

The background of the entire page is an abstract, glowing blue molecular or network structure. It consists of numerous interconnected nodes (spheres) and thin, translucent lines (bonds) that create a complex, web-like pattern. The nodes vary in size and brightness, with some appearing more prominent than others. The overall color palette is a range of blues, from deep navy to bright, ethereal light blues, giving it a high-tech, scientific feel.

# BlackRock Smaller Companies Trust plc

Half Yearly Financial Report  
31 August 2013

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# BlackRock Smaller Companies Trust plc

The Company's objective is to achieve long term capital growth for shareholders through investment mainly in smaller UK quoted companies.

**aic**

The Association of  
Investment Companies

A MEMBER OF THE ASSOCIATION OF  
INVESTMENT COMPANIES

Details about the Company are available on the BlackRock Investment Management (UK) Limited website at [www.blackrock.co.uk/brsc](http://www.blackrock.co.uk/brsc)

# Performance Record

## Financial Highlights

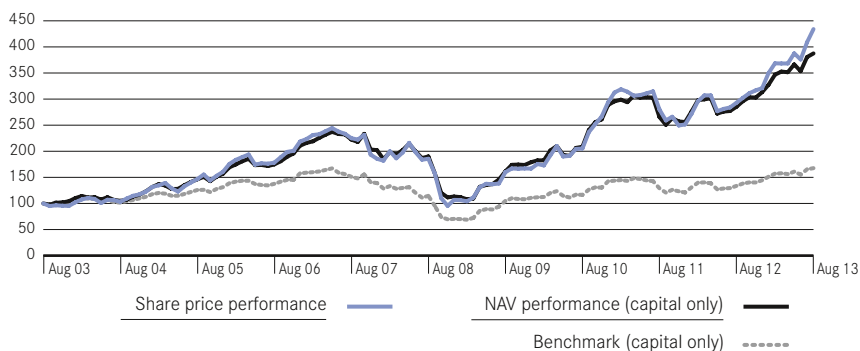
	Six months ended 31 August 2013	Six months ended 31 August 2012	Year ended 28 February 2013
<b>Performance</b>			
Net asset value per share*	<b>805.30p</b>	592.35p	720.42p
Movement in net asset value per share	<b>+11.8%</b>	-4.4%	+16.2%
Net asset value per share (capital only)*	<b>796.23p</b>	586.05p	712.39p
Movement in net asset value per share (capital only)	<b>+11.8%</b>	-4.2%	+16.4%
Movement in Numis Smaller Companies plus AIM (excluding Investment Companies) Index	<b>+6.7%</b>	-4.4%	+12.3%
Share price	<b>738.00p</b>	498.00p	626.50p
Movement in share price	<b>+17.8%</b>	-1.0%	+24.6%
Discount	<b>8.4%</b>	15.9%	13.0%
Revenue return per share	<b>9.07p</b>	6.30p	11.53p
Dividend per share	<b>4.60p</b>	3.50p	10.00p
Change in dividend	<b>+31.4%</b>	+44.6%	+19.0%
Ongoing charges ratio**	<b>0.6%</b>	0.7%	0.6%
Ongoing charges ratio (including performance fees)	<b>1.0%</b>	0.9%	1.0%
Gearing as a % of net assets	<b>10.4%</b>	9.4%	9.2%

\* 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.

Sources: BlackRock and Datastream.

## Performance from 31 August 2003 to 31 August 2013<sup>1</sup>



<sup>1</sup> All calculations exclude income reinvestment.

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.

# Chairman's Statement

## Performance

I am pleased to report strong results for your Company for the six months ended 31 August 2013. During the period the net asset value ("NAV") increased by 11.8% to 805.30p and the share price rose by 17.8% to 738.00p. By comparison, the Company's benchmark, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index increased by 6.7%\*.

The outperformance over the Company's benchmark was driven by stock selection, assisted by gearing and to a lesser extent by positive sector allocation. Details of the various contributors to performance can be found in the Investment Manager's Report on pages 6 to 8.

During the six months under review, the volatility experienced by global equities has stabilised somewhat and UK economic data was more positive. Economic momentum was building in the US, and some stabilisation was seen in Europe; sentiment in Asia and the Emerging markets was in general weaker although there was a better economic performance in Japan. There were bouts of nervousness about when the US would taper its quantitative easing programme and what would follow that.

Small and midcap stocks have performed relatively well with the FTSE 250 Index returning 6.7% compared with an increase of only 0.8% for the FTSE 100 Index. The FTSE AIM Index improved on the poor performance at the last year end, ending the period up by 1.6%.

