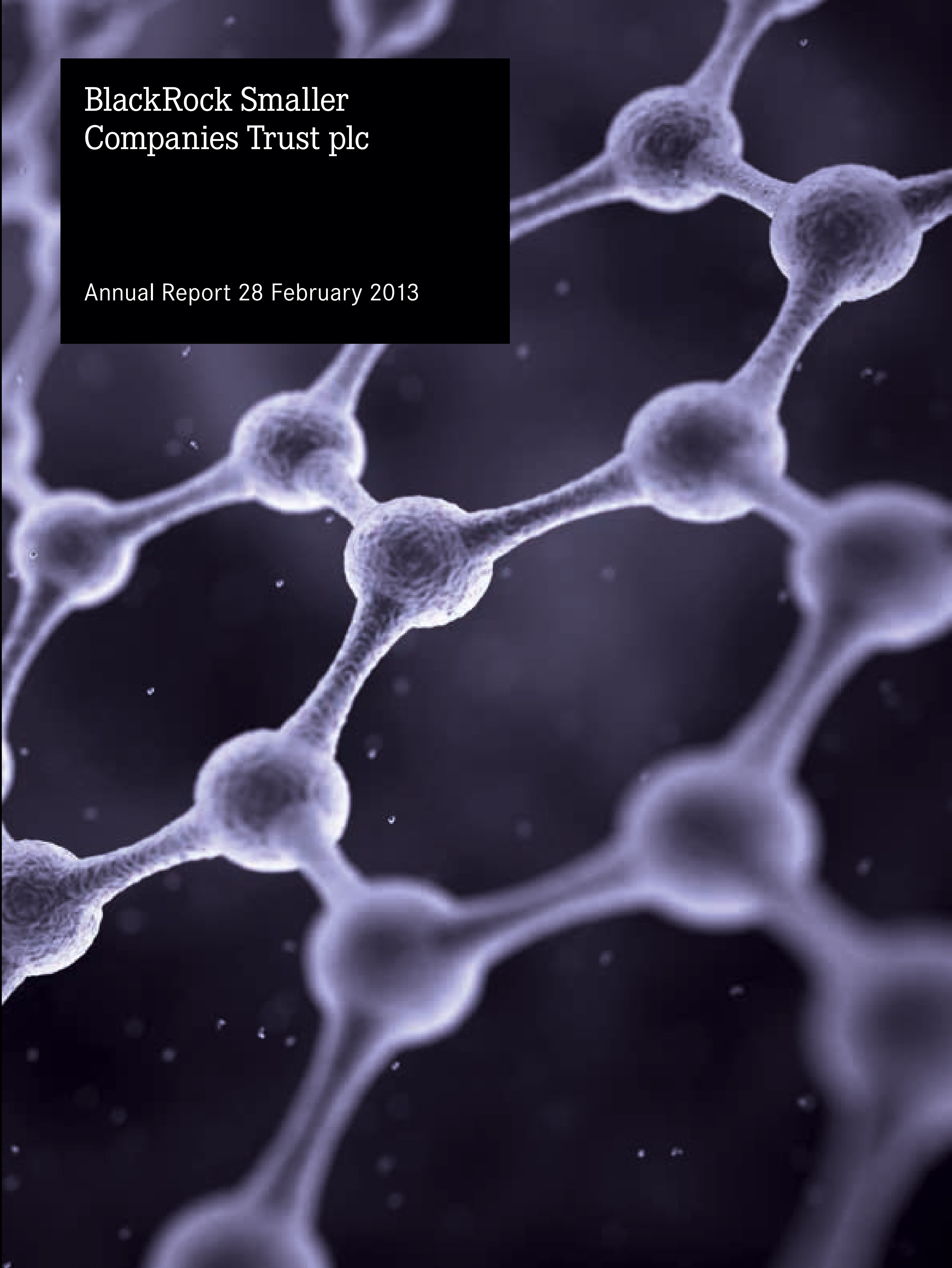
BlackRock Smaller Companies Trust plc

Annual Report 28 February 2013



BLACKROCK®

Corporate Summary

The Company	The Company is an investment trust and its shares are listed on the London Stock Exchange. The Company aims to attract long term private and institutional investors wanting to benefit from the growth prospects of smaller companies.
Investment Objective	To achieve long term capital growth for shareholders through investment mainly in smaller UK quoted companies. Full details are given on page 16.
Benchmark Index	Hoare Govett Smaller Companies plus AIM (excluding Investment Companies) Index to 9 April 2012 and Numis Smaller Companies plus AIM (excluding Investment Companies) Index from 10 April 2012. The composition of the index remained unchanged; the change of name reflects a change of sponsor only.
Investment Manager	BlackRock Investment Management (UK) Limited – Portfolio Manager, Mike Prentis.
Board	The Company has an independent Board of Directors which monitors the performance of the Company and considers the investment strategy.
Website	Information about the Company can be found on the website www.blackrock.co.uk/brsc
AIC	The Company is a member of the Association of Investment Companies.
Share Dealing	Shares in the Company can be bought in the open market through a stockbroker. They can also be purchased through the BlackRock Savings Plan and Stocks and Shares ISA (see page 62).

Financial Calendar

26 April 2013	Announcement of results for year ended 28 February 2013
26 June 2013	Annual General Meeting
3 July 2013	Payment of final dividend on ordinary shares
23 October 2013	Announcement of results for six months ended 31 August 2013
29 November 2013	Payment of interim dividend on ordinary shares

Contents

Performance Record

Financial Highlights

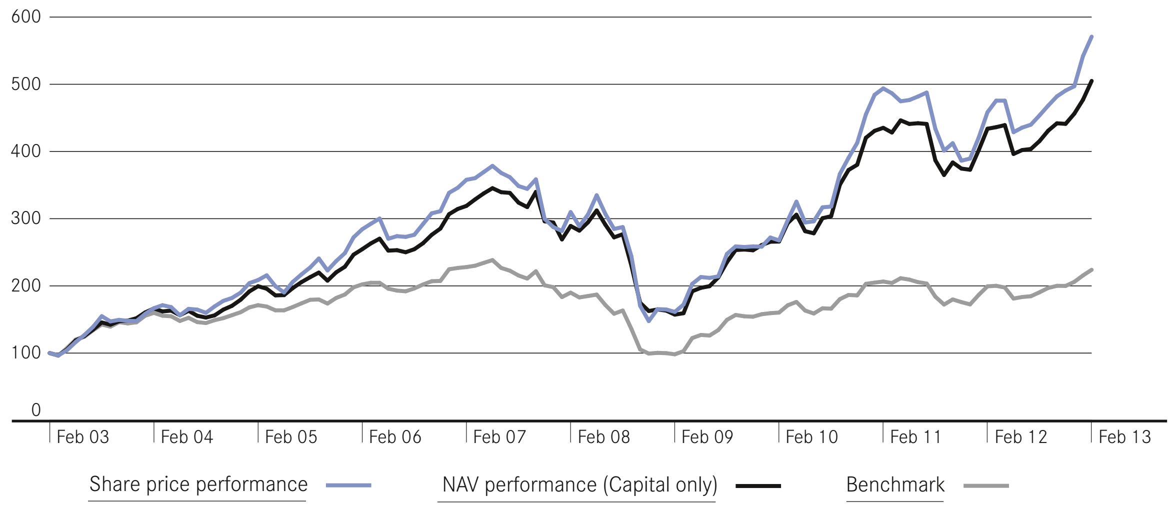
	Year ended 28 February 2013	Year ended 29 February 2012	% change
Performance			
Net asset value per share*	720.42p	619.75p	+16.2
Net asset value per share* (capital only)	712.39p	612.02p	+16.4
Numis Smaller Companies plus AIM (ex Investment Companies) Index	4,026.91	3,584.33	+12.3
Share price	626.50p	503.00p	+24.6
Revenue return per share	11.53p	10.16p	+13.5
Interim dividend per share	3.50p	2.42p	+44.6
Proposed final dividend per share	6.50p	5.98p	+8.7
Total dividends paid and payable in respect of the year ended	10.00p	8.40p	+19.0
Total assets less current liabilities (£'000)	374,797	311,582	+20.3
Equity shareholders' funds (£'000)	344,934	296,733	+16.2
Ongoing charges ratio**	0.6%	0.7%	
Ongoing charges ratio (including performance fees)	1.0%	1.0%	
Dividend yield	1.6%	1.7%	
Gearing	9.2%	7.7%	

* Debenture at par value.

** Ongoing charges ratio calculated as a percentage of average shareholders' funds and using expenses, excluding finance costs, performance fees and taxation in accordance with AIC guidelines.

Source: BlackRock.

Performance from 1 March 2003 to 28 February 2013



Sources: BlackRock and Datastream.
Share price and NAV, rebased to 100.
Benchmark – FTSE SmallCap Index (excluding Investment Companies) prior to 31 August 2007 and Numis Smaller Companies plus AIM (excluding Investment Companies) Index (formerly Hoare Govett Smaller Companies plus AIM (excluding Investment Companies) Index) from 1 September 2007, rebased to 100.

Chairman's Statement

Over the last ten years Net Asset Value per share has increased by 411% and Dividends per share by 131%. Your Company has proved to be an outstanding long term investment.

Nicholas Fry

Performance

Following a positive start to the year, sentiment across global markets began to deteriorate in the spring of 2012 and worsened in the summer following concerns over the need to address the high levels of government debt in much of the developed world. This led to policy makers in Europe, China, Japan and the US taking positive action which calmed markets, which have subsequently strengthened and for much of the first quarter of 2013 enjoyed their longest positive run since the credit crisis in 2008.

Small and midcap stocks have performed well during the year with the FTSE 250 Index rising by 19.7% compared with an increase of 13.1% for the FTSE 100 Index. However, it has been a particularly challenging year for AIM companies and the FTSE AIM Index ended the year down by 10.3%.

During the year ended 28 February 2013, the Company's net asset value ("NAV") increased by 16.2% and the share price rose by 24.6%. By comparison, the Company's benchmark, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index, rose by 12.3%.[1]

Since the financial year end, the Company's NAV has increased by 1.0%, against a benchmark decline of 0.4%, and the share price has risen by 0.04%.[1]

[1] all percentages in sterling terms without income reinvested

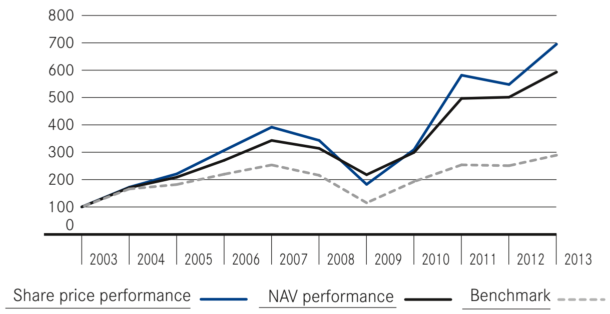
Over the longer term the Company's performance has substantially exceeded its benchmark, as shown in the table below.

Performance to 28 February 2013	1 Year	3 Years	5 Years	10 Years
Net asset value per share	+16.2%	+89.2%	+73.8%	+410.6%
Benchmark[2]	+12.3%	+39.7%	+17.9%	+123.9%
Net Asset Value per share (with income reinvested)	+18.1%	+98.1%	+88.8%	+493.0%
Benchmark[2] (with income reinvested)	+15.3%	+49.9%	+34.0%	+189.1%
Share price (with income reinvested)	+27.0%	+124.4%	+102.5%	+595.1%

[2] Benchmark – Numis Smaller Companies plus AIM (excluding Investment Companies) Index from 1 September 2007; FTSE SmallCap Index excluding Investment Companies prior to that date.

The progression of the Company's total return performance (with income reinvested) is shown in the graph below.

Ten Year Shareholder Return



Sources: BlackRock and Datastream.

Earnings and dividends

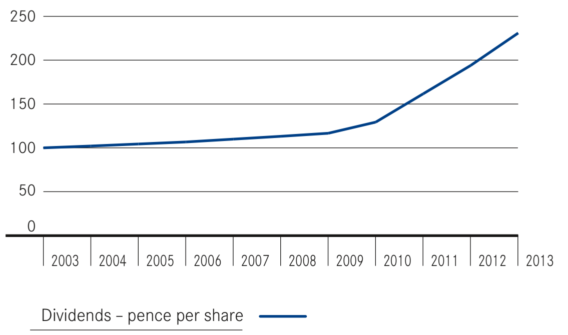
The Company's revenue return per share for the year to 28 February 2013 amounted to 11.53p compared with 10.16p for the previous year.

As announced in our last Annual Report, the Board decided to increase the interim dividend disproportionately in order to move closer to a 40:60 split between the interim and final dividends, and accordingly declared an interim dividend of 3.50p per share (2012: 2.42p per share).

In the interim report, we indicated that we hoped to pay total dividends for the year of 9.50p per share, which implied a final dividend of 6.00p per share. In the event, due to stronger dividend flow from our investee companies than anticipated, the Directors recommend the payment of a final dividend of 6.50p, making a total for the year of 10.00p per share; this represents an increase of 19.0% over the dividends of 8.40p per share paid last year. Subject to shareholder approval, the final dividend will be paid on 3 July 2013 to shareholders on the register on 31 May 2013; the ex-dividend date is 29 May 2013.

As a result of continued growth in earnings, in each of the last ten years your Company has increased its annual dividends per share, which have risen by 131% over the period. The profile of dividend growth over the last ten years is shown in the graph below.

Ten Year Dividend Growth



Sources: BlackRock.

Gearing

During the year the Board negotiated a three year £15 million multi-currency revolving loan facility with Scotia Bank (Ireland) Limited in order to be less dependent on short term borrowings. This facility is in addition to the Company's existing £15 million debenture and an uncommitted bank overdraft facility of £20 million.

It is the Board's intention that gearing will not exceed 15% of the total assets of the Company at the time of the drawdown of the relevant borrowings. Under normal operating conditions it is envisaged that gearing will fall within a range of 0-15% of total assets.

Gearing levels and sources of funding are reviewed regularly and the Board continues to believe that moderate gearing is in the long term interests of shareholders. At the year end, the Company's gearing was 8.3% of total assets and 9.2% of shareholders' funds.

Discount
The Company's discount averaged 15.5% over the year under review, ranging from a low of 11.1% to a high of 18.4%, and ended the year at 13.0%. Your Board recognises that it is in the long term interests of shareholders that the discount to NAV at which the shares trade should be minimised as far as possible and will continue to focus on attempting to narrow this margin. An important factor in achieving this is to create demand for the shares in the secondary market. To this end your Investment Manager has been devoting considerable effort to broadening the awareness of the Company's attractions, particularly to wealth managers and to the wider retail shareholder market. Over the last two years the number of shares in the Company held by retail shareholders has increased from 20% to nearly 40% and we aim for this trend to continue.

The Retail Distribution Review
From 1 January 2013 the Financial Services Authority's ("FSA") (with effect from 1 April 2013 known as the Financial Conduct Authority ("FCA")) Retail Distribution Review ("RDR") was implemented. Inter alia, this requires advisers to charge their clients for advice rather than receiving commissions from the funds in which their clients invest. Historically advisers have not received such commissions from investment trusts. Thus in this important respect investment trusts should now be on the same footing as their open ended counterparts such as OEICs and unit trusts. There are signs that this change may already have begun to have a beneficial effect on the demand for investment trusts and we hope that this tendency will be maintained.

In this context your Investment Manager is actively looking to increase our profile with retail platforms and online brokers.

Annual General Meeting
The Annual General Meeting of the Company will be held at the offices of BlackRock at 12 Throgmorton Avenue, London EC2N 2DL on 26 June 2013 at 2.30 p.m. Mike Prentis, the Portfolio Manager, will be making a presentation to shareholders on the Company's performance and the outlook for equity markets. The Directors and representatives of the Investment Manager look forward to meeting shareholders informally after the meeting and I hope that as many shareholders as possible will choose to attend.

Outlook
Recent improvements in the global macroeconomic position have seen a more buoyant run in markets over the last few months; however this optimism should be tempered by concerns over public sector spending cuts in the US and continuing sovereign debt issues in Europe and many uncertainties remain. The UK economy still appears weak and growth is likely to be slow, but the recent fall in sterling should help companies with international exposure. The holdings in the Company's portfolio are well placed to make the most of slowly improving economic conditions, with strong management and exposure to the better performing sectors of the global economy. We anticipate reasonable earnings growth from your Company's holdings, and this should feed through into positive returns for the Company's shareholders in the medium term.

Nicholas Fry
Chairman
26 April 2013

Investment Manager's Report

It is pleasing to have maintained our record of outperformance and we believe the portfolio is well positioned to continue this trend.

Mike Prentis

Market review and overall investment performance

Stockmarkets were uncertain during much of the financial year. Investors had concerns about the indebtedness of Southern European countries, the slowing of the Chinese economy, tensions in the Middle East and the US budget deficit. These uncertainties took their toll on stockmarkets which fell heavily in May 2012. However, in recent months confidence has started to return as many macroeconomic uncertainties look to be past their worst. US private sector growth has been quite strong with the housing market showing clear signs of recovery. Chinese GDP growth looks to have bottomed and we may even see a gradual improvement in growth. The European economy still looks weak, but this appears to be well understood by markets. This return of confidence has helped markets and enabled us to finish the financial year robustly.

