)
Ratios/Supplemental Data:					
Net Assets at End of Period (Thousands)	\$ 20,678	\$ 12,975	\$ 9,835	\$ 8,038	\$ 3,574
Before Reimbursement					
Ratio of Expenses to Average Net Assets	1.35%	1.35%	1.35%	1.35%	1.35%
Ratio of Net Investment Income to Average Net Assets	0.41%	0.69%	0.56%	0.42%	0.14%
After Reimbursement					
Ratio of Expenses to Average Net Assets	1.35%	1.35%	1.35%	1.35%	0.87%
Ratio of Net Investment Income to Average Net Assets	0.41%	0.69%	0.56%	0.42%	0.62%
Portfolio Turnover	35.64%	24.60%	64.65%	74.23%	39.74%

\* Net Investment Income per share amounts were calculated using the average share method.

\*\* Total return in the above table represents the rate that the investor would have earned or lost on an investment in the fund assuming reinvestment of dividends.

\*\*\* Amount is less than \$0.005

(a) Total return before the waiver of related party brokerage commissions of \$392 is 14.38%.

The accompanying notes are an integral part of these financial statements.

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# BRAGG CAPITAL TRUST

## QUEENS ROAD SMALL CAP VALUE FUND

### NOTES TO FINANCIAL STATEMENTS

MAY 31, 2009

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#### **Note 1. Organization**

The Queens Road Small Cap Value Fund (the "Fund"), a managed portfolio of the Bragg Capital Trust, (the "Trust"), is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management company. The Fund is one of a series of Funds of the Bragg Capital Trust, which also includes the Queens Road Value Fund. The Fund's investment objective is to seek growth of capital. It invests primarily (under normal market conditions), at least 80% of its total assets in small capitalization (less than \$2 billion market cap at the time of purchase) common stocks which are believed by the Advisor to be undervalued and have good prospects for capital appreciation. The Fund's registration statement was declared effective on June 13, 2002, and operations began on that date.

#### **Note 2. Significant Accounting Policies**

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

*Security Valuation:* Securities, which are traded on a national securities exchange or on the NASDAQ over-the-counter market, are valued at the last quoted sales price. Investments for which no sale was reported are valued at the last bid price. Short-term obligations having remaining maturities of 60 days or less, are valued at amortized cost. Securities for which market quotations are not readily available are valued at fair value as determined in good faith by and under the direction of the Fund's Board of Trustees.

*Federal Income Taxes:* The Fund's policy is to continue to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Therefore, no provision for income taxes is required. The Fund intends to distribute its net long-term capital gains and its net short-term capital gains at least once a year.

As of and during the year ended May 31, 2009, the Fund did not have a liability for any unrecognized tax benefits. The Fund recognizes interest and penalties, if any, related to recognized tax benefits as income tax expense on the statement of operations. During the year, the Fund did not incur any interest or penalties. The Fund is not subject to examination by the U.S. federal tax authorities for the tax years before 2005.

*Use of Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

*Other:* The Fund follows industry practice and records security transactions on the trade date. The specific identification method is used for determining gains or losses for financial statement and income tax purposes. Dividend income is recorded on the ex-dividend date, except that certain dividends from foreign securities are recorded as soon as information is available to the Fund. Interest income is recorded on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities.

*Distributions to shareholders:* Distributions to shareholders, which are determined in accordance with income tax regulations, are recorded on the ex-dividend date. The treatment for financial reporting purposes of distributions made to shareholders during the year from net investment income or net realized capital gains may differ from their ultimate treatment for federal income taxes purposes. These differences are caused primarily by differences in the timing of the recognition of certain components of income, expense or realized capital gain for federal income tax purposes. Where such differences are permanent in nature, they are reclassified in the components of the net assets based on their ultimate characterization for federal income tax purposes. Any such reclassifications will have no effect on net assets, results of operations or net asset value per share of the Fund.

*Fair Value Measurements:* The Fund adopted Financial Accounting Standards Board Statement on Financial Accounting Standards (FAS) No. 157 "Fair Value Measurements" effective June 1, 2008. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosure about fair value measurements. FAS No. 157 applies to fair value measurements already required or permitted by existing standards. In accordance with FAS No. 157, fair value is defined as the price that would be received by the Fund upon selling an asset or paid by the Fund to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of a principal market for the asset or liability, the assumption is that the transaction occurs on the most advantageous market for the asset or

liability. FAS No. 157 established a three-tier fair value hierarchy that prioritizes the assumptions, also known as "inputs", to valuation techniques used by market participants to measure fair value. The term "inputs" refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. The three-tier hierarchy of inputs is summarized in three levels with the highest priority given to Level 1 and the lowest priority given to Level 3: Level 1 - quoted prices in active markets for identical securities, Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The following is a summary of the inputs used as of May 31, 2009 in valuing the Fund's assets carried at fair value:

<u>Valuation Inputs:</u>	<u>Investments In Securities</u>	<u>Other Financial Instruments</u>
Level 1 – Quoted Prices	\$20,634,225	\$ -
Level 2 – Significant Other Observable Inputs	-	-
Level 3 – Significant Unobservable Inputs	-	-
Total	<u>\$20,634,225</u>	<u>\$ -</u>

The Fund did not hold any Level 3 securities during the year.