Since the period end, the Company's NAV has increased by 8.0%, against a benchmark increase of 6.8%, and the share price has risen by 10.2%\*.

\* All percentages in sterling terms without dividends re-invested.

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

Performance to 31 August 2013	3 years	5 years	10 years
Net asset value per share	+85.7%	+104.0%	+290.2%
Benchmark*	+43.9%	+46.3%	+67.6%
Net asset value per share (with income reinvested)	+93.6%	+120.2%	+354.7%
Benchmark* (with income reinvested)	+54.5%	+66.1%	+113.9%
Share price (with income reinvested)	+121.9%	+156.4%	+422.6%

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

# Chairman's Statement continued

## Earnings and dividends

The Company's revenue returns per share for the six months to 31 August 2013 amounted to 9.07p compared with 6.30p for the corresponding period in the previous year. Regular dividends from portfolio companies increased by approximately 24% in comparison with the same period last year, and the remainder of the increase resulted from a substantial increase in special dividends.

The Board is pleased to declare an interim dividend of 4.60p per share (2012: 3.50p per share) representing an increase of 31.4% over the previous interim dividend. The dividend will be paid on 29 November 2013 to shareholders on the Company's register on 1 November 2013.

## Gearing

During the period the Board negotiated an increase in the three year multi-currency revolving loan facility with Scotia Bank (Ireland) Limited to £25 million in order to be less dependent on short term borrowings and to enable the Company to benefit from the perceived improvement in prospects for the smaller companies sector. 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 net assets of the Company at the time of drawdown of the relevant borrowings. That figure of 15% includes the Company's debenture, which currently represents 3.9% of net 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 period end, the Company's gearing was 10.4% of net assets.

## Discount

The 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 seeks to narrow this margin. During the period, the discount narrowed significantly and at 31 August 2013 stood at 8.4%; it has continued to narrow since then.

## Alternative Investment Fund Managers' Directive

The Alternative Investment Fund Managers' Directive ("the Directive") is a European directive which seeks to reduce potential systemic risk by regulating alternative investment fund managers ("AIFMs"). AIFMs are responsible for investment products that fall within the category of Alternative Investment Funds ("AIFs") and investment trusts are included in this. The Directive was implemented on 22 July 2013 although the Financial Conduct Authority ("FCA") permits a transitional period of one year after that, during which UK AIFMs must seek authorisation. The Board has taken, and will continue to take, independent advice on the consequences for the Company of the implementation

of the Directive. It has decided in principle that BlackRock Fund Managers Limited will be appointed as its AIFM before the end of the transitional period on 22 July 2014.

## Outlook

Since the end of the period under review, particularly in October, the principal focus of markets has been on the political deadlock in the US over the budget and the debt ceiling. At times this resulted in weakness in markets and increased volatility, although there has been a significant recovery with the announcement of a temporary solution. Nonetheless, the government shut down in the US has caused damage to the economy and it is expected that fiscal decisions will follow which will affect US growth adversely. In the longer run, there is some concern that the present episode will increase the perceived political risk of investment in the world's largest economy. Thus a durable resolution to the present negotiations is much to be desired.

Markets will continue to be preoccupied with the progress in the US and in the UK towards the normalisation of interest rates, which could lead to periods of uncertainty and volatility, although provided rates rise in response to improved economic performance, this should in general be good for equities.

Against an improving economic background in the UK and much of the developed world, we believe that the majority of companies in which we invest will continue to expand, as they have good managements, robust balance sheets and in many cases significant exposure to growing economies overseas. Within the UK the portfolio is invested in companies with exposure to the strengthening UK housing market, improving UK consumer confidence and the strength of the London economy, as well as leading edge technologies. Confidence in the smaller companies sector has improved significantly. We expect attractive returns for shareholders over the medium term.

Nicholas Fry  
Chairman  
24 October 2013

# Investment Manager's Report

Six months ended 31 August 2013

## Market review and overall investment performance

During the first six months of the current financial year stock markets have generally moved steadily ahead. Economic data from the UK has been rather better than expected and GDP growth looks to be accelerating. In the US, data from the private sector has also been supportive and economic momentum looks to be building slowly. The economies in Continental Europe seem to be stabilising. Data from Asia and Emerging Markets has been mixed and overall sentiment seems weaker, but not materially so, and there have been some pleasant surprises, for example, a much better economic performance from Japan. The main setback that we saw in the period related to the likely earlier than expected reduction in quantitative easing in the US and ultimately the expectation of increases in interest rates in due course.