Over the year the Company's NAV per share rose by 16.2% to 720.42p; the benchmark rose by 12.3%, whilst the FTSE 100 Index rose by 13.1%, all percentages without income reinvested. Over the last ten years the Company's NAV per share has risen from 141.1p, admittedly close to the low point in markets at the time, to 720.42p, a rise of 410.6% (excluding income reinvested). We have aimed for consistent outperformance and so it is pleasing to note that this is the tenth successive year that we have outperformed our benchmark index.

Performance review

Stock selection contributed strongly to relative outperformance during the year, as did gearing, whilst the contribution from sector allocation was marginally negative.

Amongst the largest stock contributors to relative outperformance were our core holdings in Ashtead Group, Howden Joinery Group, Oxford Instruments, Bellway and Booker Group. These are all very well run companies with good growth prospects. A strong contribution also came from Optimal Payments, where shares in the company rose by 154% during the year. Optimal Payments facilitates online payments and could be a beneficiary of the possible liberalisation of US online gaming.

On the negative side, the largest detractors from relative performance were our holdings in Hargreaves Services and Avocet Mining. Hargreaves Services announced that it had encountered problems driving out a new face at the underground coal mine at Maltby. Avocet announced that its Inata mine had experienced what it believed will be temporarily lower grades, and reduced production. We have sold both of these holdings.

Turning to sector allocation, one of the features of the financial year was the surprisingly strong performance of many domestically exposed sectors. In part, this was due to the concerns about many regions of the world, mentioned above. Our underweight positions in retailers, travel and leisure companies and support services hindered our relative performance, although our overweight position in housebuilders was beneficial. Among more internationally exposed sectors we remained overweight in electronics and software companies and these did perform well for us.

Activity

We continued to add holdings which we believed were good quality and offering attractive upside. Examples include holdings in Devro International, Young & Co's Brewery and James Fisher. Devro International is the world's leading supplier of collagen casings for food, used by customers mainly in the production of a wide variety of sausages. Global protein consumption is expected to continue to increase especially in emerging markets. Young & Co own a high quality estate of predominantly London pubs, mainly aimed at the premium end of the market. James Fisher provides services and support to the oil and gas, shipping and defence industries in the marine environment. Onshore, its capabilities are deployed in the most safety-critical of environments, including nuclear. James Fisher has been very successful at internationalising its services outside Europe, and now generates an increasing and fast growing share of its revenues and profits from emerging markets.

Bid activity in our portfolio has been a feature, although somewhat muted. We had bids for Endace, Corin, WSP and Nautical Petroleum, although none of these companies were large holdings.

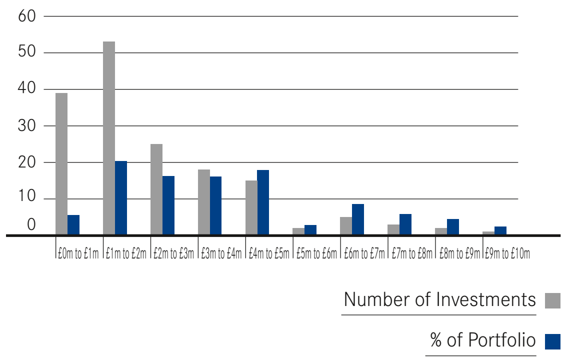
Portfolio Positioning and Gearing

We took a fairly defensive stance during the year given the uncertain global economic backdrop. We have maintained exposure to high quality, well managed and well financed companies. Mid-year we reduced exposure to some holdings that are more capital spending orientated, and thus exposed to delayed decision making in uncertain times.

Towards the end of the financial year, with markets showing a bit more appetite for risk, we increased our risk exposure slightly. We added modestly to our holdings in the miners, adding small holdings in African Minerals and London Mining, and also to the financials, adding holdings in Canaccord Financial and Close Brothers. However, we still remain quite cautiously positioned.

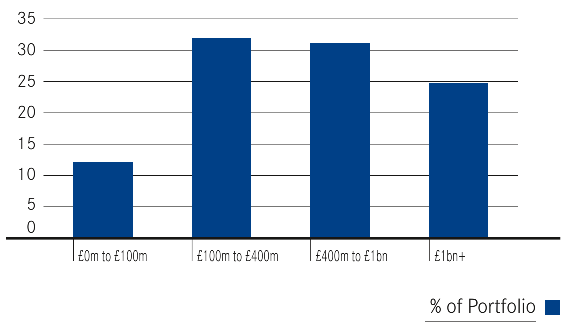
We have retained gearing and for much of the year gearing was held at 10%. However, with the rise in the value of the portfolio, gearing was 9.2% at the year end.

Size of our Investments as at 28 February 2013



Source: BlackRock.

Market capitalisation of our Portfolio Companies as at 28 February 2013



Source: BlackRock.

Outlook

The macroeconomic position looks better now than a year ago. Growth in the US is being led by the private sector, and the housing market in particular has been looking much stronger since mid-2012. Public sector spending cuts being imposed will no doubt have some impact on US GDP growth but we still expect good growth in 2013. We believe that Chinese GDP growth may have bottomed but it will almost certainly continue at levels well ahead of major developed nations. In Europe we still need to see resolution to funding issues, and political uncertainties remain. The UK economy looks weak but the recent fall in sterling may help the internationally exposed sectors.

In the past, UK smaller companies have tended to do well coming out of recession and going into periods of growth. The smaller companies we own are well placed to make the most of slowly improving economic conditions, and many have good exposure to the faster growing parts of the world. Most importantly they are run by strong management teams, well able to make the most of opportunities ahead. We expect reasonable earnings growth from our holdings, and this should feed through into higher dividends and share prices.

Mike Prentis
BlackRock Investment Management (UK) Limited
26 April 2013

Summary of Ten Largest Investments

28 February 2013

Set out below is a brief description by the Investment Manager of the Company's ten largest investments.

Senior – 2.4% (2012: 1.6%) is an international manufacturing group providing engineered products for demanding operating environments. The group's strategy is to focus on sectors where it is positioned to benefit from both global market growth and increasingly stringent emission control legislation. Senior operates through two divisions: Aerospace, which serves both the commercial aerospace and defence markets; and Flexonics, which serves automotive and other industrial markets. The company is particularly closely aligned to the growth of the commercial aerospace sector and especially to wide bodied aircraft production. Senior's design in products and high order book give it excellent revenue visibility. Growth in earnings in recent years has been strong, and the shares remain modestly rated.

Bellway – 2.3% (2012: 1.8%) is one of the largest housebuilders in the United Kingdom with operations across the country. Management is very experienced and has run the company in good and bad housing market conditions. Bellway has bought land steadily over the last few years; operating margins are increasing further as more recently acquired land is built on. Bellway has the scope to increase volumes of sales over the next few years and average selling prices are also likely to increase. Bellway shares still trade at a slight premium to net tangible assets and look good value in absolute terms and relative to the sector.

Howden Joinery Group – 2.2% (2012: 1.2%) is a leading supplier of kitchens and joinery to trade customers across the UK. These trade customers are typically local builders who fit the kitchens for the end customer. Last year Howden's manufactured and supplied about 350,000 kitchens. It is estimated to have a UK market share of slightly over 20%, a share that has grown steadily, and which we expect to continue. Howden's increasing scale gives it cost advantages and allows it to supply a wide range of well made, competitively priced, always available kitchens. Growth in revenue, profit and cash generation has been strong and the shares remain sensibly valued.

Victrex – 2.1% (2012: 1.2%) is the world's leading manufacturer of high performance polyaryletherketone materials, in particular PEEK. PEEK materials have a number of properties which make them highly attractive in many manufacturing applications often in substitution to metals. PEEK has excellent strength, stiffness and dimensional stability in high temperature and harsh environments, is easy to process and lightweight compared to steel, aluminium and titanium, and is chemically resistant and insoluble in common solvents. Victrex works directly with material processors and design engineers mainly in the transport, industrial, electronics and medical device sectors to help create new applications for PEEK. The number of specified PEEK applications has grown steadily over the last decade and profits and cash generation have also grown very well. We see Victrex as a long term structural growth story, albeit one which can be cyclical at the onset of sharp industrial downturns.

Oxford Instruments – 1.9% (2012: 2.7%) is a leading provider of high technology tools and systems for research and industry. It designs and manufactures equipment that can fabricate, analyse and manipulate matter at the atomic and molecular level. It is a very international business with almost 70% of sales being to destinations outside Europe. Since current management joined in 2005/6 the focus has been on research and development and the introduction of new, higher gross margin products. This organic growth strategy has worked very well with operating margins rising from 4% to more than 12%. Earnings per share have increased every year through the recession, increasing more than six-fold. Cash generation has also been very strong. We expect growth to continue with scope to increase margins further towards industry leading levels. We have taken some profit as the shares are no longer as compellingly valued as when we first invested.

Workspace Group – 1.8% (2012: 1.0%) provides premises tailored to the needs of new and growing businesses across London. It owns more than 100 properties in London providing 5.4 million square feet of space which is home to some 4,000 businesses employing more than 30,000 people. Workspace provides the right properties to attract and retain customers giving them the flexibility to adjust the space they need to help them grow. Occupancy levels have continued to increase as have rents per square foot. Workspace has also supplemented core operational income and capital values by redeveloping certain property assets. This has enabled the company's net asset value to grow steadily and we expect this to continue as London thrives and creates more jobs.

Booker Group – 1.8% (2012: 1.4%) is the UK's leading food wholesaler. It supplies approximately 338,000 catering businesses and 83,000 independent retailers. It operates from 172 cash and carry branches throughout the United Kingdom and provides a national delivery service. Growth in recent years has been very strong, driven by market share gains and range extensions. Over the last few years, it has begun to grow in India and the medium term opportunity there is potentially very substantial. In its January 2013 trading statement it disclosed like for like sales growth of 3.1% for the previous 16 week period, a good level of growth in a difficult market and against strong comparatives. This is an indication of continuing strong market outperformance. During the year Booker acquired Makro which has been underperforming but we expect Booker management to turn this round over the next few years. Booker has shown strong earnings growth in recent years, and has also converted this into cash.

Ashtead Group – 1.8% (2012: 1.1%) is a leading provider of rental equipment with operations in the US and the UK. Its US business, Sunbelt Rentals, is the second largest equipment rental business in the US with 378 locations operating in major metropolitan centres across the US. Sunbelt has benefited from a structural change in the US market with construction companies increasingly looking to hire plant rather than buy it themselves, a trend which has been more advanced in the UK. Sunbelt has been able to invest in new equipment and this has allowed it to increase its market share rapidly. At the same time the US market has started to recover; initially this was most obvious in the housing market. These trends have allowed Ashtead to increase profits strongly well ahead of expectations. We expect this trend to continue as the US market gathers strength.

AZ Electronic Materials – 1.7% (2012: 0.4%) is the world leading manufacturer of speciality chemicals used in the manufacture of integrated circuits and flat panel displays. As semiconductors become ever smaller, more complex and multi layered there is a need for high purity chemicals to provide a thin coating between each layer; AZ provide these chemicals. The semiconductor industry is fast changing and AZ is very good at working closely with its large company customers to ensure that customer requirements are met. Although AZ products represent only a small fraction of customers' overall production cost, they are vital to enable their manufacturing processes. We see this as a well-run, forward thinking company which has good medium term growth prospects and is sensibly valued.

ITE Group – 1.7% (2012: 1.5%) creates marketplaces for business by organising leading trade exhibitions and conferences in growing and developing markets. The group organises over 250 trade exhibitions and conferences each year in mainly Russia, Ukraine, Azerbaijan, Kazakhstan, Turkey, India and Uzbekistan. The company has generated strong earnings growth and cash generation for many years. ITE aims to be the world's leading organiser of trade exhibitions in emerging markets; it has good revenue visibility and continues to trade well.

All percentages reflect the value of the holding as a percentage of total investments. Percentages in brackets represent the value of the holding as at 29 February 2012. Together, the ten largest investments represent 19.7% of the Company's portfolio (ten largest investments as at 29 February 2012: 16.6%).

Fifty Largest Investments

as at 28 February 2013

Company	Market value £'000	% of total portfolio	Business activity
Senior	9,042	2.4	Manufacture and supply of components for the aerospace and automotive sector
Bellway	8,607	2.3	House building
Howden Joinery Group	8,438	2.2	Design and manufacture of kitchens sold to local builders
Victrex	7,898	2.1	Manufacture and supply of PEEK thermoplastic products
Oxford Instruments	7,115	1.9	Design and manufacture of tools and systems to analyse and manipulate matter at the atomic level
Workspace Group	7,018	1.8	Supply of flexible workspace to businesses in London
Booker Group	6,924	1.8	Wholesale of grocery products
Ashtead Group	6,696	1.8	Hire of plant, predominantly in the US
AZ Electronic Materials	6,425	1.7	Manufacture of speciality chemicals sold mainly to semiconductor manufacturers
ITE Group	6,356	1.7	Organisation of trade exhibitions in Russia and other FSU countries
Dunelm Group	6,103	1.6	Supply of home furnishings
Restaurant Group	5,602	1.5	Operation of branded restaurants
Aveva Group	5,172	1.4	Development and marketing of engineering computer software
Consort Medical	4,996	1.3	Manufacture of drug delivery devices
Headlam Group	4,944	1.3	Distribution of carpets and other floor coverings
Inchcape	4,924	1.3	Distribution and retail of cars and aftermarket services
Blinkx	4,824	1.3	Supply of video technology and an online catalogue to enable video clips to be viewed
St Modwen Properties	4,651	1.2	Property investment and development
Abcam	4,640	1.2	Production and distribution of research grade antibodies and associated products
Fidessa group	4,484	1.2	Development and marketing of financial trading and connectivity software
Devro International	4,468	1.2	Manufacture of collagen casings for the food industry
Hyder Consulting	4,455	1.2	Provision of engineering design services
Clarkson	4,265	1.1	Shipbroking and related activities
Paypoint	4,230	1.1	Provision of payment solutions
Jupiter Fund Management	4,202	1.1	Investment management
Galliford Try	4,157	1.1	House building and construction
Polar Capital Holdings	4,083	1.1	Investment management
Rathbone Brothers	4,080	1.1	Private client fund management
Paragon	3,875	1.0	Provision of loans mainly to buy to let landlords
Optimal Payments	3,846	1.0	Provision of online payments solutions
Elementis	3,701	1.0	Manufacture of additives that enhance the feel, flow and finish of everyday products
Avon Rubber	3,662	1.0	Production of safety masks and dairy related products
TT Electronics	3,599	0.9	Manufacture of electronic and electrical components
Keller Group	3,488	0.9	Provision of ground engineering services globally
LSL Property Services	3,463	0.9	Provision of residential property services

Company	Market value £'000	% of total portfolio	Business activity
Brown (N) Group	3,446	0.9	Supply of clothing mainly through home shopping catalogues
Anite	3,405	0.9	Provision of device and network testing solutions to the wireless market
Coastal Energy	3,375	0.9	Exploration and production of oil in South East Asia
Ithaca Energy	3,360	0.9	Development and production of oil in the North Sea
Faroe Petroleum	3,186	0.8	Exploration for oil and gas offshore UK and Norway
UTV Media	3,127	0.8	Television and radio broadcasting
Salamander Energy	3,118	0.8	Exploration and production of oil and gas in South East Asia
Lookers	3,115	0.8	Supply of cars and after market parts and services
Sportech	3,072	0.8	Supply of pooled betting solutions in regulated markets
Cineworld Group	3,057	0.8	Operation of cinemas in the UK
Hunting	3,033	0.8	Supply of well construction, completion and appraisal products to the oil & gas industry
City of London Investment Group	2,957	0.8	Management of investment funds primarily invested in emerging markets
Xaar	2,925	0.8	Design and manufacture of industrial printheads used in inkjet printers
Vectura	2,873	0.7	Development of inhaled therapies for the treatment of respiratory diseases
Gooch & Housego	2,839	0.7	Design and manufacture of precision optical components, subsystems and instruments used to transmit and measure light
50 largest investments	231,321	60.9	
Remaining investments	148,334	39.1	
TOTAL	**379,655**	**100.0**	

Details of the full portfolio at 28 February 2013 are available at www.blackrock.co.uk/literature/fund-update/brsct-portfolio-disclosure.pdf.