### **Note 3. Investment Advisory Fee and Other Transactions with Affiliates**

The Fund retains Bragg Financial Advisors, Inc. (the "Advisor") as its investment advisor. Under the terms of the management agreement, the Advisor provides investment management and administrative services for the Fund. For its services as Advisor, the Fund pays a fee, computed daily and payable monthly at the annual rate of 1.35% of the Fund's average daily net asset value. For the year ended May 31, 2009, the Advisor earned \$183,769. From these fees and its own resources the Advisor agreed to pay other operating expenses of the Fund including transfer agent fees, fund accountant fees, registration fees, custodial fees, and other ordinary expenses of the Fund. However the agreement does not require the Advisor to pay interest, taxes, brokerage commissions, and extraordinary expenses of the Fund. The amount owed to the Advisor at May 31, 2009 is \$22,653.

Certain Trustees and officers of the Trust are "interested persons" (as defined in the Investment Company Act of 1940) of the Trust. Each "non-interested" Trustee is entitled to receive an annual fee of \$1,000 plus expenses for services relating to the Trust which is paid by the advisor.

Queens Road Securities ("QRS") acts as the principal underwriter in the continuous public offering of the fund's shares. Certain officers of the trust are also officers of QRS. QRS did not receive or waive any brokerage fees on execution of purchases and sales of the Fund's investments during the year ended May 31, 2009.

### **Note 4. Capital Stock**

At May 31, 2009, there were an unlimited number of shares authorized and 1,483,388 shares outstanding, each with no par value, and paid-in capital amounted to \$21,300,633 for the Fund.

### **Note 5. Investment Transactions**

For the year ended May 31, 2009, the cost of purchases and the proceeds from sales, other than short-term securities aggregated \$10,274,740 and \$4,470,030, respectively.

### **Note 6. Distributions to Shareholders**

The tax character of distributions paid during the fiscal years ended May 31, 2009, and May 31, 2008, was as follows:

Distributions paid from:	<u>May 31, 2009</u>	<u>May 31, 2008</u>
Ordinary Income	\$ 76,749	\$60,174
Short-Term Capital Gain	-	109,398
Long-Term Capital Gain	2,586	369,204
Return of Capital	<u>16,701</u>	<u>-</u>
	<u>\$ 96,036</u>	<u>\$538,776</u>

As of May 31, 2009, the components of distributable earnings on a tax basis were as follows:

Undistributed Capital Losses	(254,218)
Unrealized depreciation	(368,039)
Net Total	\$(622,257)

At May 31, 2009, the composition of unrealized appreciation (excess of value over tax cost) and depreciation (the excess of tax cost over value) on a tax basis was as follows:

<u>Appreciation</u>	<u>Depreciation</u>	<u>Net Appreciation (Depreciation)</u>
\$2,309,501	\$(2,677,540)	\$(368,039)

The difference between book-basis and tax-basis unrealized appreciation (depreciation) resulted from the deferral of Post-October losses of \$693,289, \$804 of income recognized for passive foreign investment companies, and \$3,111 of the retention of long-term capital gains from underlying funds.

The aggregate cost of securities for federal income tax purposes at May 31, 2009 was \$21,002,264.

**Note 7. Control**

The beneficial ownership, either directly or indirectly, of more than 25% of the voting securities of a fund creates a presumption of control of the Fund, under section 2 (a) (9) of the Investment Company Act of 1940. As of May 31, 2009, Pershing, LLC., for the benefit of its customers, owned 89.56% of the Fund.

**Note 8. Capital Loss Carryforwards**

At May 31, 2009, the Fund had available for federal tax purposes an unused capital loss carryforward of \$254,218, which expires in 2017. To the extent that these carryforwards are used to offset future capital gains, it is possible that the amount which is offset will not be distributed to shareholders.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Shareholders and Board of Trustees of  
Bragg Capital Trust

We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of Bragg Capital Trust (the "Funds"), comprising the Queens Road Value Fund and the Queens Road Small Cap Value Fund, as of May 31, 2009, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of Fund management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 May 31, 2009, by correspondence with the custodian. 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 audits provide 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 Bragg Capital Trust, comprising the Queens Road Value Fund and the Queens Road Small Cap Value Fund, as of May 31, 2009, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and their financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

COHEN FUND AUDIT SERVICES, LTD.

Westlake, Ohio

July 30, 2009

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# Queens Road Small Cap Value Fund

## Expense Illustration

May 31, 2009 (Unaudited)

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### Expense Example

As a shareholder of the Queens Road Small Cap Value Fund, you incur ongoing costs which typically consist of 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 the 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 period, December 1, 2008 through May 31, 2009.

### Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, 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 first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes

The second line of the table below 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 this 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.