Over the six months ended 31 August 2013 the Company's NAV per share rose by 11.8% to 805.30p; the benchmark rose by 6.7%, whilst the FTSE 100 Index rose by only 0.8%, all without dividends reinvested.

## Performance review

Outperformance was mainly driven by stock selection, assisted by gearing and to a lesser extent, by positive sector allocation.

The strongest individual stock performance in the period came from Xaar, whose share price rose by 142%. Xaar announced very strong trading updates and results, reflecting huge success with the sales of its Platform 3 inkjet heads. These are mainly being sold to enable the decoration of ceramic tiles; Xaar has taken significant market share. The company remains well positioned and is looking at other vertical markets for its printheads. Other contributors to performance came from predominantly UK consumer related holdings including, Howden Joinery Group, LSL Property Services, Cineworld Group, Workspace Group and Restaurant Group. These companies are all benefiting from a stronger than previously expected pick-up in UK consumer spending, partly driven by a recovery in house prices and housing activity, which is giving rise to the 'feel good' effect.

Companies that are generally more internationally focused contributed less well although Blinkx and Ashtead Group performed better as did fund management company, Polar Capital Holdings. Blinkx, the leading supplier of internet video search capability and content, announced full year results with revenues and earnings well ahead of expectations. Ashtead Group, the second largest provider of plant for hire in the US, has also continued to trade well, benefiting from the strengthening housebuilding market. With its modern fleet, the company is well placed to gain



further market share. Polar Capital Holdings has grown funds under management on the back of strong fund performance and successful new launches.

The largest detractors from relative outperformance were some of the most internationally exposed companies, Oxford Instruments and AZ Electronic Materials. Oxford Instruments announced full year results in line with expectations but also indicated that the new year had started slowly. The company sells instruments into research labs and some of these have been affected by recent US Government spending cuts. We continue to see Oxford Instruments as a core holding with strong management, products and finances and believe that it will become a bigger company in the medium term. AZ Electronic Materials also announced that it had a weaker start to the year and that it expected this to continue into the second quarter; earnings were downgraded as a result, and we have sold our holding.

Looking at sector allocation, the most significant positive impact came from the housebuilders, where we have held an overweight position for some time. Newsflow remains good; we still like the sector and are happy to remain overweight. In the more internationally exposed sectors we benefited by being underweight in the technology hardware sectors, however our overweight position in electronics companies was unhelpful.

## Activity

During the period our strategy has been to increase exposure to the improving US economy. We participated in a placing in Tyman, a company which manufactures door fittings and window seals. The company is benefiting from an increase in housebuilding activity in the US, and in due course will benefit from a pick-up in home improvements and repairs. Tyman announced the purchase of Truth from Melrose, and with this, 60% of its sales are now concentrated in North America.

We took profits in some non-core holdings exposed to emerging markets due to concerns about their short term growth potential. We also added to our UK property exposure where we saw good value after the pullback during the early summer. We bought a holding in Quintain Estates and have re-introduced Shaftesbury to the portfolio. Both companies give us further exposure to the London property market. We also added a holding in Grainger, which is exposed to rising UK house prices and Speedy Hire, which we expect to benefit from increasing UK housebuilding and, eventually construction activity.

With economic newsflow improving in the UK we have continued to seek additional exposure to the UK consumer sector, adding a holding in Mitchells & Butlers, the pub/restaurant operator. We have also added small holdings in a few technology companies where we see growth potential, including Betfair.

# Investment Manager's Report continued

Six months ended 31 August 2013

## Portfolio positioning and gearing

We have sought to maintain good exposure to strong themes, notably: the strengthening US and UK housing markets; improving UK consumer confidence; the strength of the London economy; increasing flows into equities; leading technologies; and the increasing use of advanced, often online payments.

We remain underweight in the usual areas: support services, especially suppliers to government, and food producers.

The portfolio remains well diversified with just over 150 holdings, the largest of which is about 2.3% of the portfolio. All our larger holdings are well established, generally midcap companies. Positions in very small companies are taken where we believe the upside is potentially very attractive, but position sizing is small, recognising the greater risk of disappointment.

We have retained our gearing position and during the period it remained in the range of 9-11% of net assets.