Comparatives for Ten Largest Investments

Company	2013 Market value £'000	2013 % total portfolio	2012 Market value £'000	2012 % total portfolio
Senior	9,042	2.4	5,167	1.6
Bellway	8,607	2.3	5,697	1.8
Howden Joinery Group	8,438	2.2	3,856	1.2
Victrex	7,898	2.1	3,791	1.2
Oxford Instruments	7,115	1.9	8,804	2.7
Workspace Group	7,018	1.8	3,057	1.0
Booker Group	6,924	1.8	4,341	1.4
Ashtead Group	6,696	1.8	3,660	1.1
AZ Electronic Materials	6,425	1.7	1,372	0.4
ITE Group	6,356	1.7	4,921	1.5
	74,519	19.7	44,666	13.9

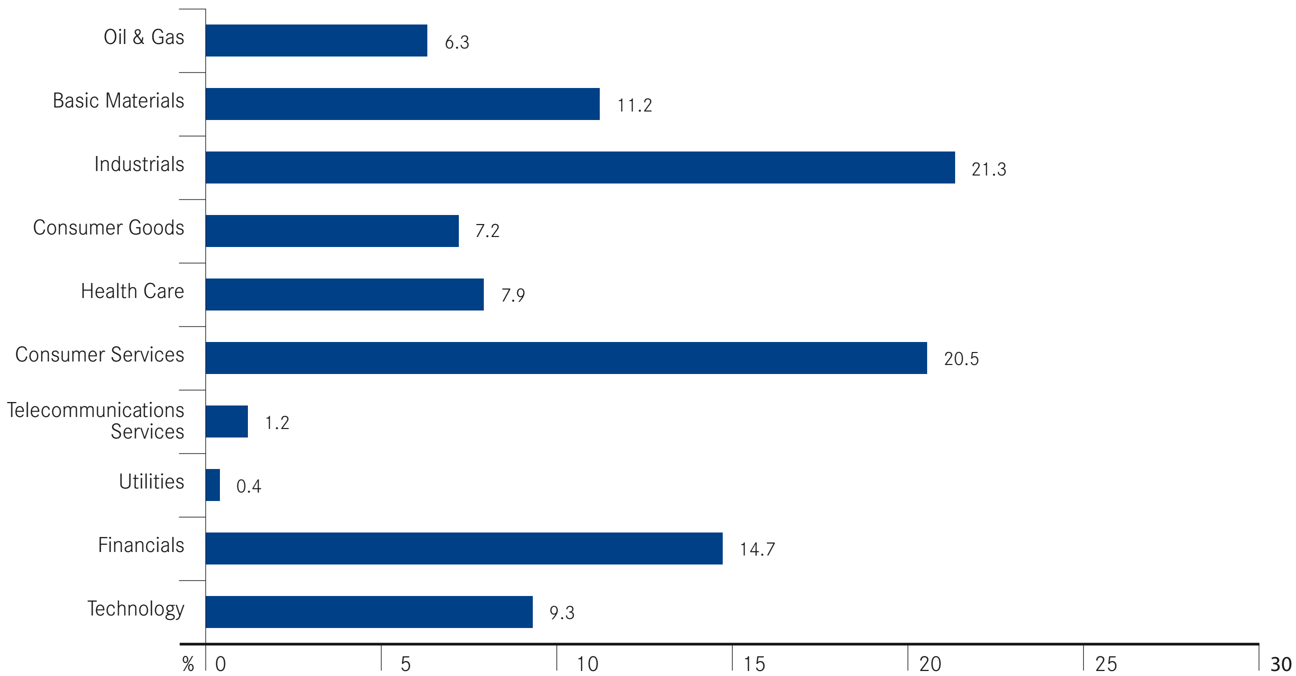
Distribution of Investments

as at 28 February 2013

Sector	% of portfolio
Oil & Gas Producers	5.3
Oil Equipment, Services & Distribution	1.0
Oil & Gas	**6.3**
Mining	4.9
Chemicals	5.6
Industrial Metals & Mining	0.7
Basic Materials	**11.2**
Support Services	7.5
Electronic & Electrical Equipment	5.1
Industrial Engineering	0.7
Aerospace & Defence	2.8
Industrial Transportation	2.2
Construction & Materials	2.0
General Industrials	1.0
Industrials	**21.3**
Household Goods & Home Construction	5.1
Food Producers	1.3
Beverages	0.1
Leisure Goods	0.5
Personal Goods	0.2
Consumer Goods	**7.2**

Sector	% of portfolio
Pharmaceuticals & Biotechnology	5.1
Health Care Equipment & Services	2.8
Health Care	**7.9**
Media	5.5
General Retailers	7.2
Travel & Leisure	5.7
Food & Drug Retailers	2.1
Consumer Services	**20.5**
Fixed-Line Telecommunications Services	1.2
Telecommunications Services	**1.2**
Gas, Water & Multiutilities	0.4
Utilities	**0.4**
Financial Services	8.8
Real Estate Investments & Services	3.6
Retail Real Estate Investment Trust	2.3
Financials	**14.7**
Software & Computer Services	7.6
Technology Hardware & Equipment	1.7
Technology	**9.3**

Analysis of portfolio value by sector



Source: BlackRock.

Directors

Nicholas Fry
(Chairman)
was appointed to the Board in January 2005 and became Chairman of the Company in June 2012. He is a non-executive director of Absolute Return Trust Limited and Pochin's PLC and Chairman of Pembroke Heritage Fund Limited. After qualification as a chartered accountant, he spent much of his career in investment banking, for many years with S.G. Warburg & Co. Limited (now part of UBS AG). He was a partner in KPMG between 1998 and 2002 and senior adviser to KPMG Corporate Finance until March 2005. He brings to the Board a wide experience of City matters, with particular emphasis on banking and professional services, and experience as a non-executive director of listed and unlisted smaller companies since 2005.

Caroline Burton
was appointed to the Board in July 2011. She is a non-executive director of TR Property Investment Trust plc, Rathbone Brothers plc and Liverpool Victoria and a member of the committee of management of Hermes Property Unit Trust. She has almost forty years of investment experience across a wide range of asset classes and geographies acting with a variety of different types of investor. She has been involved with investment trusts for many years, as well as with insurance companies, wealth managers and pension funds.

Gillian Nott
(Senior Independent Director)
was appointed to the Board in January 2005. She is chairman of Witan Pacific Investment Trust plc and a non-executive director of Martin Currie Global Portfolio Investment Trust plc, JP Morgan Russian Securities plc and Baronsmead VCT 2, VCT 3 and VCT 5 plc. After a career working and investing in predominantly smaller companies, albeit within large corporations, she moved to run ProShare, an organisation committed to lobbying on behalf of private investors and educating the public about personal finance. She later joined the Board of the FCA (formerly the FSA) and is now a Deputy Chairman of the Association of Investment Companies. She thus brings to the Board an understanding of the Trust's investment universe as well as a strong background in regulatory matters and the retail investment market.

Michael Peacock
(Chairman of the Audit Committee)
was appointed to the Board in July 2012. He is a non-executive director and chairman of the audit committee of Regenersis plc. A qualified chartered accountant, he has over 19 years' experience in a number of senior roles in industry, most recently as group finance director of Victrex plc until his retirement in 2010. He also spent a number of years in corporate finance, first at Hill Samuel & Co Limited and between 1987 and 1990 at Barclays De Zoete Wedd Limited.

Robert Robertson
was appointed to the Board in April 2008. He is a director of Lowland Investment Company plc, Buro Happold Engineers Limited, Metallon Corporation plc, Cemate (Europe) Ltd and chairman of S and J D Robertson Group. He was previously chairman of West China Cement Limited and chief executive of Tarmac Group Limited and Anglo American's Industrial Minerals division. His early career was in finance, working in London, Paris, Johannesburg, New York and Rio de Janeiro. He brings almost forty years' experience in industry, a considerable amount of which being with smaller companies.

All of the Directors are independent of the management company and are members of the Audit Committee and the Management Engagement Committee.

Directors' Report

The Directors present the annual report and financial statements of the Company for the year ended 28 February 2013.

The Company was incorporated in Scotland on 2 May 1906 under the registered number 006176.

Business Review

Principal activity

The Company carries on business as an investment trust and its principal activity is portfolio investment.

Status of the Company

In the opinion of the Directors, the Company has conducted its affairs during the year under review, and subsequently, so as to qualify as an investment trust for the purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Company has received approval from HM Revenue & Customs ("HMRC") on the basis of an application under Regulation 5 of the Investment Trust (Approved Company) (Tax) Regulations 2011 for investment trust status for accounting periods starting on or after 1 March 2012. This is subject to the Company continuing to meet the eligibility conditions in section 1158 of the Corporation Tax Act 2010 and the ongoing requirements for approved companies in Chapter 3 of Part 2 of the Investment Trust (Approved Company) (Tax) Regulations 2011.

The Company is registered as an investment company as defined in section 833 of the Companies Act 2006 and operates as such. The Company is not a close company within the meaning of the provisions of the Corporation Tax Act 2010 and, as the Directors are non-executive, has no employees.

The Company's shares are eligible for inclusion in the stocks and shares component of an Individual Savings Account.

Objective and investment policy

The Company's prime objective is to achieve long term capital growth for shareholders through investment mainly in smaller UK quoted companies. No material change will be made to this objective without shareholder approval. Performance is measured against an appropriate benchmark, the Hoare Govett Smaller Companies plus AIM (excluding Investment Companies) Index up to and including 9 April 2012 and thereafter the Numis Smaller Companies plus AIM (excluding Investment Companies) Index.

To achieve its investment objective the Company may invest in securities which are listed overseas but have a secondary UK quotation. The Company may also trade on the Alternative Investment Market ("AIM") and the Board's current guideline policy is that the value of AIM listed stocks as a percentage of the Company's portfolio should not exceed 40%. Although investments are primarily in companies listed on recognised stock exchanges, the Investment Manager may also invest in unquoted securities with the prior approval of the Board.

The Investment Manager has adopted a consistent investment process, focusing on good quality growth companies that are trading well; stock selection is the primary focus but consideration is also given to sector weightings and underlying themes. Whilst there are no set limits on individual sector exposures against the Company's benchmark, a schedule of sector weightings is presented at each Board meeting for review.

In applying the investment objective, the Investment Manager expects the Company to be fully invested and to borrow as and when appropriate. The Company seeks to achieve an appropriate spread of investment risk by investing in a number of holdings across a range of sectors.

There is a general rule that the Company will not hold more than 5% of the share capital of any company in which it has an investment. In addition, while the Company may hold shares in other listed investment companies (including investment trusts), the Board has agreed that the Company will not invest more than 15% of its total assets in other UK listed investment companies.

The Investment Manager will not deal in derivatives without the prior approval of the Board and derivative instruments, such as options and futures contracts, have not been used during the year.

Information regarding the Company's investment exposures is contained within the summary of ten largest investments on pages 10 and 11, the fifty largest investments on pages 12 and 13 and distribution of investments on page 14. Further information regarding investment activity throughout the year can be found in the Investment Manager's Report on pages 7 to 9.

Gearing policy

The Investment Manager believes that gearing can add value over the long term. This gearing is in the form of £15 million of debenture stock, £15 million multi-currency revolving loan facility with Scotia Bank (Ireland) Limited and a bank overdraft facility of £20 million.

The effective level and benefit of gearing is discussed and agreed with the Board regularly. It is intended that gearing will not exceed 15% of the total assets of the Company at the time of the drawdown of the relevant borrowings and at the balance sheet date stood at 8.3% of total assets and 9.2% of shareholders' funds. Under normal operating circumstances, it is envisaged that gearing will fall in a range between 0-15% of total assets.

Performance

In the year to 28 February 2013, the Company's net asset value per share increase by 16.2% compared with an increase of 12.3% in the benchmark. The Company's ordinary share price closed up by 24.6% (all percentages calculated in sterling terms and without income reinvested).

The Investment Manager's Report on pages 7 to 9 includes a review of the main developments during the year, together with information on investment activity within the Company's portfolio.

Results and dividends

The results for the Company are set out in the Income Statement on page 38. The total profit for the year, after taxation, was £52,740,000 (2012: £2,988,000) which was comprised of a revenue return of £5,520,000 (2012: £4,865,000) and a capital return of £47,220,000 (2012: loss of £1,877,000).

The Directors recommend the payment of a final dividend of 6.50p per share (2012: 5.98p) which, together with the interim dividend of 3.50p per share (2012: 2.42p), makes a total of 10.00p per share in respect of the year ended 28 February 2013 (2012: 8.40p). The dividend will be paid on 3 July 2013 to shareholders on the register of members at the close of business on 31 May 2013. The cost of the final dividend amounts to £3,112,000 (2012: £2,863,000).

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. Amongst others, the key performance indicators ("KPIs") used to measure the progress and performance of the Company over time and which are comparable to those reported by other investment trusts are set out below.

	2013	2012
Net asset value[1]	720.42p	619.75p
Net asset value (capital only)	712.39p	612.02p
Share price	626.50p	503.00p
Total return performance	18.1%	1.1%
Discount to net asset value[1]	13.0%	18.8%
Revenue return per share	11.53p	10.16p
Ongoing charges[2]	0.6%	0.7%
Ongoing charges (including performance fees)	1.0%	1.0%

1. Calculated in accordance with AIC guidelines, with debenture at par value.
2. Calculated as a percentage of average shareholders' funds and using expenses, excluding finance costs, performance fees and taxation in accordance with AIC guidelines.

Sources: BlackRock and Datastream.

Additionally, the Board regularly reviews a number of indices and ratios to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection.

The Directors recognise that it is in the long term interests of shareholders that shares do not trade at a significant discount to their prevailing net asset value. During the year the shares traded at a discount to net asset value of between 11.1% and 18.4%, ending the year at 13.0%.

Your Board believes that the best way of addressing the discount over the long term is to create demand for the shares in the secondary market. To this end your Investment Manager is devoting considerable effort to broadening the awareness of the Company's outstanding attractions particularly to wealth managers. Over the last three years, the number of shares held by retail shareholders has increased from 20% to nearly 40%.

Principal risks

The key risks faced by the Company are set out below. The Board regularly reviews and agrees policies for managing each risk, as summarised below.

- Performance risk – The Board is responsible for deciding the investment strategy to fulfil the Company's objectives and monitoring the performance of the Investment Manager. An inappropriate strategy may lead to underperformance against the benchmark index. To manage this risk the Investment Manager provides an explanation of significant stock selection decisions and the rationale for the composition of the investment portfolio. The Board monitors and mandates an adequate spread of investments, in order to minimise the risks associated with factors specific to particular sectors and based on the diversification requirements inherent in the Company's investment policy. The Board also receives reports showing an analysis of the Company's performance against the benchmark. Past performance is not necessarily a guide to future performance and the value of your investment in the Company and the income from it can fluctuate as the value of the underlying investments fluctuate.

- Income/dividend risk – The amount of dividends and future dividend growth will depend on the Company's underlying portfolio. Any change in the tax treatment of the dividends or interest received by the Company may reduce the level of dividends received by shareholders. The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each meeting.

- Regulatory risk – The Company operates as an investment trust in accordance with Chapter 4 of Part 24 of the Corporation Tax Act 2010. As such, the Company is exempt from capital gains tax on the profits realised from the sale of its investments. The Investment Manager monitors investment movements, the level and type of forecast income and expenditure and the amount of proposed dividends to ensure that the provisions of Chapter 4 of Part 24 of the Corporation Tax Act 2010 are not breached and the results are reported to the Board.

  The Company must also comply with the provisions of the Companies Act 2006 and, as its shares are admitted to the Official List, the UKLA Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules. A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. A breach of the UKLA Listing Rules could result in the Company's shares being suspended from listing, which in turn would breach the requirements of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Board relies on the services of its professional advisers and its corporate Company Secretary to ensure compliance with all relevant regulations. The Company Secretary has stringent compliance procedures in place and monitors regulatory developments and changes.

- Operational risk – In common with most other investment trust companies, the Company has no employees. The Company therefore relies upon the services provided by third parties and is dependent on the control systems of the Investment Manager and the Company's other service providers. The security, for example, of the Company's assets, dealing procedures, accounting records and maintenance of regulatory and legal requirements, depend on the effective operation of these systems. These are regularly tested and monitored and an internal control report, which includes an assessment of risks together with procedures to mitigate such risks, is prepared by the Investment Manager and reviewed by the Audit Committee twice a year. The custodian (The Bank of New York Mellon (International) Ltd ("BNYM"), a subsidiary of The Bank of New York Mellon) and the Investment Manager also produce regular Service Organisation Reports (SOC 1) or AAF 01/06 Reports which are reviewed by their respective auditors and give assurance regarding the effective operation of controls and are also reviewed by the Audit Committee.

- Market risk – Market risk arises from volatility in the prices of the Company's investments. It represents the potential loss the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by the Investment Manager. The Board monitors the implementation and results of the investment process with the Investment Manager.

- Financial risks – The Company's investment activities expose it to a variety of financial risks that include market price risk, currency risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 19 on pages 51 to 55, together with a summary of the policies for managing these risks.