	<b>Beginning Account Value</b>	<b>Ending Account Value</b>	<b>Expenses Paid During the Period*</b>
	<u>December 1, 2008</u>	<u>May 31, 2009</u>	<u>December 1, 2008 to May 31, 2009</u>
Actual	\$1,000.00	\$1,141.07	\$7.21
Hypothetical (5% Annual Return before expenses)	\$1,000.00	\$1,018.20	\$6.79

\* Expenses are equal to the Fund's annualized expense ratio of 1.35%, multiplied by the average account value over the period, multiplied by 182/365 (to reflect the one-half year period).

**Bragg Capital Trust**  
**Queens Road Small Cap Value Fund**

Additional Information  
 May 31, 2008 (Unaudited)

**Proxy Voting** - A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities and information regarding how the Fund voted proxies during the most recent 12 month period, are available without charge upon request by (1) calling the Fund at (800) 595-3088 and (2) from Fund documents filed with the Securities and Exchange Commission ("SEC") on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Portfolio Holdings** - The Fund files a complete schedule of investments with the SEC for the first and third quarter of each fiscal year on Form N-Q. The Fund's first and third fiscal quarters end on August 31 and February 28. The Form N-Q filing must be made within 60 days of the end of the quarter, and the Fund's first Form N-Q was filed with the SEC on October 8, 2004. The Fund's Forms N-Q are available on the SEC's website at <http://sec.gov>, or they may be reviewed and copied at the SEC's Public Reference Room in Washington, DC (call 1-800-732-0330 for information on the operation of the Public Reference Room). You may also obtain copies by calling the Fund at 1-800-595-3088.

<u>Interested Trustees</u>	<u>Position with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupations During Past Five Years</u>	<u>Number of Portfolios in Fund Complex Overseen By Trustee</u>	<u>Other Directorships Held By Trustee</u>
Steve Scruggs, 40	Trustee, President Secretary	Unlimited; 7 years	Bragg Financial Advisors, Portfolio Manager/CCO (2000- present)	Two	None
Benton Bragg, 41	Trustee, Chairman Treasurer	Unlimited; 7 years	Bragg Financial Advisors, President, CEO (1996-present)	Two	None
<b>Independent Trustees</b>					
Philip Blount, 54 <sup>2</sup>	Trustee	Unlimited; 7 years	Icons, Inc., President (2001-present) Marketing Merchandise Halo, Inc., Vice President	Two	None
Christopher Brady, 38 <sup>1,2</sup>	Trustee	Unlimited; 7 years	Brady Distributing, Vice President (1995-present) Machinery Distribution	Two	None
Harold Smith, 43 <sup>2</sup>	Trustee	Unlimited; 7 years	Raftelis Financial, Vice President (1996 – present) Public Finance Consulting	Two	None
Timothy Ignasher, 47 <sup>1</sup>	Trustee	Unlimited; 7 years	Colony Signature Bank, Exec. Vice President & COO (2007 – 2008) Commercial Loan Officer	Two	None

Steve Scruggs and Benton Bragg are Interested Trustees of the Funds (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940) by reason of their affiliation with the Funds' adviser, Bragg Financial Advisors, Inc. and their affiliation as registered principals with the Funds' underwriter, Queens Road Securities, LLC. Benton Bragg and Steve Scruggs are brothers-in-law.

(1)Member of the Audit Committee of the Board of Trustees, which makes recommendations regarding the selection of the Funds' independent public accountants and meets with representatives of the accountants to determine the scope of and review the results of each audit.

(2)Member of the Nominating Committee of the Board of Trustees, which identifies qualified candidates and recommends nominees for election as Trustees.

**Board of Trustees**

**Benton Bragg  
Steve Scruggs  
Phil Blount  
Tim Ignasher  
Chris Brady  
Harold Smith**

**Investment Adviser**

**Bragg Financial Advisors, Inc.  
1031 Caldwell Street, Suite 200  
Charlotte, NC 28203**

**Dividend Paying Agent,  
Shareholders' Servicing Agent,**

**Transfer Agent**

**Mutual Shareholder Services  
8869 Brecksville Rd, Suite C  
Brecksville, Ohio 44141**

**Custodian**

**US Bank, NA  
425 Walnut Street  
P.O. Box 1118  
Cincinnati, OH 45201**

**Independent Auditors**

**Cohen Fund Audit Services, Ltd.  
800 Westpoint Parkway, Suite 1100  
Westlake, Ohio 44145**

**Shares of the Queens Road Value and Queens Road Small Cap Value Fund are distributed by Queens Road Securities, L.L.C, an affiliate of the Investment Adviser. This report has been prepared for the general information of the shareholders. It is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus. The Funds' prospectus contains more complete information about the objectives, policies, expenses and risks of the Funds. The Funds are not bank deposits, not FDIC insured and may lose value. Please read the prospectus carefully before investing or sending money.**

This report contains certain forward looking statements which are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Forward looking statements generally include words such as "believes", "expects", "anticipates" and other words of similar import. Such risks and uncertainties include, among other things, the Risk Factors noted in the Funds' filings with the Securities and Exchange Commission. The Funds undertake no obligation to update any forward looking statement.