## Outlook

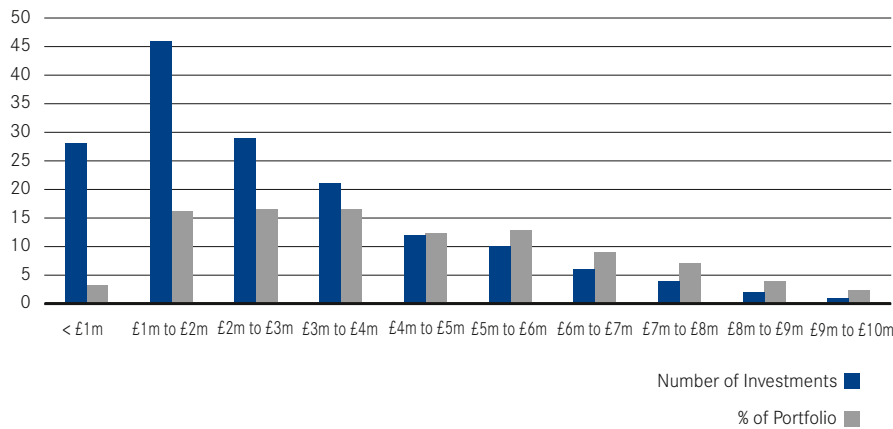
The economy continues to improve in the UK and seems to be stabilising in Europe. In the US, data generally looks better, although the political difficulties of agreeing a budget and a higher debt ceiling do not inspire confidence. Asian GDP growth has been less predictable recently and the data is not always reliable. Our feeling is that exposure to developed economies looks safer over the short term.

Interest rates may rise over the next few years, but this will be in reaction to stronger economic growth and so arguably should not be bad for equities. We think that well run small and midcap companies should continue to outperform their larger peers and see further share price appreciation.

Mike Prentis  
BlackRock Investment Management (UK) Limited  
24 October 2013

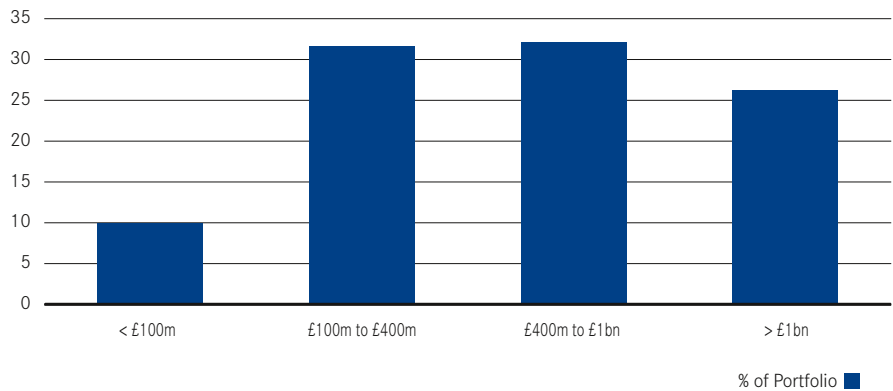
# Investment Exposure

Investment Size as at 31 August 2013



Source: BlackRock.

Market Capitalisation of our Portfolio Companies as at 31 August 2013



Source: BlackRock.