- Third party risks – The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company must therefore rely upon the performance of third party service providers to perform its executive functions. In particular, the Investment Manager, the Administrator, the Registrar, the Custodian and their respective delegates, if any, will perform services that are integral to the Company's operations and financial performance. The Company, and where appropriate the Investment Manager, undertake extensive due diligence prior to the appointment of any third party service provider in order to mitigate this risk. Terms of appointment are agreed in advance and service level agreements are put in place with providers, other than the Investment Manager, to ensure that a high level of service is provided. In the case of the Investment Manager, service levels are defined in the Investment Management Agreement. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment, to exercise due care and skill, or to perform its obligations to the Company at all as a result of insolvency, bankruptcy or other causes could have a material adverse effect on the Company's performance and returns to holders of ordinary shares. The termination of the Company's relationship with any third party service provider or any delay in appointing a replacement for such service provider, could materially disrupt the business of the Company and could have a material adverse effect on the Company's performance and returns to holders of ordinary shares.

Social and community issues
As an investment trust, the Company has no direct social or community responsibilities. However, the Company believes that it is in shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment are set out on page 33.

Future prospects
The Board's main focus is to achieve long term capital growth. The future performance of the Company is much dependent upon the success of the investment strategy and, to a large extent, on the performance of financial markets. The outlook for the Company in the next twelve months is discussed in the Investment Manager's Report on page 9 and the Chairman's Statement on page 6.

In the context of the implementation of RDR and the growing popularity of investment trusts on platforms, it is worth noting that the Company's shares are designed for private investors in the UK including retail investors, professionally-advised private clients and institutional investors who seek long term capital growth and an attractive total return from quoted securities through investing in smaller UK quoted companies and who understand and are willing to accept the risks of exposure to equities. When assessing the suitability of the shares, private investors should also consider consulting an independent financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Naturally, investors should also be capable of evaluating the risks and merits of an investment in the Company and should always have sufficient resources to bear any loss that may result.

Investment management and administration

BlackRock Investment Management (UK) Limited ("BlackRock") provides management and administration services to the Company under a contract terminable on six months' notice. BlackRock receives an annual fee of 0.65% in respect of the first £50 million of the Company's total assets less current liabilities, reducing to 0.5% thereafter. A performance fee is payable at the rate of 10% of the annualised excess performance relative to the benchmark in the two previous financial years, applied to the average of the total assets less current liabilities of the Company. The fee is payable annually in April and is capped at 0.25% of the average of the total assets less current liabilities.

No penalty on termination of the investment management contract would be payable by the Company in the event that six months' written notice is given to BlackRock. There are no provisions relating to payment of fees in lieu of notice.

BlackRock also acts as the Secretary of the Company.

BlackRock is a subsidiary of BlackRock, Inc. which is a publicly traded corporation on the New York Stock Exchange operating as an independent firm. The PNC Financial Services Group, Inc. has a significant economic interest in BlackRock, Inc. PNC Financial Services Group, Inc. is a US public company.

BNYM is the custodian of the Company's assets. The BNYM fee is payable at rates depending on the number of trades effected and location of securities held. The custodian agreement is subject to 30 days' notice of termination by either party.

Appointment of the Investment Manager

The Board considers the arrangements for the provision of investment management services to the Company on an ongoing basis and a formal review is conducted annually. The Board believes that the continuing appointment of the Investment Manager, on the terms as previously disclosed, is in the interests of shareholders as a whole.

As part of the annual review the Board considered the quality and continuity of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date. In the Board's view, the investment remit is best served by the BlackRock UK Smaller Companies Team, as manager of some of the best performing UK equity funds specialising in small and mid cap investments.

Change of control

There are no agreements which the Company is party to that might be affected by a change of control of the Company.

Voting policy

The exercise of voting rights attached to the Company's portfolio has been delegated to the Investment Manager, whose voting policy states:

- we intend to vote at all shareholder meetings of companies in which our clients are invested. In cases where there are significant obstacles to voting such as share-blocking or requirements for a power of attorney we will review the resolutions to assess the extent of the restrictions on voting against the potential benefits;

- we will vote in favour of proposals which we expect to enhance shareholder value, and on routine issues where we are supportive of a company's management;

- we will vote against proposals which we believe may damage shareholders' rights or economic interests; and

- we will abstain on proposals where we wish to indicate to the company issues over which we have some concerns.

In all situations the economic interests of our clients will be paramount.

Further details of the Investment Manager's Proxy Voting and Engagement Principles may be found at www2.blackrock.com/global/home/aboutus/proxyvoting.

During the year, the Investment Manager voted on 2,115 proposals at 204 general meetings on behalf of the Company. At these meetings the Investment Manager voted in favour of most resolutions, as should be expected when investing in well-run companies, but voted against 35 management resolutions, abstained from 27 and submitted a withhold on 6.

Most of the votes against were in relation to executive remuneration packages where there was no clear link between pay and performance, board composition where there was a perceived lack of independence, or capital raising requests which did not preserve the pre-emptive rights of existing shareholders.

Going concern

The Directors, having considered the nature and liquidity of the portfolio, the Company's investment objective and the Company's projected income and expenditure, are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The Company is able to meet all of its liabilities from its assets and income generated from these assets and the ongoing expenses (excluding performance fees, finance costs and taxation) are approximately 0.6% of net assets. Ongoing expenses with performance fees included were 1.0% of net assets for the year end 28 February 2013, and as the performance fee is capped at 0.25% of total assets less current liabilities, ongoing charges calculated on this basis are not likely to significantly exceed this going forward,

Directors

The Directors' interests in the Company's ordinary shares were as follows:

	28 February 2013	1 March 2012
C Burton	3,000	3,000
N R L Fry	40,000	40,000
G Nott	11,500	11,500
M Peacock	–	–
R S Robertson	83,571	63,582

All of the holdings of the Directors are beneficial.

The Company's Articles of Association provide that one third of Directors retire by rotation each year and that each Director shall retire and offer himself/herself for re-election at intervals of no more than three years. Mr Fry will retire by rotation and, being eligible, offers himself for re-election. Mr Peacock, who was appointed as a Director on 1 July 2012, also retires and offers himself for election.

Mr Brewster retired as Chairman at the conclusion of the last Annual General Meeting on 27 June 2012 when Mr Fry became Chairman.

Directors are also required to retire if they have served more than nine years on the Board, but then may offer themselves for annual re-election. The Board may also appoint Directors to the Board but any Director so appointed must stand for election by the shareholders at the next Annual General Meeting in accordance with the Articles of Association.

There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business. None of the Directors has a service contract with the Company. No Director is entitled to compensation for loss of office on the takeover of the Company.

Directors' indemnity

In addition to Directors' and Officers' liability insurance cover, the Company's Articles of Association provide, subject to the provisions of applicable UK legislation, an indemnity for Directors in respect of costs incurred in the defence of any proceedings brought against them by third parties arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour. The Company has entered into Deeds of Indemnity with Directors individually which are available for inspection at the offices of BlackRock, 12 Throgmorton Avenue, London EC2N 2DL and will also be available at the Annual General Meeting.

Conflicts of interest

The Board has put in place a framework for Directors to report conflicts of interest or potential conflicts of interest which it believes has worked effectively during the year. All Directors notified the Company Secretary of any situations where they considered that they had a direct or indirect interest, or duty that conflicted or possibly conflicted, with the interests of the Company. All such situations were reviewed by the Board and duly authorised. Directors were also made aware that there remains a continuing obligation to notify the Company Secretary of any new situation that may arise, or any change to a situation previously notified. It is the Board's intention to continue to review all notified situations on an annual basis.

Directors' Remuneration Report

The Directors' Remuneration Report is set out on pages 26 and 27. An ordinary resolution to approve this report will be put to members at the forthcoming Annual General Meeting.

Substantial share interests

As at 28 February 2013, the Company had received notification of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital.

	Holding	%
BlackRock, Inc.*	7,869,261	16.4
East Riding of Yorkshire Council	2,675,000	5.6
Lloyds Banking Group plc	2,515,679	5.3
Derbyshire County Council	2,435,000	5.1
Royal London Asset Management Limited	2,316,864	4.8
Investec Wealth & Investment Ltd	2,177,298	4.5
M&G Investment Management Limited	1,784,441	3.7
Reliance Mutual Insurance Society Limited	1,566,700	3.3

* Including 2,667,668 shares held by BlackRock Institutional Funds (The Dynamic Diversified Growth Fund) representing 5.6% of the Company's issued share capital. The remainder of BlackRock Inc.'s holding represents shareholdings of investment vehicles managed by members of the BlackRock Group and discretionary managed money, none of which exceed 3% of the Company's issued share capital on an individual fund basis.

The Board is also aware that 0.7% of the Company's share capital is held through the BlackRock Investment Trusts Savings Plan and ISA.

As at 19 April 2013, the Company had received notification of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital.

	Holding	%
BlackRock, Inc.*	7,871,016	16.4
East Riding of Yorkshire Council	2,675,000	5.6
Lloyds Banking Group plc	2,515,679	5.3
Derbyshire County Council	2,435,000	5.1
Royal London Asset Management Limited	2,316,864	4.8
Investec Wealth & Investment Ltd	2,177,298	4.5
M&G Investment Management Limited	1,784,441	3.7
Reliance Mutual Insurance Society Limited	1,566,700	3.3

* Including 2,667,668 shares held by BlackRock Institutional Funds (The Dynamic Diversified Growth Fund) representing 5.6% of the Company's issued share capital. The remainder of BlackRock Inc.'s holding represents shareholdings of investment vehicles managed by members of the BlackRock Group and discretionary managed money, none of which exceed 3% of the Company's issued share capital on an individual fund basis.

The Board is also aware that 0.7% of the Company's share capital is held through the BlackRock Investment Trusts Savings Plan and ISA.

Donations

The Company made no political or charitable donations during the year.

Payment of suppliers

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. Suppliers of goods and services are generally paid within 30 days of the date of any invoice. The Company has no trade creditors.

Share capital and share repurchases

Full details of the Company's share capital are given in note 16 on page 50. Details of the voting rights in the Company's shares as at the date of this report are given in note 17 to the Notice of Annual General Meeting on page 67. There are no restrictions on the voting rights of the shares or on the transfer of shares, and there are no shares that carry specific rights with regard to the control of the Company.

No shares were purchased during the year. At 28 February 2013, the Company's issued share capital was 47,879,792 ordinary shares, excluding 2,113,731 shares held in treasury. The latest authority to repurchase ordinary shares was granted to Directors on 27 June 2012 and expires on 26 June 2013. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming Annual General Meeting.

Treasury shares

The Board has determined that up to 10% of the Company's issued shares may be held in treasury and may be subsequently cancelled or sold for cash in the market. This would give the Company the ability to reissue shares quickly and cost efficiently, thereby improving liquidity and providing the Company with additional flexibility in the management of its capital base.

The Board currently intends only to authorise the sale of shares from treasury at or above the prevailing net asset value per share (plus costs of the relevant sale). This should result in a positive overall effect on shareholders if shares are bought back at a discount and then sold at a price at or above the net asset value per share (less costs of the relevant sale).

In the interests of all shareholders, the Board will continue to keep the matter of treasury shares under review.

Articles of Association

Any amendment to the Company's Articles of Association must be made by special resolution.

Annual General Meeting

The following information to be discussed at the forthcoming Annual General Meeting is important and requires your immediate attention. If you are in any doubt about the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended).

If you have sold or transferred all of your ordinary shares in the Company, you should pass this document, together with any other accompanying documents, including the form of proxy, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting.

Resolution 8 Authority to allot shares

The Directors may only allot shares for cash if authorised to do so by shareholders in general meeting. This resolution seeks authority for the Directors to allot shares for cash up to an aggregate nominal amount of £598,497 which is equivalent to 2,393,989 ordinary shares of 25p each and represents 5% of the current issued share capital excluding treasury shares. The Directors will use this authority when it is in the best interests of the Company to issue shares for cash. This authority will expire at the conclusion of next year's Annual General Meeting, unless renewed prior to that date at an earlier general meeting.

Resolution 9 Authority to disapply pre-emption rights

By law, directors require specific authority from shareholders before allotting new shares or selling shares out of treasury for cash without first offering them to existing shareholders in proportion to their holdings.

Resolution 9 empowers the Directors to allot new shares for cash or to sell shares which are held by the Company in treasury, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £598,497 which is equivalent to 2,393,989 ordinary shares of 25p each and 5% of the Company's issued ordinary share capital excluding treasury shares. Unless renewed at a general meeting prior to such time, this authority will expire at the conclusion of the Annual General Meeting of the Company to be held in 2014.

Resolution 10 Authority to buy back shares
The resolution to be proposed will seek to renew the authority granted to Directors enabling the Company to purchase its own shares. The Directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares.

Under the Listing Rules of the FCA (formerly FSA), the maximum price which can be paid is the higher of (i) 5% above the average market value of the ordinary shares for the five business days immediately preceding the date on which the purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of, and (b) the highest current independent bid for, any number of ordinary shares on the trading venue where the purchase is carried out. In making purchases, the Company will deal only with member firms of the London Stock Exchange. The Directors are seeking authority to purchase up to 7,177,180 ordinary shares (being 14.99% of the issued share capital excluding treasury shares). This authority, unless renewed at an earlier general meeting, will expire at the conclusion of next year's Annual General Meeting.

Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

Corporate Governance

Full details are given in the Corporate Governance Statement on pages 28 to 34. The Corporate Governance Statement forms part of this Directors' Report.

Audit information

As required by section 418 of the Companies Act 2006 the Directors who held office at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Scott-Moncrieff, has indicated their willingness to continue in office and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the ensuing year will be submitted at the Annual General Meeting.

By order of the Board

BlackRock Investment Management (UK) Limited
Company Secretary
26 April 2013

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 28 February 2013 which has been prepared in accordance with the requirements of sections 420-422 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting.

The law requires the Company's auditor to audit certain parts of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on pages 36 and 37.

Remuneration Committee

The Board as a whole fulfils the function of the Remuneration Committee, which meets when necessary to consider any change in the Directors' remuneration policy. The Board is of the opinion that a Remuneration Committee is not appropriate for a Company of this size and nature and a separate Committee has therefore not been established. The Company's Directors are all non-executive and independent of the Investment Manager.

Remuneration policy

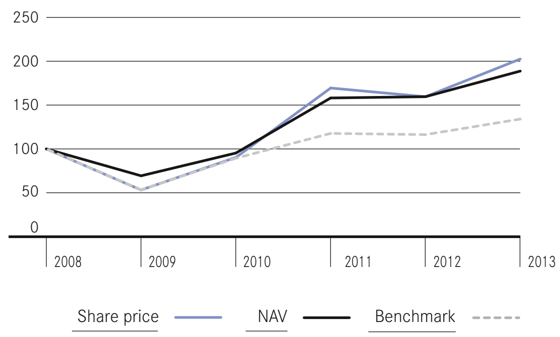
The Board's policy is that the remuneration of Directors needs to be sufficient to attract and retain Directors with suitable knowledge and experience and should be fair and reasonable in relation to the duties and responsibilities involved. It is intended that this policy will continue for the forthcoming year.

The Company Secretary provides a comparison of the Directors' remuneration with other investment trusts of similar size and/or mandate as well as taking into account any data published by the Association of Investment Companies. This comparison, together with consideration of any alteration in non-executive Directors' responsibilities, is used to review whether any change in remuneration is necessary.

Performance

The line graph which follows compares the Company's net asset value (with income reinvested) and share price total return with the total return on an equivalent investment in the Numis Smaller Companies plus AIM (excluding Investment Companies) Index (formerly the Hoare Govett Smaller Companies plus AIM (excluding Investment Companies) Index) from 1 September 2007. This composite index was selected for comparison purposes, as it was the Company's benchmark used for investment performance measurement purposes.

Total shareholder return from 1 March 2008 to 28 February 2013



Sources: BlackRock and Datastream.

Remuneration/Service Contracts

The maximum remuneration of the Directors is determined within the aggregate limit set out in the Company's Articles of Association which amounts to £150,000 per annum. No element of the Directors' remuneration is performance related. The Company has not awarded any share options or long term performance incentives to any of the Directors.

None of the Directors has a service contract with the Company or receives any non cash benefits or pension entitlements. The terms of their appointment are detailed in a letter sent to them when they join the Board. These letters are available for inspection at the offices of BlackRock, 12 Throgmorton Avenue, London EC2N 2DL.

Retirement of Directors

All of the Company's Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. Directors are appointed for an initial term covering the period from the date of their appointment until the first Annual General Meeting thereafter, at which time they are required to stand for election in accordance with the Articles of Association. Subsequently, Directors retire by rotation at least every three years. Any Director who is not considered to be independent of the Investment Manager or who has served on the Board for more than nine years will be subject to annual re-election.

Directors' remuneration

	2013 £	2012 £
Chairman		
Nicholas Fry (appointed Chairman on 27 June 2012)	28,773	21,785
Richard Brewster (retired on 27 June 2012)	10,400	30,000
Chairman of the Audit Committee		
Michael Peacock (appointed on 1 July 2012)	15,947	–
John Davies (retired on 27 July 2011)	–	9,347
Senior Independent Director		
Gillian Nott	20,800	20,000
Director		
Caroline Burton (appointed on 27 July 2011)	20,800	11,949
Robert Robertson	20,800	20,000
Total	117,520	113,081

The information in the above table has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors.