# Twenty Largest Holdings

as at 31 August 2013

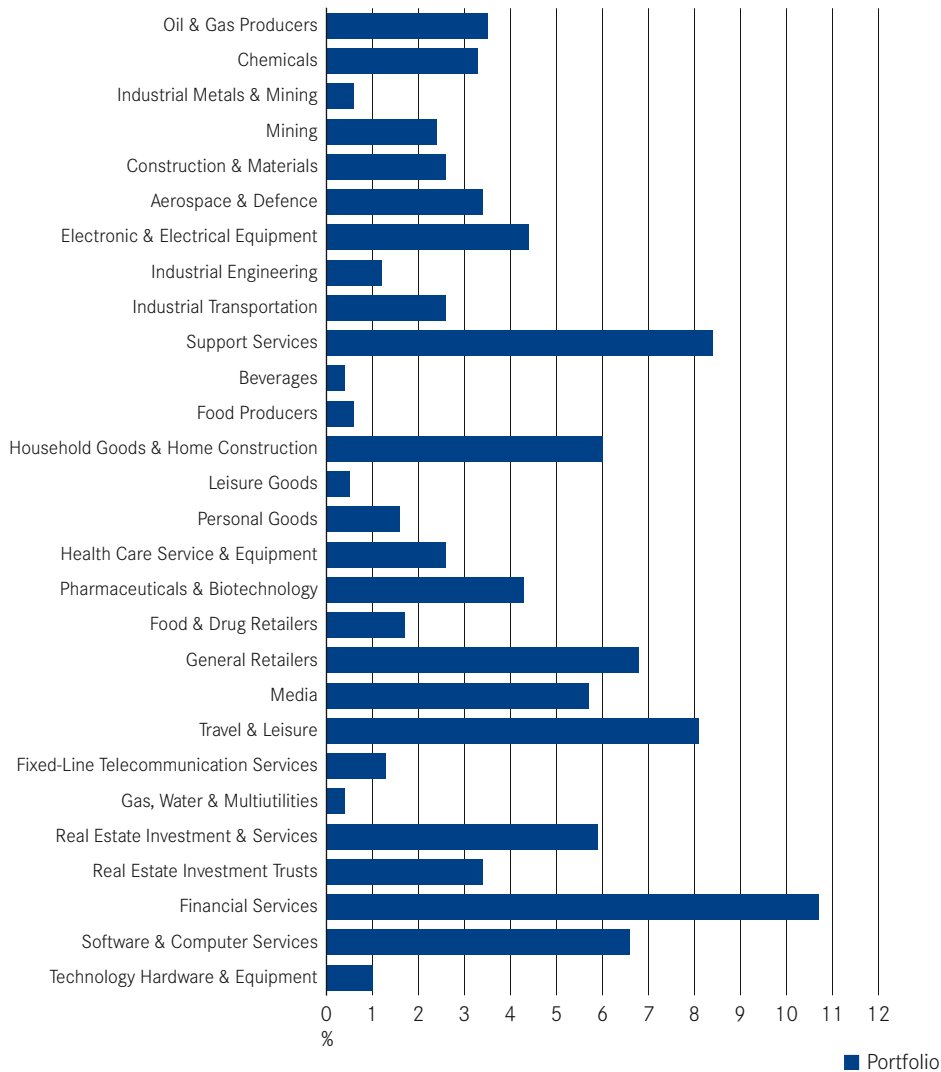
Company	Market value £'000	% of investments	Business activity
Bellway	9,849	2.3	Housebuilding
Howden Joinery Group	8,964	2.1	Design and manufacture of kitchens sold to local builders
Workspace Group	8,368	1.9	Supply of flexible workspace to businesses in London
Senior	7,968	1.9	Manufacture and supply of components for the aerospace and automotive sector
Dunelm Group	7,591	1.8	Supply of home furnishings
Booker Group	7,398	1.7	Wholesale of grocery products
ITE Group	7,298	1.7	Organisation of trade exhibitions in Russia and other former Soviet Union countries
Restaurant Group	6,850	1.6	Operation of branded restaurants
Ashtead Group	6,699	1.6	Hire of plant, predominantly in the US
LSL Property Services	6,524	1.5	Provision of residential property services
Polar Capital Holdings	6,307	1.5	Investment management
Xaar	6,273	1.5	Design and manufacture of industrial printheads used in inkjet printers
Oxford Instruments	6,218	1.4	Design and manufacture of tools and systems to analyse and manipulate matter at the atomic level
Blinkx	5,977	1.4	Supply of video technology and an online catalogue to enable video clips to be viewed
Victrex	5,936	1.4	Manufacture and supply of PEEK thermoplastic products
Cineworld Group	5,769	1.3	Operation of cinemas in the UK
Clarkson	5,543	1.3	Shipbroking and related activities
Optimal Payments	5,512	1.3	Provision of online payments solutions
Hyder Consulting	5,381	1.2	Provision of engineering design services
Headlam Group	5,339	1.2	Distribution of carpets and other floor coverings
Total of 20 largest investments	135,764	31.6	
Remaining investments	293,577	68.4	
<b>Total</b>	<b>429,341</b>	<b>100.0</b>	

Details of the full portfolio at 31 August 2013 are available at [www.blackrock.co.uk/individual/literature/fund-update/bsrct-portfolio-disclosure-mar-2013.pdf](http://www.blackrock.co.uk/individual/literature/fund-update/bsrct-portfolio-disclosure-mar-2013.pdf).

# Distribution of Investments

as at 31 August 2013

## Analysis of portfolio by sector



Source: BlackRock.

# Interim Management Report and Responsibility Statement

The Chairman's Statement on pages 3 to 5 and the Investment Manager's Report on pages 6 to 8 give details of the important events which have occurred during the period and their impact on the financial statements.

## Principal risks and uncertainties

The principal risks faced by the Company can be divided into various areas as follows:

- ▶ Performance;
- ▶ Income/dividend;
- ▶ Regulatory;
- ▶ Operational;
- ▶ Market;
- ▶ Financial; and
- ▶ Third party service providers.

The Board reported on the principal risks and uncertainties faced by the Company in the Annual Report and Financial Statements for the year ended 28 February 2013 which is available on the website maintained by the Investment Manager, BlackRock Investment Management (UK) Limited, at [www.blackrock.co.uk/brsc](http://www.blackrock.co.uk/brsc). A detailed explanation can be found in the Directors' Report on pages 18 and 19, and in note 19 to the Financial Statements on pages 51 to 55 of the Annual Report and Accounts.

In the view of the Board, there have not been any changes to the fundamental nature of these risks since the previous report and these principal risks and uncertainties are equally applicable to the remaining six months of the financial year as they were to the six months under review.

## 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 charges (excluding performance fees, finance costs and taxation) are approximately 0.6% of net assets. Ongoing charges with performance fees included were 1.0% of net assets for the year ended 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.

### **Related party disclosure and transactions with the Investment Manager**

The Investment Manager is regarded as a related party under the Listing Rules and details of the management fees payable are set out in note 3 on page 20 and note 10 on page 24. The related party transactions with the Directors are set out in note 10 on page 24.

### **Directors' responsibility statement**

The Disclosure and Transparency Rules ("DTR") of the UK Listing Authority require the Directors to confirm their responsibilities in relation to the preparation and publication of the Interim Management Report and Financial Statements.

The Directors confirm to the best of their knowledge that:

- ▶ the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with applicable UK Accounting Standards and the Accounting Standards Board's Statement 'Half Yearly Financial Reports'; and
- ▶ the interim management report, together with the Chairman's Statement and Investment Manager's Report, include a fair review of the information required by 4.2.7R and 4.2.8R of the FCA's DTR.

This half yearly report has been reviewed by the Company's auditor and their report is set out on pages 26 and 27.

The half yearly financial report was approved by the Board on 24 October 2013 and the above responsibility statement was signed on its behalf by the Chairman.

Nicholas Fry  
For and on behalf of the Board  
24 October 2013

# Income Statement

for the six months ended 31 August 2013

	Notes	Revenue £'000			Capital £'000			Total £'000		
		Six months ended		Year ended 28.02.13 (audited)	Six months ended		Year ended 28.02.13 (audited)	Six months ended		Year ended 28.02.13 (audited)
		31.08.13 (unaudited)	31.08.12 (unaudited)		31.08.13 (unaudited)	31.08.12 (unaudited)		31.08.13 (unaudited)	31.08.12 (unaudited)	
Gains/(losses) on investments held at fair value through profit or loss	2	-	-	-	<b>41,801</b>	(11,608)	50,439	<b>41,801</b>	(11,608)	50,439
Exchange gains/(losses)		-	-	-	<b>1</b>	-	(1)	<b>1</b>	-	(1)
Income from investments held at fair value through profit or loss	2	<b>5,012</b>	3,587	6,697	-	-	-	<b>5,012</b>	3,587	6,697
Other income	2	-	8	8	-	-	-	-	8	8
Investment management and performance fees		(264)	(191)	(418)	(1,792)	(1,103)	(2,114)	(2,056)	(1,294)	(2,532)
Other operating expenses	3	(193)	(204)	(397)	-	-	-	(193)	(204)	(397)
<b>Net return/(loss) before finance costs and taxation</b>		<b>4,555</b>	3,200	5,890	<b>40,010</b>	(12,711)	48,324	<b>44,565</b>	(9,511)	54,214
Finance costs		(201)	(185)	(368)	(601)	(558)	(1,104)	(802)	(743)	(1,472)
<b>Return/(loss) on ordinary activities before taxation</b>		<b>4,354</b>	3,015	5,522	<b>39,409</b>	(13,269)	47,220	<b>43,763</b>	(10,254)	52,742
Taxation on ordinary activities		(9)	-	(2)	-	-	-	(9)	-	(2)
<b>Return/(loss) on ordinary activities after taxation</b>		<b>4,345</b>	3,015	5,520	<b>39,409</b>	(13,269)	47,220	<b>43,754</b>	(10,254)	52,740
<b>Return/(loss) per ordinary share</b>	4	<b>9.07p</b>	6.30p	11.53p	<b>82.31p</b>	(27.72p)	98.62p	<b>91.38p</b>	(21.42p)	110.15p

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 has 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.