With effect from 1 March 2013, the remuneration of the Chairman was increased from £31,200 to £32,250, the Chairman of the Audit Committee from £23,920 to £24,750, and for the other Directors from £20,800 to £21,500. Prior to this increase, the remuneration was last reviewed and increased with effect from 1 March 2012.

Compensation for loss of office

No past Director has been compensated for loss of office.

By order of the Board

BlackRock Investment Management (UK) Limited
Company Secretary
26 April 2013

Corporate Governance Statement

Chairman's introduction

Corporate Governance is the process by which the Board seeks to look after shareholders' interests and protect and enhance shareholder value. Shareholders hold the Directors responsible for the stewardship of the Company, delegating authority and responsibility to the Directors to manage the Company on their behalf and holding them accountable for its performance.

The Board is ultimately responsible for framing and executing the Company's strategy and for closely monitoring risks. We aim to run our Company in a manner which is responsible and consistent with our belief in honesty, transparency and accountability. In our view, good governance means managing our business well and engaging effectively with investors. We consider the practice of good governance to be an integral part of the way we manage the Company and we are committed to maintaining high standards of financial reporting, transparency and business integrity.

As a UK-listed investment trust company our principal reporting obligation is driven by the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council ("FRC") in June 2010. However, as listed investment trust companies differ in many ways from other listed companies, the Association of Investment Companies has drawn up its own set of guidelines, the AIC Code of Corporate Governance (the "AIC Code") issued in October 2010, which addresses the governance issues relevant to investment companies and has been approved by the FRC.

This report, which forms part of the Directors' Report, explains how the Board deals with its responsibility, authority and accountability.

Compliance

The Board has made the appropriate disclosures in this report to ensure the Company meets its continuing obligations. It should be noted that as an investment trust, most of the Company's day to day responsibilities are delegated to third parties, the Company has no employees and the Directors are non-executive. Thus, not all of the provisions of the UK Code are directly applicable to the Company.

The Board considers that the Company has complied with the recommendations of the AIC Code and the provisions contained within the UK Code that are relevant to the Company throughout this accounting period, and this statement describes how the principles of governance are applied to the Company.

The Board

Board composition

The Board currently consists of five non-executive Directors, all of whom are independent of the Company's Investment Manager. The provision of the Combined Code (A.2.1) which relates to the combination of the roles of the chairman and the chief executive does not apply as the Company has no executive directors. The Directors' biographies, on page 15, demonstrate a breadth of investment, commercial and professional experience which enables them to provide effective strategic leadership and proper governance of the Company. Mrs Nott is the Senior Independent Director.

Board independence and tenure

The Board's individual independence, including that of the Chairman, has been considered, and this independence allows all of the Directors to sit on the Company's various Committees. The Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of an investment trust company, where continuity and experience can add significantly to the strength of the Board. It is considered that all the Company's Directors, continued to be independent in both character and judgement and that there are no relationships or circumstances likely to affect the judgement of any Director.

The Company does not have a chief executive as day-to-day management of the Company's affairs is delegated to the Investment Manager. None of the Directors has a service contract with the Company. The terms of their appointment are detailed in a letter sent to them when they join the Board. These letters are available for inspection at the offices of BlackRock Investment Management (UK) Limited, 12 Throgmorton Avenue, London EC2N 2DL and will be available at the Annual General Meeting.

Directors' appointment, retirement and rotation

The Directors retire by rotation at every third Annual General Meeting and any Directors appointed to the Board since the previous Annual General Meeting also retire and stand for election. Any Director who is not considered by the Board to be independent of the Investment Manager or who has served on the Board for more than nine years will be subject to annual re-election. The Directors support a planned and progressive renewing of the Board.

Mr Peacock is standing for election to the Board, having been appointed to fill the vacancy following the retirement of Mr Brewster. The Board employed the services of an executive search firm to identify potential new directors, including Mr Peacock who was appointed 1 July 2012. His appointment was fully debated by all of the Directors.

Directors' training and induction

When a new Director is appointed to the Board, he or she is provided with all relevant information regarding the Company and their duties and responsibilities as a Director. In addition, a new Director will also spend some time with representatives of the Investment Manager whereby he or she will become familiar with the various processes which the Investment Manager considers necessary for the performance of its duties and responsibilities to the Company. The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. The Directors also receive regular briefings from, amongst others, the auditor and the Company Secretary regarding any proposed developments or changes in laws or regulations that could affect the Company and/or the Directors.

Directors' liability insurance

The Company has maintained appropriate Directors' Liability Insurance cover throughout the year.

Board's responsibilities

The Board meets at least six times each year and may have additional dedicated meetings to consider strategy and other issues. Between these meetings there is regular contact with the Investment Manager.

The Board is responsible to shareholders for the overall management of the Company. It decides upon matters relating to the Company's investment objective, policy and strategy and monitors the Company's performance towards achieving that objective through its agreed policy and strategy. The Board has also adopted a schedule of matters reserved for its decision.

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Strategic issues and all operational matters of a material nature are determined by the Board.

The Directors also have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that it complies with applicable rules and regulations. Where necessary, in the furtherance of their duties, the Directors may seek independent professional advice at the expense of the Company.

The Board has responsibility for ensuring that the Company keeps adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable it to ensure that the financial statements comply with the Companies Act 2006. It is the Board's responsibility to present a balanced and understandable assessment, which extends to interim and other price-sensitive public reports.

The Board is also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Performance evaluation

The Board formally reviews its performance on an annual basis, together with that of its Committees. The review was carried out at the end of 2012/ beginning of 2013.

This year, the annual review took the form of questionnaires followed by discussions to identify how the effectiveness of its activities, policies or processes might be enhanced.

The results were presented to and discussed by the Board. The review was considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and its Committees and action has been taken on the basis of the results.

Delegation of responsibilities

The Board has delegated the following areas of responsibility:

Management and administration

The management of the investment portfolio and the administration of the Company have been delegated to the Investment Manager. The Investment Manager, operating under guidelines determined by the Board, has direct responsibility for decisions relating to the day to day running of the Company and is accountable to the Board for the investment, financial and operating performance of the Company. Custody and settlement services are provided by Bank of New York Mellon (International) Limited ("BNYM"), a subsidiary of The Bank of New York Mellon.

The Board has delegated the exercise of voting rights attaching to the securities held in the portfolio to the Investment Manager. Details of the Investment Manager's voting policy are set out on pages 20 and 21.

Committees of the Board

Nomination Committee

During the year the Nomination Committee comprised Mr Fry, Mr Robertson, Ms Burton and Mrs Nott, who also acted as Chairman of the Committee. The Committee deals with all matters relating to appointments to, and retirements from, the Board of Directors. In this context it applies a process whereby the optimum size, balance and profile of the Board is determined and potential candidates are identified, appraised and appointed.

During the year the Committee:

- Agreed with the full Board the specification for the recruitment of a new non-executive director.
- Selected and appointed a search consultant to identify suitable candidates for the position.

- Interviewed and shortlisted for the Board two final candidates from which the Board selected Mr Michael Peacock as the new Director.

The Board decided to amend the Committee's terms of reference with effect from 1 March 2013 such that the entire Board would also comprise the Nominations Committee. As the Board is small, and all the Directors are non-executive, it will fulfil the function of the Nomination Committee going forward, and will meet when necessary to select and propose suitable candidates for appointment.

Audit Committee

The Audit Committee, which is chaired by Mr Peacock who succeeded Mr Fry on 1 July 2012, consists of all the Directors of the Company. The Board is satisfied that members of the Audit Committee have a sufficient level of recent and relevant financial experience. The Committee normally meets three times a year and, amongst other things, examines the effectiveness of the control systems. The Chairman of the Company is a member of the Committee to enable him to be kept fully informed of any issues which may arise.

The terms of reference of the Audit Committee are available on request and on the Investment Manager's website at www.blackrock.co.uk/brsc under the "Further Literature" section and will also be available at each Annual General Meeting. The three planned meetings are held prior to the Board meetings to approve the half yearly and annual results and the Committee receives information from the Investment Manager's corporate audit and compliance departments.

During the year the principal activities of the Audit Committee included:

- considering and recommending to the Board for approval the contents of the half yearly and annual financial statements and reviewing the external auditor's report thereon;

- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditor;

- reviewing and recommending to the Board for approval the audit and non-audit fees payable to the external auditor and the terms of their engagement;

- reviewing and approving the external auditor's plan for the following financial year;

- reviewing the appropriateness of the Company's accounting policies; and

- ensuring the adequacy of the internal controls systems and standards.

The Committee has also reviewed and accepted the 'whistleblowing' policy that has been put in place by the Investment Manager under which its staff, in confidence, can raise concerns about possible improprieties in matters of financial reporting or other matters, in so far as they affect the Company.

The Committee considers the risks associated with audit firms withdrawing from the market and the relationship with the Company's auditor. The appointment of the auditor is reviewed each year and the audit partners change at least every five years. The last review of alternative audit service providers was conducted in 2008 and resulted in the retention of Scott-Moncrieff as the Company's auditor. There are no contractual obligations that restrict the Committee's choice of auditor.

Other non audit service fees of £5,125 (excluding VAT) paid to Scott-Moncrieff, Chartered Accountants, relate to their review of the half yearly financial statements. The Committee considers whether the skills and experience of the auditor make them a suitable supplier of the non audit service and whether there are safeguards in place to ensure that there is no threat to their objectivity and independence in the conduct of the audit resulting from the provision of such services.

On an annual basis Scott-Moncrieff review the independence of their relationship with the Company and report to the Board, providing details of any other relationships with the Investment Manager. The Board has concluded that Scott-Moncrieff is independent of the Company and the Investment Manager. Further information on the fees paid to Scott-Moncrieff is detailed in note 5 on page 45.

The external auditor is invited to attend the Audit Committee meeting at which the annual accounts are considered and at which they have the opportunity to meet with the Committee, without representatives of the Investment Manager being present.

Remuneration Committee
Remuneration of the Chairman and Directors is determined by the Board. It is not considered necessary to have a separate Remuneration Committee, as the Directors are not employed by and are not former employees of the Investment Manager.

Management Engagement Committee
There is a Management Engagement Committee, comprising all the Directors of the Company and chaired by Mr Fry who succeeded Mr Brewster on his retirement on 27 June 2012, to consider the remuneration of the Investment Manager and to review the terms of the investment management and administration contracts.

Attendance at Board and Committee meetings

The number of full scheduled Board meetings and Committee meetings attended by each Director during the year was as follows:

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Number of Meetings held	6	3	1	1
Number of Meetings attended:				
Richard Brewster*	3	2	n/a	n/a
Caroline Burton	5	3	1	1
Nicholas Fry	6	3	1	1
Gillian Nott	6	3	1	1
Michael Peacock*	3	1	n/a	1
Robert Robertson	6	3	1	1

* Mr Brewster retired on 27 June 2012 and Mr Peacock was appointed on 1 July 2012.

Internal controls

The Board is responsible for establishing and maintaining the Company's control systems and for reviewing their effectiveness, for ensuring that financial information published or used within the business is reliable, and for regularly monitoring compliance with regulations governing the operation of investment trusts. The Board reviews the effectiveness of the internal control systems on an ongoing basis to identify, evaluate and manage the Company's significant risks. As part of that process, there are procedures designed to capture and evaluate any failings or weaknesses. Should a case be categorised by the Board as significant, procedures exist to ensure that necessary action is taken to remedy the failings. The Board is not aware of any significant failings or weaknesses in the year.

Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the operations of the Investment Manager and BNYM. There is a monitoring and reporting process to review these controls, which has been in place throughout the year under review and up to the date of this report, carried out by the Investment Manager's corporate audit department. This accords with the FRC's "Internal Control: Revised Guidance for Directors on the UK Corporate Governance Code" (known as the Turnbull guidance).

The Investment Manager reports to the Company on its review of internal controls, formally on a semi-annual basis and verbally at each Board and Audit Committee meeting, and provides an annual report from the Investment Manager's reporting accountants on the control policies and procedures in operation. The Audit Committee also receives quarterly reports from BNYM on the internal controls of its custodial operations, together with the opinion of the reporting accountants.

The Board recognises that these control systems can only be designed to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss, and relies on the operating controls established by the Investment Manager and BNYM.

The Investment Manager prepares revenue forecasts and management accounts which allow the Board to assess the Company's activities and review its performance.

The Board and the Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are submitted to the Board at each meeting.

The Company does not have its own internal audit function, as all the administration is delegated to the Investment Manager. The Board monitors the controls in place through the Investment Manager's internal audit department and feels that there is currently no need for the Company to have its own internal audit function although this matter is kept under review.

Financial reporting

The Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 35, the Report of the Independent Auditor on pages 36 and 37, and the statement of going concern on page 21.

Socially Responsible Investment

The Company invests mainly in smaller UK quoted companies. The Board aims to be a socially responsible investor and believes that it is important to invest in companies whose boards act responsibly in respect of environmental, ethical and social issues. The Investment Manager's evaluation procedure and financial analysis of the companies within the portfolio includes research and appraisal of such matters, and also takes into account environmental policies and other business issues.

The Investment Manager is supportive of the UK Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies, is voluntary and operates on a "comply or explain" basis. The Investment Manager's approach to the UK Stewardship Code, and policies on Socially Responsible Investment are detailed on their website www2.blackrock.com/global/home/aboutus/proxyvoting.

Bribery prevention policy

The provision of bribes of any nature to third parties in order to gain a commercial advantage is prohibited and is a criminal offence. The Board has a zero tolerance policy towards bribery and a commitment to carry out business fairly, honestly and openly. The Board takes its responsibility to prevent bribery by the Company's Investment Manager on its behalf very seriously and BlackRock has anti-bribery policies and procedures in place which are high level, proportionate and risk based. The Company's service providers have been contacted in respect of their anti-bribery policies and, where necessary, contractual changes are made to existing agreements in respect of anti-bribery provisions.

Communication with shareholders

All shareholders have the opportunity to attend and vote at the Annual General Meeting. The Notice of Annual General Meeting which is sent out 20 working days in advance of the meeting sets out the business of the meeting and any item not of an entirely routine nature is explained in the Directors' Report on pages 24 and 25. Separate resolutions are proposed for substantive issues.

In addition, regular updates on performance are sent to shareholders and the Investment Manager reviews the Company's activities at the Annual General Meeting, where the Chairman of the Board and the Chairman of the Audit Committee and representatives of the Investment Manager are available to answer shareholders' queries. Proxy voting figures are announced to shareholders at the Annual General Meeting and will be made available on the Investment Manager's website shortly after the meeting.

The Company's willingness to enter into discussions with institutional shareholders is also demonstrated by the programmes of institutional presentations made by the Investment Manager, following the release of each set of Company results. The Board discusses with the Investment Manager at each Board meeting any feedback from meetings with shareholders, and it also receives reports from its corporate broker.

There is a section within this report entitled "Additional Shareholder Information", on pages 60 to 63, which provides an overview of useful information available to shareholders.

The Company's accounts, regular factsheets and other information are also published on www.blackrock.co.uk/brsc which is the website maintained by the Company's Investment Manager, BlackRock Investment Management (UK) Limited. The work undertaken by the auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

Disclosure and Transparency Rules

Other information required to be disclosed pursuant to the Disclosure and Transparency Rules has been placed in the Directors' Report on pages 16 to 25 as it is information which refers to events that have taken place during the course of the year.

The following is a list of that information:

- Directors' shareholdings;
- Substantial share interests;
- Share capital; and
- Share repurchases.

For and on behalf of the Board

Nicholas Fry
Chairman
26 April 2013

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of each financial year and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, including a Business Review, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations.

The Directors have delegated responsibility to the Investment Manager for the maintenance and integrity of the Company's corporate and financial information included on the Investment Manager's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed on page 15, confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and return or loss of the Company; and
- the annual report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board
Nicholas Fry
Chairman
26 April 2013

Report of the Independent Auditor

to the shareholders of BlackRock Smaller Companies Trust plc

We have audited the financial statements of BlackRock Smaller Companies Trust plc for the year ended 28 February 2013, which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members as a body, in accordance with Chapter 3, Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2013 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement in compliance with rules 7.2.5 and 7.2.6 in the Disclosure and Transparency Rules sourcebook issued by the Financial Conduct Authority (formerly Financial Services Authority) (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement on page 21 in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

We have nothing to report in respect of these matters.