# Reconciliation of Movements in Shareholders' Funds

for the six months ended 31 August 2013

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>For the six months ended 31 August 2013 (unaudited)</b>						
At 28 February 2013	12,498	38,952	1,982	280,990	10,512	344,934
Net return for the period	-	-	-	39,409	4,345	43,754
Dividends paid (a)	-	-	-	-	(3,112)	(3,112)
<b>At 31 August 2013</b>	<b>12,498</b>	<b>38,952</b>	<b>1,982</b>	<b>320,399</b>	<b>11,745</b>	<b>385,576</b>
<b>For the six months ended 31 August 2012 (unaudited)</b>						
At 29 February 2012	12,498	38,952	1,982	233,770	9,531	296,733
Net (loss)/return for the period	-	-	-	(13,269)	3,015	(10,254)
Dividends paid (b)	-	-	-	-	(2,863)	(2,863)
<b>At 31 August 2012</b>	<b>12,498</b>	<b>38,952</b>	<b>1,982</b>	<b>220,501</b>	<b>9,683</b>	<b>283,616</b>
<b>For the year ended 28 February 2013 (audited)</b>						
At 29 February 2012	12,498	38,952	1,982	233,770	9,531	296,733
Net return for the year	-	-	-	47,220	5,520	52,740
Dividends paid (c)	-	-	-	-	(4,539)	(4,539)
<b>At 28 February 2013</b>	<b>12,498</b>	<b>38,952</b>	<b>1,982</b>	<b>280,990</b>	<b>10,512</b>	<b>344,934</b>

(a) Final dividend of 6.50p per share for the year ended 28 February 2013, declared on 26 April 2013 and paid on 3 July 2013.

(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.

(c) 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.

# Balance Sheet

as at 31 August 2013

	Notes	31 August 2013 £'000 (unaudited)	31 August 2012 £'000 (unaudited)	28 February 2013 £'000 (audited)
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		429,341	312,499	379,655
<b>Current assets</b>				
Debtors		559	525	184
<b>Creditors – amounts falling due within one year</b>				
Bank overdraft		(2,396)	(1,043)	(1,736)
Other creditors		(4,058)	(3,009)	(3,306)
		(6,454)	(4,052)	(5,042)
<b>Net current liabilities</b>		(5,895)	(3,527)	(4,858)
<b>Total assets less current liabilities</b>		423,446	308,972	374,797
<b>Creditors – amounts falling due after more than one year</b>	6	(37,870)	(25,356)	(29,863)
<b>Net assets</b>		385,576	283,616	344,934
<b>Capital and reserves</b>				
Called up share capital	7	12,498	12,498	12,498
Share premium account		38,952	38,952	38,952
Capital redemption reserve		1,982	1,982	1,982
Capital reserves		320,399	220,501	280,990
Revenue reserve		11,745	9,683	10,512
<b>Total equity shareholders' funds</b>	4	385,576	283,616	344,934
<b>Net asset value per ordinary share (debenture at par value)</b>	4	805.30p	592.35p	720.42p
<b>Net asset value per ordinary share (debenture at fair value)</b>	4	799.39p	588.16p	715.37p

# Cash Flow Statement

for the six months ended 31 August 2013

		Six months ended 31 August 2013 £'000 (unaudited)	Six months ended 31 August 2012 £'000 (unaudited)	Year ended 28 February 2013 £'000 (audited)
	Notes			
<b>Net cash inflow from operating activities</b>	9	<b>3,482</b>	2,095	4,097
<b>Servicing of finance</b>		<b>(776)</b>	(722)	(1,431)
<b>Taxation</b>				
Tax received		-	20	20
Overseas withholding tax (paid)/refunded		(5)	-	5
		(5)	20	25
<b>Capital expenditure and financial investment</b>				
Purchases of investments		(68,989)	(59,291)	(137,299)
Proceeds from sales of investments		60,740	57,152	130,345
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(8,249)</b>	(2,139)	(6,954)
<b>Financing activities</b>				
Equity dividends paid		(3,112)	(2,863)	(4,539)
Inflow from drawdown of revolving loan facility		8,000	10,500	15,000
<b>Net cash inflow from financing</b>		<b>4,888</b>	7,637	10,461
<b>(Decrease)/increase in cash in the period</b>	8	<b>(660)</b>	6,891	6,198

# Notes to the Financial Statements

## 1. Principal activity and basis of preparation

The Company conducts its business so as to qualify as an investment trust company within the meaning of section 1158 of the Corporation Tax Act 2010.

The half yearly financial statements have been prepared using the same accounting policies set out in the Company's financial statements for the year ended 28 February 2013.

The taxation charge has been calculated by applying an estimate of the annual effective tax rate to any profit for the period.

The Company's financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) revised in January 2009.