Gareth Magee (Senior Statutory Auditor)
For and on behalf of Scott-Moncrieff, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL
26 April 2013

Income Statement

for the year ended 28 February 2013

	Notes	Revenue 2013 £'000	Revenue 2012 £'000	Capital 2013 £'000	Capital 2012 £'000	Total 2013 £'000	Total 2012 £'000
Gains on investments held at fair value through profit or loss	11	**–**	–	**50,439**	1,039	**50,439**	1,039
Exchange losses		**–**	–	**(1)**	–	**(1)**	–
Income from investments held at fair value through profit or loss	3	**6,697**	5,948	**–**	–	**6,697**	5,948
Other income	3	**8**	3	**–**	–	**8**	3
Investment management and performance fees	4	**(418)**	(384)	**(2,114)**	(1,932)	**(2,532)**	(2,316)
Other operating expenses	5	**(397)**	(372)	**–**	–	**(397)**	(372)
Net return/(loss) before finance costs and taxation		**5,890**	5,195	**48,324**	(893)	**54,214**	4,302
Finance costs	7	**(368)**	(329)	**(1,104)**	(984)	**(1,472)**	(1,313)
Net return/(loss) on ordinary activities before taxation		**5,522**	4,866	**47,220**	(1,877)	**52,742**	2,989
Taxation on ordinary activities	8	**(2)**	(1)	**–**	–	**(2)**	(1)
Net return/(loss) on ordinary activities after taxation		**5,520**	4,865	**47,220**	(1,877)	**52,740**	2,988
Return/(loss) per ordinary share	10	**11.53p**	10.16p	**98.62p**	(3.92p)	**110.15p**	6.24p

The total column of this statement represents the return or loss of the Company. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). The Company had no recognised gains or losses other than those disclosed in the Income Statement and the Reconciliation of Movements in Shareholders' Funds. All items in the above statement derive from continuing operations.

The notes on pages 42 to 56 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 28 February 2013

	Note	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
For the year ended 29 February 2012							
At 28 February 2011		12,498	38,952	1,982	235,647	8,123	297,202
(Loss)/return for the year		–	–	–	(1,877)	4,865	2,988
Dividends paid (see (a) below)	9	–	–	–	–	(3,457)	(3,457)
At 29 February 2012		12,498	38,952	1,982	233,770	9,531	296,733
For the year ended 28 February 2013							
At 29 February 2012		12,498	38,952	1,982	233,770	9,531	296,733
Return for the year		–	–	–	47,220	5,520	52,740
Dividends paid (see (b) below)	9	–	–	–	–	(4,539)	(4,539)
At 28 February 2013		**12,498**	**38,952**	**1,982**	**280,990**	**10,512**	**344,934**

(a) Final dividend of 4.80p per share for the year ended 28 February 2011, declared on 14 April 2011 and paid on 21 June 2011 and interim dividend of 2.42p per share for the six months ended 31 August 2011, declared on 20 October 2011 and paid on 2 December 2011.
(b) Final dividend of 5.98p per share for the year ended 29 February 2012, declared on 26 April 2012 and paid on 4 July 2012 and interim dividend of 3.50p per share for the six months ended 31 August 2012, declared on 26 October 2012 and paid on 7 December 2012.

The notes on pages 42 to 56 form part of these financial statements.

Balance Sheet

as at 28 February 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	**379,655**	321,270
Current assets			
Debtors	12	**184**	2,183
		184	2,183
Creditors – amounts falling due within one year	14	**(5,042)**	(11,871)
Net current liabilities		**(4,858)**	(9,688)
Total assets less current liabilities		**374,797**	311,582
Creditors – amounts falling due after more than one year	15	**(29,863)**	(14,849)
Net assets		**344,934**	296,733
Capital and reserves			
Called-up share capital	16	**12,498**	12,498
Share premium account	17	**38,952**	38,952
Capital redemption reserve	17	**1,982**	1,982
Capital reserves	17	**280,990**	233,770
Revenue reserve	17	**10,512**	9,531
Total equity shareholders' funds		**344,934**	296,733
Net asset value per ordinary share (debenture at par value)	18	**720.42p**	619.75p
Net asset value per ordinary share (debenture at fair value)	18	**715.37p**	615.55p

The financial statements on pages 38 to 56 were approved and authorised for issue by the Board of Directors on 26 April 2013 and signed on its behalf by Nicholas Fry, Chairman, and Michael Peacock, Director and Audit Committee Chairman.

BlackRock Smaller Companies Trust plc
Registered in Scotland, No. 6176

The notes on pages 42 to 56 form part of these financial statements.

Cash Flow Statement

for the year ended 28 February 2013

	Notes	2013 £'000	2012 £'000
Net cash inflow from operating activities	5(b)	**4,097**	3,617
Servicing of finance		**(1,431)**	(1,286)
Taxation			
Income tax received		**20**	14
Overseas withholding tax received/(paid)		**5**	(5)
Total taxation		**25**	9
Capital expenditure and financial investment			
Purchase of investments		**(137,299)**	(140,086)
Proceeds from sale of investments		**130,345**	147,074
Net cash (outflow)/inflow from capital expenditure and financial investment		**(6,954)**	6,988
Financing activities			
Equity dividends paid	9	**(4,539)**	(3,457)
Inflow from draw down of revolving loan		**15,000**	–
Net cash inflow/(outflow) from financing		**10,461**	(3,457)
Increase in cash in the year	13(b)	**6,198**	5,871

The notes on pages 42 to 56 form part of these financial statements.

Notes to the Financial Statements

1. Principal activity

The principal activity of the Company is that of an investment trust company within the meaning of section 1158 of the Corporation Tax Act 2010.

2. Accounting policies

(a) Basis of preparation

The Company's financial statements have been prepared on the historical cost basis of accounting, except for investments which are managed and evaluated on a fair value basis, in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and with the Statement of Recommended Practice ("SORP") for investment trusts and venture capital trusts issued by the Association of Investment Companies ("AIC"), revised in January 2009. The principal accounting policies adopted by the Company are set out below. The policies have been applied consistently throughout the year and are consistent with those applied in the preceding year. All of the Company's operations are of a continuing nature.

The Company's financial statements are presented in sterling, which is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest thousand pounds (£'000) except where otherwise stated.

(b) Presentation of Income Statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement.

(c) Investments designated as held at fair value through profit or loss

The Company's investments are classified as held at fair value through profit or loss in accordance with FRS 26 – 'Financial instruments: Recognition and Measurement' and are managed and evaluated on a fair value basis in accordance with its investment strategy.

All investments are designated upon initial recognition as held at fair value through profit or loss. The sales of assets are recognised at the trade date of the disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of sale less any transaction costs.

The fair value of the financial instruments is based on their quoted bid price or last traded price at the balance sheet date on the exchange on which the investment is quoted, without deduction for estimated future selling costs. Unquoted investments are valued by the Directors at fair value using International Private Equity and Venture Capital Valuation Guidelines. This policy applies to all current and non current asset investments of the Company.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "Gains or losses on investments held at fair value through profit or loss". Also included within this heading are transaction costs in relation to the purchase or sale of investments.

In order to improve the disclosure of how companies measure the fair value of their financial investments, the disclosure requirements in FRS 29 have been extended to include a fair value hierarchy. The fair value hierarchy consists of the following three levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability

Level 3 – inputs for the asset or liability that are not based on observable market data

This policy applies to non current asset investments held by the Company.

(d) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business being investment business.

(e) Income

Dividends receivable on equity shares are treated as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received. Fixed returns on non equity securities are recognised on a time apportionment basis. Interest income is accounted for on an accruals basis.

Special dividends are treated as a capital receipt or revenue receipt depending on the facts or circumstances of each particular case.

Dividends are accounted for in accordance with FRS 16 – 'Current Taxation' on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies continue to be shown gross of withholding tax.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in the capital column of the Income Statement.

(f) Expenses

All expenses are accounted for on an accruals basis. Expenses have been treated as revenue except as follows:

- expenses including finance costs which are incidental to the acquisition or disposal of investments are included within the cost of the investments. Details of transaction costs on the purchases and sales of investments are disclosed in note 11 on page 48;

- the investment management fee has been allocated 75% to the capital column and 25% to the revenue column of the Income Statement in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio; and

- performance fees have been allocated 100% to the capital column of the Income Statement, as performance has been predominantly generated through capital returns of the investment portfolio.

(g) Long term borrowings and finance costs

Long term borrowings are carried in the Balance Sheet at amortised cost, representing the cumulative amount of net proceeds on issue plus accrued finance costs. Finance costs are accounted for on an accruals basis. Finance costs are allocated, insofar as they relate to the financing of the Company's investments, 75% to the capital column and 25% to the revenue column of the Income Statement, in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio.

(h) Taxation

Deferred tax is recognised in respect of all temporary differences at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted.

Where expenses are allocated between capital and revenue, any tax relief in respect of the expenses is allocated between capital and revenue returns on the marginal basis using the Company's effective rate of corporation tax for the accounting period.

2. Accounting policies continued

(i) Dividends payable

Under FRS 21 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the balance sheet date. Interim and special dividends should not be accrued in the financial statements unless they have been paid.

Dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been approved by shareholders in the case of a final dividend, or paid in the case of an interim dividend, and have become a liability of the Company.

(j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

(k) Going concern

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore consider the going concern assumption to be appropriate.

3. Income

	2013 £'000	2012 £'000
Investment income:		
UK listed dividends	**5,955**	5,530
UK listed dividends – special	**400**	127
Property income dividends	**133**	105
Overseas listed dividends	**209**	186
	6,697	5,948
Other income:		
Deposit interest	**–**	1
Underwriting commission	**8**	2
	8	3
Total	**6,705**	5,951
Total income comprises:		
Dividends	**6,697**	5,948
Other income	**8**	3
	6,705	5,951

4. Investment management and performance fees

	2013			2012		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**418**	**1,254**	**1,672**	384	1,151	1,535
Performance fee	**–**	**860**	**860**	–	781	781
Total	**418**	**2,114**	**2,532**	384	1,932	2,316

The investment management fee is calculated based on 0.65% in respect of the first £50 million of the Company's total assets less current liabilities, reducing to 0.50% thereafter. A performance fee is payable at the rate of 10% of the annualised excess performance over the benchmark in the two previous financial years, applied to the average of the total assets less current liabilities of the Company. The fee is payable annually in April and is capped at 0.25% of the average of the total assets less current liabilities of the Company.

3.25% outperformance was generated against the Company's benchmark for the performance period ended 28 February 2013. The fee was restricted by the 0.25% cap and £860,000 has been accrued for the year ended 28 February 2013 (2012: £781,000).

Performance fees have been wholly allocated to capital reserves as the performance has been predominantly generated through capital returns of the investment portfolio.

5. Operating activities

	2013 £'000	2012 £'000
(a) Other operating expenses		
Auditor's remuneration:		
– audit services	**18**	18
– non audit services*	**6**	6
Registrar's fee	**25**	27
Directors' remuneration	**118**	113
Other administrative costs	**230**	208
	397	372
The Company's ongoing charges – calculated as a percentage of average shareholders' funds and using operating expenses, excluding performance fees, finance costs and taxation were:	**0.6%**	0.7%
The Company's ongoing charges – calculated as a percentage of average shareholders' funds and using operating expenses, including performance fees, and taxation and excluding finance costs were:	**1.0%**	1.0%

* Non audit services relate to the review of the half yearly financial statements.

	£'000	£'000
(b) Reconciliation of net return before finance costs and taxation to net cash flow from operating activities		
Total return before finance costs and taxation	**54,214**	4,302
(Less)/add: capital (return)/loss before finance costs and taxation	**(48,324)**	893
Net revenue return before finance costs and taxation	**5,890**	5,195
Investment management and performance fees charged to capital	**(2,114)**	(1,932)
Increase in accrued income	**(12)**	(60)
Increase in creditors	**333**	414
Net cash inflow from operating activities	**4,097**	3,617

6. Directors' emoluments

The aggregate emoluments of the Directors for the year ended 28 February 2013, were £117,520 (2012: £113,081). The remuneration of the Chairman, who was also the highest paid Director, totalled £28,773 (2012: £30,000). The Company does not have a share option scheme or any incentive scheme. No pension contributions were made in respect of the Directors. The Company has no employees.

Details of the Directors' emoluments are given in the Directors' Remuneration Report on pages 26 and 27.

7. Finance costs

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
7.75% debenture stock interest	289	869	1,158	291	874	1,165
Loan and overdraft interest	76	224	300	34	99	133
Amortised debenture stock issue expenses	3	11	14	4	11	15
	368	1,104	1,472	329	984	1,313

The allocation of finance costs between revenue and capital reflects the level of funds on deposit during the year. It takes into account the fact that such funds on deposit are only capable of earning a revenue return. The remaining finance costs have been allocated in the ratio 75:25 between capital and revenue in line with the Directors' expected long term split of returns from the investment portfolio.

8. Taxation

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(a) Analysis of charge in the year						
Current tax:						
Overseas tax (note 8(b))	2	–	2	2	–	2
Prior year adjustment	–	–	–	(1)	–	(1)
Total taxation	2	–	2	1	–	1

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for a large company of 24.17% (2012: 26.17%). The differences are explained below:

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return/(loss) on ordinary activities before taxation	5,522	47,220	52,742	4,866	(1,877)	2,989
Return/(loss) on ordinary activities multiplied by standard rate of corporation tax of 24.17% (2012: 26.17%)	1,335	11,413	12,748	1,273	(491)	782
Effects of:						
Income not subject to corporation tax	(1,587)	–	(1,587)	(1,529)	–	(1,529)
Non taxable gains on investments held at fair value through profit or loss	–	(12,190)	(12,190)	–	(272)	(272)
Excess management expenses not utilised	252	777	1,029	256	763	1,019
Overseas tax charge	2	–	2	2	–	2
Prior year adjustment	–	–	–	(1)	–	(1)
Current corporation tax charge (note 8(a))	2	–	2	1	–	1

Investment trusts are exempt from corporation tax on capital gains provided the Company obtains agreement from HMRC that the tests in section 1158 of the Corporation Tax Act 2010 have been met.

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012.

(c) At 28 February 2013, the Company had net surplus management expenses of £26,757,000 (2012: £24,005,000) and a non-trade loan relationship deficit of £16,122,000 (2012: £14,650,000). A deferred tax asset has not been recognised in respect of these losses as the Company is not expected to generate taxable income in the future in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing excess expenses and loan relationship deficits.

9. Dividends

Dividends paid or proposed on equity shares:	Record date	Payment date	**2013 £'000**	2012 £'000
2011 final of 4.80p	13 May 2011	21 June 2011	**–**	2,298
2012 interim of 2.42p	28 October 2011	2 December 2011	**–**	1,159
2012 final of 5.98p	1 June 2012	4 July 2012	**2,863**	–
2013 interim of 3.50p	9 November 2012	7 December 2012	**1,676**	–
			4,539	3,457

The Directors have proposed a final dividend of 6.50p per share in respect of the year ended 28 February 2013. The proposed final dividend will be paid, subject to shareholders' approval, on 3 July 2013 to shareholders on the Company's register on 31 May 2013. The final dividend has not been included as a liability in these financial statements as final dividends are only recognised in the financial statements when they have been approved by shareholders, or in the case of special dividends, recognised when paid to shareholders.

The total dividends payable in respect of the year which form the basis of determining retained income for the purposes of section 1158 of the Corporation Tax Act 2010 and section 833 of the Companies Act 2006, and the amounts proposed, meet the relevant requirements as set out in this legislation.

	2013 £'000	2012 £'000
Dividends paid or proposed on equity shares:		
Interim paid of 3.50p (2012: 2.42p)	**1,676**	1,159
Final proposed of 6.50p* (2012: 5.98p)	**3,112**	2,863
	4,788	4,022

* Based upon 47,879,792 ordinary shares (excluding treasury shares) in issue on 26 April 2013.

Notes to the Financial Statements continued

10. Return per ordinary share

Revenue and capital returns per share are shown below and have been calculated using the following:

	2013	2012
Net revenue return attributable to ordinary shareholders (£'000)	5,520	4,865
Net capital return/(loss) attributable to ordinary shareholders (£'000)	47,220	(1,877)
Total return (£'000)	52,740	2,988
Total equity shareholders' funds (£'000)	344,934	296,733
The weighted average number of ordinary shares in issue during each year on which the return per ordinary share was calculated, was:	47,879,792	47,879,792
The actual number of ordinary shares in issue at the end of each year on which the net asset value was calculated, was:	47,879,792	47,879,792

	2013			2012		
	Revenue p	Capital p	Total p	Revenue p	Capital p	Total p
Return per share						
Calculated on weighted average number of shares	11.53	98.62	110.15	10.16	(3.92)	6.24
Calculated on actual number of shares	11.53	98.62	110.15	10.16	(3.92)	6.24
Net asset value per share (debenture at par value)			720.42			619.75
Net asset value per share (debenture at fair value)			715.37			615.55

11. Investments held at fair value through profit or loss

	2013 £'000	2012 £'000
UK equity listed investments held at fair value	268,361	207,506
UK equity quoted AIM investments held at fair value	111,294	113,764
	379,655	321,270
Valuation brought forward	321,270	327,893
Investment holding gains	(71,353)	(100,505)
Opening cost of equity investments	249,917	227,388
Additions at cost	136,307	139,949
Disposals	(105,517)	(117,420)
Cost carried forward	280,707	249,917
Closing investment holding gains	98,948	71,353
Closing valuation of equity investments	379,655	321,270

During the year, the Company incurred purchase transaction costs of £718,000 (2012: £787,000) and sale transaction costs of £174,000 (2012: £208,000).

Gains on investments held at fair value through profit or loss

	2013 £'000	2012 £'000
Realised gains on sales	**22,844**	30,191
Movement in investment holding gains	**27,595**	(29,152)
	50,439	1,039

12. Debtors

	2013 £'000	2012 £'000
Sales for future settlement	**39**	2,023
Taxation recoverable	**16**	43
Prepayments and accrued income	**129**	117
	184	2,183

13. Movement in net debt

	2013 £'000	2012 £'000
(a) Reconciliation of net cash flow to movement in net debt		
Increase in cash in the year	**6,198**	5,871
Draw down of revolving facility	**(15,000)**	–
Exchange movements	**(1)**	–
Amortised debenture stock issue expenses	**(14)**	(15)
Change in net (debt)/cash	**(8,817)**	5,856
Net debt at the beginning of the year	**(22,783)**	(28,639)
Net debt at the end of the year	**(31,600)**	(22,783)

	At 1 March 2012 £'000	Cash flows £'000	Movements £'000	Amortised issue expenses £'000	**At 28 February 2013 £'000**
(b) Analysis of change in net debt					
Cash, overdraft, short term deposits and money market funds	(7,934)	6,198	(1)	–	**(1,737)**
Debt due after more than one year	(14,849)	(15,000)	–	(14)	**(29,863)**
Net debt at the end of the year	(22,783)	(8,802)	(1)	(14)	**(31,600)**

14. Creditors – amounts falling due within one year

	2013 £'000	2012 £'000
Purchases for future settlement	**1,091**	2,083
Bank overdraft	**1,736**	7,934
Other creditors	**2,215**	1,854
	5,042	11,871

15. Creditors – amounts falling due after more than one year

	2013 £'000	2012 £'000
7.75% debenture stock 2022*	**15,000**	15,000
Unamortised debenture stock issue expenses	**(137)**	(151)
	14,863	14,849
Scotia Bank loan	**15,000**	–
	29,863	14,849

* The fair value of the 7.75% debenture stock using the last available quoted price as at 28 February 2013 was 115.20p per debenture, a total of £17,280,000. At 29 February 2012, fair value was determined with reference to the listed market price of 112.40p, a total of £16,860,000.

The £15 million debenture stock was issued on 8 July 1997. Interest on the stock is payable in equal half yearly instalments on 31 July and 31 January in each year. The stock is secured by a first floating charge over the whole of the assets of the Company and is redeemable at par on 31 July 2022.

The three year £15 million multi-currency revolving loan facility with Scotia Bank (Ireland) Limited at the year end was issued on 4 February 2013 and matures on 3 May 2013. Interest on this loan is payable at the rate of 1.911250%.

16. Called-up share capital

	Ordinary shares (nominal)	Treasury shares (nominal)	Total shares in issue	Nominal value £'000
Allotted, called up and fully paid share capital comprised:				
Ordinary shares of 25p each				
At 1 March 2012	47,879,792	2,113,731	49,993,523	12,498
At 28 February 2013	**47,879,792**	**2,113,731**	**49,993,523**	**12,498**

During the year no ordinary shares were purchased for cancellation or placed in treasury (2012: nil). The number of ordinary shares in issue at the year end, excluding treasury shares, was 47,879,792 (2012: 47,879,792).

The ordinary shares (excluding any shares held in treasury) carry the right to receive any dividends and have one voting right per ordinary share. There are no restrictions on the voting rights of the shares or the transfer of the shares.

17. Share premium account and reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve (arising on investments sold) £'000	Capital reserve (arising on revaluation of investments held) £'000	Revenue reserve £'000
At 1 March 2012	38,952	1,982	162,417	71,353	9,531
Movement during the year:					
Revenue return for the year	–	–	–	–	5,520
Gains on realisation of investments	–	–	22,844	–	–
Exchange movements	–	–	(1)	–	–
Change in investment holding losses	–	–	–	27,595	–
Finance costs, investment management and performance fees charged to capital after taxation	–	–	(3,218)	–	–
Dividends paid during the year	–	–	–	–	(4,539)
At 28 February 2013	**38,952**	**1,982**	**182,042**	**98,948**	**10,512**

18. Net asset value per ordinary share

	2013	2012
Net assets attributable to ordinary shareholders (£'000)	**344,934**	296,733
The actual number of ordinary shares in issue at the end of each year on which the net asset value per ordinary share was calculated, was:	**47,879,792**	47,879,792
Net asset value per ordinary share (with debenture at par value)	**720.42p**	619.75p
Net asset value per ordinary share (capital only, with debenture at par)	**712.39p**	612.02p
Net asset value per ordinary share (with debenture at fair value)*	**715.37p**	615.55p
Ordinary share price	**626.50p**	503.00p

* The fair value of the 7.75% debenture stock using the last available quoted price as at 28 February 2013 was 115.20p per debenture, a total of £17,280,000. At 29 February 2012, fair value was determined with reference to the listed market price of 112.40p, a total of £16,860,000.

19. Risk Management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to achieve its investment objective as stated on page 16. In pursuing its investment objective, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks, market risk (comprising currency risk, interest rate risk and market price risk), liquidity risk and credit risk, and the Directors' approach to the management of them, are set out below. The Investment Manager, in close co-operation with the Board of Directors, coordinates the Company's risk management.

The objectives, policies and processes for managing the risks are set out below and have not changed from the previous accounting period.

(i) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate due to the changes in market prices. This market risk comprises currency risk (see note 19 (ii)), interest rate risk (see note 19(iii)) and market price risk (see note 19(iv)). The Board of Directors reviews and agrees policies for managing these risks, for which policies have remained substantially unchanged from those applying in the year ended 29 February 2012. The Investment Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

19. Risk Management policies and procedures continued

(ii) Currency risk

As the Company's objective is to achieve long term capital growth for shareholders through investment mainly in smaller UK quoted companies, the majority of the Company's assets are sterling denominated. From time to time the Company may hold an overseas line of stock to the extent that the underlying investment has exposure to the UK market and consequently at any time a very small proportion of the Company's assets, liabilities and income may be denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results). It is the opinion of the Board of Directors that due to the de minimis level of these holdings, any movements in exchange rates will not materially affect the value of the portfolio cash, investment purchases, investment sales and income.

As at 28 February 2013, there were 2 non-sterling denominated investments (2012: 4).

(iii) Interest rate risk

Interest rate movements may affect the interest payable on the Company's variable rate borrowings and the level of income receivable on cash deposits.

Interest rate changes may also impact on the market value of the Company's investments other than fixed rate securities. The effect of interest rate changes on the earnings of companies held within the portfolio may have a significant impact on the valuation of the Company's equity.

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing. The Company, generally, does not hold significant cash balances, with short term borrowings being used when required. The Company finances part of its activities through borrowings at levels approved and monitored by the Board of Directors. The debenture stock also provides finance and was issued as part of the Company's planned gearing.

Interest rate exposure

The Company is exposed to interest rate risk through its overdraft facility and cash deposits with BNYM. Borrowing varied throughout the year as part of a Board endorsed policy. The Company had a net overdraft of £1,737,000 as well as a multi-currency revolving loan facility of £15,000,000 which was fully utilised at the year end (2012: overdraft £7,934,000). If variable interest borrowings were maintained at this level for a year, a 1% change in base rates (up or down) would decrease or increase the total return by £167,000 or 0.35p per share (2012: £79,000 or 0.16p per share).

The Company's debenture stock accrues interest at a fixed rate of 7.75% per annum. The Company expects to hold this stock to maturity, therefore it is not exposed to variations in interest rates.

The Company's exposure to interest rates at 28 February 2013 was:

	2013			2012		
	Within one year £'000	**More than one year £'000**	**Total £'000**	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates:						
Bank overdraft	**(1,737)**	**–**	**(1,737)**	(7,934)	–	(7,934)
Bank Loan	**–**	**(15,000)**	**(15,000)**	–	–	–
Exposure to fixed interest rates:						
7.75% debenture stock 2022	**–**	**(14,863)**	**(14,863)**	–	(14,849)	(14,849)
Total exposure to interest rates	**(1,737)**	**(29,863)**	**(31,600)**	(7,934)	(14,849)	(22,783)

The above year end amounts are not representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down and repaid, and the mix of borrowings between floating and fixed interest rates change.

Interest received on cash balances, or paid on the bank overdraft respectively, was on average 0.15% and 1.75% per annum (2012: 0.15% and 1.76%). Interest payable on the £15 million debenture stock is accrued at a fixed rate of 7.75% per annum. Interest payable on the £15 million multi-currency revolving loan facility is payable at a rate of 1.911250%.

(iv) Market price risk

Market price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the quoted and unquoted investments. The Company's investments are susceptible to market price risk arising from uncertainties about future prices of the investments.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Investment Manager's compliance with the Company's objectives and is directly responsible for investment strategy.

The Company's exposure to other changes in market prices at the end of the year on its quoted equity investments was as follows:

	2013 £'000	2012 £'000
Investments held at fair value through profit or loss	**379,655**	321,270

Concentration of exposure to market price risks

An analysis of the Company's fifty largest investments and sector analysis is shown on pages 12 to 14. At 28 February 2013, this shows the majority of the investments' value is in UK companies. Accordingly, there is a concentration of exposure to the UK, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market price risk sensitivity

The sensitivity of the return after taxation for the year and the equity to an increase or decrease of 25% in the fair values of the Company's net assets is given below. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and equity exposure through options at each balance sheet date, with all other variables held constant.

The impact of a 25% increase in the value of investments on the revenue return as at 28 February 2013, is a decrease of £119,000 (2012: £100,000) and on the capital return is an increase of £94,558,000 (2012: £80,016,000).

The impact of a 25% decrease in the value of investments on the revenue return as at 28 February 2013, is an increase of £119,000 (2012: £100,000) and on the capital return is a decrease of £94,558,000 (2012: £80,016,000).

19. Risk Management policies and procedures continued

(v) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equities and other quoted securities that are readily realisable. The Company has an overdraft facility of £20 million and a three year multi-currency revolving loan facility of £15 million (2012: overdraft £20 million) and debenture stock which is secured by a floating charge over the whole of its assets and which is redeemable at par on 31 July 2022.

The Board of Directors gives guidance to the Investment Manager as to the maximum amount of the Company's resources that should be invested in any one Company. The policy is that the Company should remain fully invested in normal market conditions and that short term borrowings be used to manage short term cash requirements.

Liquidity risk exposure

The table below analyses the Company's contractual liabilities.

	2013			2012		
	Within 1 year £'000	**Between 1 and 5 years £'000**	**More than 5 years £'000**	Within 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000
Debenture stock	**1,163**	**4,650**	**20,133**	1,163	4,650	21,296
Bank overdraft	**1,737**	**–**	**–**	7,934	–	–
Bank loan	**–**	**15,000**	**–**	–	–	–
Other creditors and accruals	**3,305**	**–**	**–**	3,937	–	–
	6,205	**19,650**	**20,133**	13,034	4,650	21,296

(vi) Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Management of the risk

The risk is not significant, and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit standing is reviewed periodically by the Investment Manager, and limits are set on the amount that may be due from any one broker

- cash at bank is held only with reputable banks with high quality external credit ratings

In summary, compared to the amounts included in the Balance Sheet, the maximum exposure to credit risk at 28 February 2013 was:

	2013 Balance Sheet £'000	2012 Balance Sheet £'000
Sales for future settlement	**39**	2,023
Accrued income	**129**	116
	168	2,139

(vii) Capital management policies and procedures
The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern, and

- to secure long term capital growth primarily through investing in quoted securities in the UK

This is to be achieved through an appropriate balance of equity capital and gearing. The policy is that gearing should not exceed 15% of total assets.

The Company's total capital at 28 February 2013 was £376,534,000 (2012: £319,516,000) comprising £1,737,000 (2012: £7,934,000) of bank overdraft, £15,000,000 (2012: nil) of bank loan, £14,863,000 (2012: £14,849,000) of debenture stock and £344,934,000 (2012: £296,733,000) of equity share capital and other reserves.

(viii) Fair values of financial assets and financial liabilities
Investments are held at fair value through profit or loss. All liabilities are held in the Balance Sheet at a reasonable approximation of fair value. Debenture stock is carried in the Balance Sheet at amortised cost.

Financial assets and financial liabilities are either carried in the Balance Sheet at their fair value (investment and derivatives) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank, bank overdraft and amounts due under the multi-currency revolving loan facility).

Fair value hierarchy disclosures
The table below sets out fair value measurements using the FRS 29 fair value hierarchy.

Financial assets and financial liabilities at fair value through profit or loss At 28 February 2013	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	**379,655**	**–**	**–**	**379,655**
Total	**379,655**	**–**	**–**	**379,655**

Financial assets and financial liabilities at fair value through profit or loss At 29 February 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	321,270	–	–	321,270
Total	321,270	–	–	321,270

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability

Level 3 – inputs for the asset or liability that are not based on observable market data

The valuation techniques used by the Company are explained in the accounting policies in note 2.

Notes to the Financial Statements continued

20. Contingent liabilities
There were no contingent liabilities at 28 February 2013 (2012: nil).

21. Transactions with the Investment Manager
The related party transactions between the Company and BlackRock Investment Management (UK) Limited are set out in the Directors' Report on page 20. The investment management and performance fees for the year were £2,532,000 (2012: £2,316,000).

At the year end, the following amounts were outstanding in respect of investment management and performance fees: £1,762,000 (2012: £1,535,000).

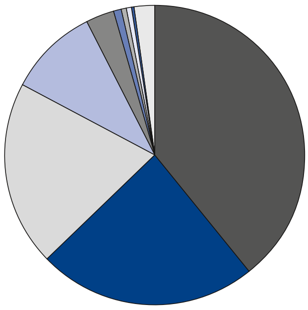
22. Related parties disclosures
Disclosures of the Directors' interests in the ordinary shares of the Company are given in the Directors' Report on pages 20 and 21 and the Directors' Remuneration Report on pages 26 and 27.

Analysis of Ordinary Shareholders

28 February 2013

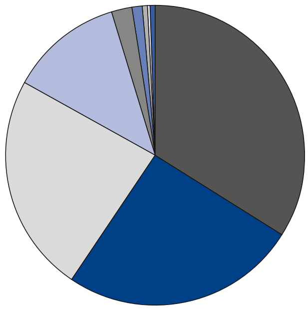
By type of holder

As at 28 February 2013



	%
Retail	39.4
Mutual Funds	23.6
Pensions	19.8
Insurance	9.7
Charities	3.1
Central Government	1.0
Trading	0.5
Hedge	0.4
Directors	0.3
Other	2.2

As at 29 February 2012



	%
Retail	34.1
Mutual Funds	25.6
Pensions	23.6
Insurance	12.0
Charities	2.3
Central Government	1.1
Trading	0.5
Hedge	0.4
Directors	0.4

By size of holding

	Number of shares	% of total 2013	% of total 2012	Number of holders	% of total 2013	% of total 2012
1-10,000	2,293,398	4.8	4.6	1,089	84.3	83.3
10,001-100,000	4,689,628	9.8	9.8	136	10.5	11.2
100,001-1,000,000	18,376,926	38.4	37.8	55	4.3	4.5
1,000,001-5,000,000	15,782,878	33.0	47.8	10	0.8	1.0
Over 5,000,000	6,736,962	14.0	–	1	0.1	–
	47,879,792	100.0	100.0	1,291	100.0	100.0

Historical Performance Record

Year ended February	Total Assets less Current Liabilities £'000	Shareholders' Funds £'000	Net Asset Value per Share p#	Share Price p	Revenue available for Dividends £'000	Revenue earnings per Share p	Dividends per Share p
2003	94,788	80,070	141.1	109.8	2,471	4.32	4.33
2004	140,623	125,891	234.7	183.0	2,397	4.32	4.42
2005	160,331	145,500	284.4	229.0	2,365	4.59	4.52
2006	197,382	182,621	361.2	312.0	2,258	4.46	4.62
2007	241,636	226,860	453.8	392.8	2,824	5.61	4.76
2008	215,843	201,052	414.5	340.0	3,540	7.16	4.90*
2009	125,071	110,265	227.4	177.0	3,499	7.21	5.05**
2010	197,087	182,267	380.7	293.8	3,572	7.41	5.60†
2011	312,036	297,202	620.7	542.0	4,095	8.55	7.00
2012	311,582	296,733	619.8	503.0	4,865	10.16	8.40
2013	**374,797**	**344,934**	**720.4**	**626.5**	**5,520**	**11.53**	**10.00**

* Excluding a special dividend of 1.25p.
** Excluding a special dividend of 0.70p.
† Excluding a special dividend of 0.50p.
# Debenture at par value.

Management & Administration

Registered Office
(Registered in Scotland, No. 006176)
40 Torphichen Street
Edinburgh EH3 8JB

Investment Manager
BlackRock Investment Management (UK) Limited*
12 Throgmorton Avenue
London EC2N 2DL

Secretary and Administrator
BlackRock Investment Management (UK) Limited*
12 Throgmorton Avenue
London EC2N 2DL

Registrar
Computershare Investor Services PLC*
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 707 1649

Savings Plan and ISA Administrator
Freepost RLTZ-KHUH-KZSB
BlackRock Investment Management (UK) Limited*
PO Box 9036
Chelmsford CM99 2XD
Telephone: 0800 44 55 22

Stockbrokers
Canaccord Genuity Limited*
88 Wood Street
London EC2V 7QR

Solicitors
Dundas & Wilson CS LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

Custodian and Banker
The Bank of New York Mellon (International) Limited*
One Canada Square
London E14 5AL

Auditor
Scott-Moncrieff
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

* Authorised and regulated by the Financial Conduct Authority (formerly the Financial Services Authority).

Additional Shareholder Information

Financial calendar

The timing of the announcement and publication of the Company's results may normally be expected in the months shown below:

April
Annual results and final dividend for year announced.

May
Annual Report and Accounts published.

June
Annual General Meeting.

June/July
Final dividend paid.

October
Half yearly figures to 31 August announced and half yearly financial report published.

November
Interim dividend paid.

Dividend – 2013

The proposed final dividend in respect of the year ended 28 February 2013 is 6.50p per share.

Ex-dividend date (shares transferred without the dividend)	29 May 2013
Record date (last date for registering transfers to receive the dividend)	31 May 2013
Last date for registering DRIP instructions	12 June 2013
Dividend payment date	3 July 2013

Payment of dividends

Cash dividends will be sent by cheque to the first-named shareholder at their registered address. Dividends may also be paid direct into a shareholder's bank account via BACSTEL-IP (Bankers' Automated Clearing Service – Telecom Internet Protocol). This may be arranged by contacting the Company's registrar, Computershare Investor Services PLC, through their secure website www.investorcentre.co.uk, or by telephone on 0870 707 1649, or by completing the Mandate Instructions section on the reverse of your dividend counterfoil. Tax vouchers will be sent to shareholders at their registered address, unless other instructions have been given, to arrive on the payment date.

Dividend reinvestment scheme ("DRIP")

Shareholders may request that their dividends be used to purchase further shares in the Company. Dividend reinvestment forms may be obtained from Computershare Investor Services PLC through their secure website www.investorcentre.co.uk, or on 0870 707 1649. Shareholders who have already opted to have their dividends reinvested do not need to reapply. The last date for registering for this service for the forthcoming dividend is 12 June 2013.

Share price

The Company's mid-market ordinary share price is quoted daily in The Financial Times under "Investment Companies" and in The Daily Telegraph and The Times under "Investment Trusts". The share price is also available on the BlackRock Investment Management (UK) Limited ("BlackRock") website at www.blackrock.co.uk/brsc.

ISIN/SEDOL numbers

The ISIN/SEDOL numbers and mnemonic codes for the Company's shares are:

	Ordinary Shares
ISIN	GB0006436108
SEDOL	0643610
Reuters code	BRSC
Bloomberg code	BRSC LN

Share dealing

Investors wishing to purchase more shares in the Company or sell all or part of their existing holding may do so through a stockbroker. Most banks also offer this service. It is also possible to trade the Company's shares through many of the online dealing service providers.

Computershare Investor Services PLC

For existing shareholders, the Company's registrar, Computershare Investor Services PLC, has both internet and telephone share dealing services. To access the internet share dealing service, log on to www.computershare.com/dealing/uk. The telephone share dealing service is available on 0870 703 0084. To use these services, you will need your shareholder reference number which is detailed on your share certificate.

Internet dealing – The fee for this service is 1% of the value of each sale or purchase of shares (subject to a minimum of £30). Stamp duty of 0.5% is payable on purchases.

Telephone dealing – The fee for this service will be 1% of the value of the transaction (plus £35). Stamp duty of 0.5% is payable on purchases.

CREST

The Company's shares may be held in CREST, an electronic system for uncertificated securities trading.

Private investors can continue to retain their share certificates and remain outside the CREST system. Private investors are able to buy and sell their holdings in the same way as they did prior to the introduction of CREST, although there may be differences in dealing charges.

Electronic proxy voting

Shareholders are able to submit their proxy votes electronically via Computershare's internet site at www.eproxyappointment.com using their shareholder reference number, control number and a unique identification PIN which will be provided with voting instructions and the Notice of Annual General Meeting.

CREST members who wish to appoint one or more proxies or give an instruction through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. More details are set out in the notes on the Form of Proxy and the Notice of Annual General Meeting.

Risk factors

- Past performance is not necessarily a guide to future performance. The value of your investment in the Company and the income from it can fluctuate as the value of the underlying investments fluctuate.

- The price at which the Company's shares trade on the London Stock Exchange is not the same as their net asset value (although they are related) and therefore you may realise returns which are lower or higher than NAV performance.

Nominee code

Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance;

- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available; and

- that investors in the BlackRock Investment Trusts Savings Plan and ISA are automatically sent shareholder communications, including details of general meetings, together with a Form of Direction to facilitate voting and to seek authority to attend.

Nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meetings.

Publication of net asset value/portfolio analysis

The net asset value ("NAV") per share of the Company is calculated daily, with details of the Company's investments and performance being published monthly.

The daily NAV per share and monthly information are released through the London Stock Exchange's Regulatory News Service and are available on the BlackRock website at www.blackrock.co.uk/its and through the Reuters News Service under the code "BLRKINDEX", on page 8800 on Topic 3 (ICV terminals) and under "BLRK" on Bloomberg (monthly information only).

Online access

Other details about the Company are available on the BlackRock website at www.blackrock.co.uk/brsc. The financial statements and other literature are published on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Shareholders can also manage their shareholding online by using Investor Centre, Computershare's secure website, at www.investorcentre.co.uk.

To access Computershare's website you will need your shareholder reference number (SRN) which can be found on paper or electronic communications you have previously received from Computershare. Listed below are the most frequently used features of the website.

- Holding enquiry – view balances, values, history, payments and reinvestments.
- Payments enquiry – view your dividends and other payment types.
- Address change – change your registered address.
- Bank details update – choose to receive your dividend payment directly into your bank account instead of by cheque.
- Outstanding payments – reissue payments using the online replacement service.
- Downloadable forms – including dividend mandates, stock transfer, dividend reinvestment and change of address forms.

Savings Plan

The Company participates in the BlackRock Investment Trusts Savings Plan, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Savings Plan should call BlackRock free on 0800 44 55 22.

Stocks and shares Individual Savings Accounts ("ISA")

ISAs are a tax-efficient method of investment and the Company's shares are eligible investments within the BlackRock Investment Trusts stocks and shares Individual Savings Account. Investors currently have an annual ISA allowance of £11,520. Details are available from BlackRock by calling free on 0800 44 55 22.

Shareholder enquiries

The Company's registrar is Computershare Investor Services PLC. Certain details relating to your holding can be checked through the Computershare Investor Centre website. As a security check, specific information needs to be input accurately to gain access to an individual's account. This includes your shareholder reference number, available from either your share certificate, tax voucher or other communications you have previously received from Computershare. The address of the Computershare website is www.investorcentre.co.uk. Alternatively, please contact the registrar on 0870 707 1649.

Changes of name or address must be notified in writing either through Computershare's website, or to the registrar at:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

General enquiries

Enquiries about the Company should be directed to:

The Secretary
BlackRock Smaller Companies Trust plc
12 Throgmorton Avenue
London EC2N 2DL
Telephone: 020 7743 3000

Enquiries about the Savings Plan or ISA should be directed to:

Freepost RLTZ-KHUH-KZSB
BlackRock Investment Management (UK) Limited
PO Box 9036
Chelmsford CM99 2XD
Telephone: 0800 44 55 22

Glossary

Net asset value per share ("NAV")

This is the value of the Company's assets attributable to one ordinary share. It is calculated by dividing shareholders' funds by the total number of shares in issue. For example, as at 28 February 2013, shareholders' funds were £344,934,000 and there were 47,879,792 ordinary shares in issue (excluding shares held in treasury); the NAV was therefore 720.42p per share (debenture at par value) and 715.37p per share (debenture at fair value).

Shareholders' funds are calculated by deducting the Company's current and long term liabilities and any provision for liabilities and charges from its total assets.

Net asset value per share with income reinvested ("Total return NAV")

This is the theoretical return on shareholders' funds per share, reflecting the change in value of the NAV per share assuming that dividends paid to shareholders were reinvested in the Company's shares at the first opportunity.

As at 28 February 2013, the Company's NAV stood at 720.42p; a reinvestment factor of 1.01639 (rounded) was applied to reach a calculation of NAV with income reinvested of 732.23p. Based on this adjusted NAV, the total NAV return for the year ended 28 February 2013 was 18.1%.

Discount

Investment trust shares can frequently trade at a discount to NAV. This occurs when the share price (based on the mid-market share price) is less than the NAV and investors may therefore buy shares at less than the value attributable to them by reference to the underlying assets. This discount is the difference between the share price and the NAV, expressed as a percentage of the NAV. For example, if the share price was 550p and the NAV 620p, the discount would be 11.3%.

Premium

A premium occurs when the share price (based on the mid-market share price) is more than the NAV and investors therefore would be paying more than the value attributable to the shares by reference to the underlying assets. For example, if the share price was 550p and the NAV 540p, the premium would be 1.9%.

Discounts and premiums are mainly the consequence of supply and demand for the shares on the stock market.

Ongoing charges ratio

The AIC define ongoing charges ratios as the annual operating costs of an investment company expressed as a percentage of net assets. Ongoing charges are defined as those charges and expenses which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the cost of acquisition/disposal of investments, finance charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. In addition, the Company discloses its ongoing charges inclusive of any performance fees incurred in the year to give shareholders a transparent view of all costs associated with the investment management services provided.

Gearing

Gearing is calculated in line with AIC guidelines and represents net gearing. This is defined as total assets of the Company less current liabilities (excluding bank overdrafts) less any cash or cash equivalents held minus total shareholders' funds, divided by Shareholders' funds. At 28 February 2013 the Company had total assets less current liabilities (excluding bank overdrafts) of £376,533,000, no cash or cash equivalents on the Balance Sheet and Shareholders' Funds of £344,934,000, giving a gearing ratio calculated on the basis set out in AIC guidelines of 9.2%.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of BlackRock Smaller Companies Trust plc will be held at the offices of BlackRock Investment Management (UK) Limited, 12 Throgmorton Avenue, London EC2N 2DL on Wednesday, 26 June 2013 at 2.30 p.m. to transact the following business:

Ordinary business

1. To receive the report of the Directors and the financial statements for the year ended 28 February 2013, together with the report of the auditor thereon.

2. To approve the Directors' Remuneration Report for the year ended 28 February 2013.

3. To declare a final dividend of 6.50p per ordinary share.

4. To elect Mr M Peacock as a Director.

5. To re-elect Mr N Fry as a Director.

6. To reappoint Scott-Moncrieff, Chartered Accountants, as auditor to the Company.

7. To authorise the Directors to determine the auditor's remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions as an ordinary resolution in the case of resolution 8 and as special resolutions in the case of resolutions 9 and 10:

Ordinary resolution

8. That, in substitution for all existing authorities, the Directors of the Company be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot relevant securities in the Company (as defined in that section) up to an aggregate nominal amount of £598,497 (being 5% of the aggregate nominal amount of the issued share capital, excluding treasury shares, of the Company at the date of this notice) provided this authority shall expire at the conclusion of the next Annual General Meeting to be held in 2014 but so that the Company may, before such expiry, make any offer or agreement which would or might require relevant securities to be allotted pursuant to any such offer or agreement as if the authority hereby conferred had not expired.

Special resolutions

9. That, in substitution for all existing authorities and subject to the passing of resolution 8 above, the Directors of the Company be and are hereby empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560 of the Act), and to sell equity securities held by the Company as treasury shares (as defined in section 724 of the Act) for cash pursuant to the authority granted by the resolution numbered 8 above, as if section 561(1) of the Act did not apply to any such allotments and sales of equity securities, provided that this power:

   (a) shall expire at the conclusion of the next Annual General Meeting of the Company in 2014, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted or sold after such expiry and notwithstanding such expiry the Directors may allot and sell equity securities in pursuance of such offers or agreements;

(b) shall be limited to the allotment of equity securities and/or the sale of equity securities held in treasury for cash up to an aggregate nominal amount of £598,497 (representing 5% of the aggregate nominal amount of the issued share capital, excluding treasury shares, of the Company at the date of this notice); and

(c) shall be limited to the allotment of equity securities at a price of not less than the net asset value per share.

10. That, in substitution for the Company's existing authority to make market purchases of ordinary shares of 25p each in the Company ("Shares"), the Company be and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make market purchases of Shares (within the meaning of section 693 of the Act) provided that:

(a) the maximum number of Shares hereby authorised to be purchased is 7,177,180 (being the equivalent of 14.99% of the Company's issued share capital, excluding treasury shares, at the date of this notice);

(b) the minimum price (exclusive of expenses) which may be paid for a Share shall be 25p, being the nominal value per ordinary share;

(c) the maximum price (exclusive of expenses) which may be paid for a Share shall be the higher of (i) 5% above the average of the market values of the Shares for the five business days immediately preceding the date of the purchase as derived from the Daily Official List of the London Stock Exchange and (ii) the higher of the price quoted for (a) the last independent trade of, and (b) the highest current independent bid for, any number of Shares on the trading venue where the purchase is carried out; and

(d) unless renewed, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2014, save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after such expiry.

All Shares purchased pursuant to the above authority shall be either:

(i) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or

(ii) cancelled immediately upon completion of the purchase.

By order of the Board
BlackRock Investment Management (UK) Limited
Company Secretary
26 April 2013

Registered Office:
40 Torphichen Street
Edinburgh EH3 8JB

Notes:

1. A member entitled to attend and vote at the meeting convened by the above Notice is also entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend, speak and vote instead of him/her. A proxy need not be a member of the Company. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by the member.
2. To appoint a proxy you may use the form of proxy enclosed with this annual report. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be completed and returned to the office of the Company's registrar in accordance with the instructions printed thereon as soon as possible and in any event by not later than 2.30 p.m. on 24 June 2013. Alternatively you can vote or appoint a proxy electronically by visiting www.eproxyappointment.com. You will be asked to enter the Control Number, the Shareholder Reference Number and PIN which are printed on the form of proxy. The latest time for the submission of proxy votes electronically is 2.30 p.m. on 24 June 2013.
3. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person.
4. Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person") should note that the provisions in notes 1 to 2 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such agreement to give instructions to the member as to the exercise of voting rights at the meeting.
5. Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy the information rights (or perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from the Nominated Person.
6. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered in the register of members of the Company by not later than 6.00 p.m. two days prior to the time fixed for the meeting shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at such time. If the meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned meeting is 6.00 p.m. two days prior to the time of adjournment. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
8. Holders of shares through the Savings Schemes are entitled to attend and vote at the meeting if the voting instruction form, which is enclosed with this document, is correctly completed and returned in accordance with the instructions printed thereon.
9. Shareholders who hold their shares electronically may submit their votes through CREST, by submitting the appropriate and authenticated CREST message so as to be received by the Company's registrar not later than 48 hours before the start of the meeting. Instructions on how to vote through CREST can be found by accessing the following website: www.euroclear.com/CREST. Shareholders are advised that CREST and the internet are the only methods by which completed proxies can be submitted electronically.
10. If you are a CREST system user (including a CREST personal member) you can appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by Computershare (ID number 3RA50) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which Computershare is able to retrieve the message. CREST personal members or other CREST sponsored members should contact their CREST sponsor for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes subject of those proxies are cast and voting rights in respect of those discretionary proxies, when added to the interest in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3 per cent. or more of the voting rights in the Company, who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Conduct Authority.

12. Any question relevant to the business of the meeting may be asked at the meeting by anyone permitted to speak at the meeting. A shareholder may alternatively submit a question in advance by a letter addressed to the Company Secretary at the Company's registered office. Under section 319A of the Companies Act 2006, the Company must answer any question a shareholder asks relating to the business being dealt with at the meeting, unless (i) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer had already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
13. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
14. Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
    (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are laid before the meeting; or
    (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006.

    The Company may not require the members requesting such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
15. Under sections 338 and 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:
    (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or
    (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

    A resolution may properly be moved or a matter may properly be included in the business unless:
    (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);
    (b) it is defamatory of any person; or
    (c) it is frivolous or vexatious.

    Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 16 May 2013, being the date six weeks clear before the meeting and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
16. Further information regarding the meeting which the Company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the meeting (including this Notice), can be accessed at www.blackrock.co.uk/brsc.
17. As at the date of this report, the Company's issued share capital comprised 47,879,792 ordinary shares of 25 pence each, excluding shares held in treasury. Each ordinary share carries the right to one vote and therefore the total number of voting rights in the Company on 26 April 2013 is 47,879,792.
18. No service contracts exist between the Company and any of the Directors, who hold office in accordance with letters of appointment and the Articles of Association.

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