## 2. Income

	Six months ended 31 August 2013 £'000 (unaudited)	Six months ended 31 August 2012 £'000 (unaudited)	Year ended 28 February 2013 £'000 (audited)
<b>Investment income:</b>			
UK listed dividends	4,772	3,406	6,355
Property income dividends	18	54	133
Overseas listed dividends	222	127	209
	<b>5,012</b>	<b>3,587</b>	<b>6,697</b>
<b>Other income:</b>			
Underwriting commission	-	8	8
	-	8	8
<b>Total</b>	<b>5,012</b>	<b>3,595</b>	<b>6,705</b>

# Gains/(losses) on investments held at fair value through profit or loss

	Six months ended 31 August 2013 £'000 (unaudited)	Six months ended 31 August 2012 £'000 (unaudited)	Year ended 28 February 2013 £'000 (audited)
Realised gains on sales	1,700	14,127	22,844
Movement in investment holding gains	40,101	(25,735)	27,595
	41,801	(11,608)	50,439

# Notes to the Financial Statements continued

## 3. Investment management and performance fees

	Six months ended 31 August 2013 (unaudited)			Six months ended 31 August 2012 (unaudited)			Year ended 28 February 2013 (audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	264	792	1,056	191	575	766	418	1,254	1,672
Performance fee	-	1,000	1,000	-	528	528	-	860	860
	264	1,792	2,056	191	1,103	1,294	418	2,114	2,532

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 0.5% thereafter. A performance fee is payable at the rate of 10% of the annualised outperformance over the benchmark, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index, 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.

Performance fees have been wholly allocated to capital reserves as the performance has been predominantly generated through capital returns of the investment portfolio. A performance fee of £1,000,000 has been accrued for the six month period ended 31 August 2013 (six months ended 31 August 2012: £528,000 and year ended 28 February 2013: £860,000). This is based on outperformance of 3.9% against the benchmark resulting from an NAV return of 13.4% against the benchmark return of 9.5%. These percentage returns are the annualised performance from 29 February 2012 to 28 February 2014 using actual performance for the period 29 February 2012 to 31 August 2013 and assuming the performance is in line with the benchmark for the six months ended 28 February 2014.

#### 4. Returns and net asset value per ordinary share

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

	Six months ended 31 August 2013 (unaudited)	Six months ended 31 August 2012 (unaudited)	Year ended 28 February 2013 (audited)
Net revenue return attributable to ordinary shareholders (£'000)	4,345	3,015	5,520
Net capital return/(loss) attributable to ordinary shareholders (£'000)	39,409	(13,269)	47,220
Total return/(loss) (£'000)	43,754	(10,254)	52,740
Equity shareholders' funds (£'000)	385,576	283,616	344,934
The actual and weighted number of ordinary shares in issue at the end of each period, on which the return and net asset value per ordinary share was calculated was:	47,879,792	47,879,792	47,879,792
Revenue return per ordinary share	9.07p	6.30p	11.53p
Capital return/(loss) per ordinary share	82.31p	(27.72p)	98.62p
Total return/(loss) per ordinary share	91.38p	(21.42p)	110.15p
Net asset value per ordinary share (debt at par value)	805.30p	592.35p	720.42p
Net asset value per ordinary share (debt at fair value)	799.39p	588.16p	715.37p

#### 5. Dividend

The Board has declared an interim dividend of 4.60p per share (2012: 3.50p per share), payable on 29 November 2013 to shareholders on the register as at 1 November 2013; the ex dividend date is 30 October 2013. The total cost of this dividend, based on 47,879,792 shares in issue at 24 October 2013, is £2,202,470 (2012: £1,675,792).

# Notes to the Financial Statements continued

## 6. Creditors – amounts falling due after more than one year

	Six months ended 31 August 2013 £'000 (unaudited)	Six months ended 31 August 2012 £'000 (unaudited)	Year ended 28 February 2013 £'000 (audited)
Revolving loan facility	23,000	10,500	15,000
7.75% debenture stock 2022	14,870	14,856	14,863
	<b>37,870</b>	25,356	29,863

The fair value of the 7.75% debenture stock using the quoted market price at 31 August 2013 was 118.00p per debenture, a total of £17,700,000.

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 £25 million multi-currency revolving loan facility with Scotia Bank (Ireland) Limited was issued on 29 May 2013 at the period end, £23 million of the facility had been utilised. Interest on this loan is payable at the rate of 1.88038%.

## 7. Called up share capital

	Ordinary shares (number)	Treasury shares (number)	Total shares	Nominal value £'000
Allotted, issued and fully paid share capital comprised:				
Ordinary shares of 25p each				
At 28 February 2013 and 31 August 2013	47,879,792	2,113,731	49,993,523	12,498



## 8. Movement in net debt

	Six months ended 31 August 2013 £'000 (unaudited)	Six months ended 31 August 2012 £'000 (unaudited)	Year ended 28 February 2013 £'000 (audited)
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/increase in cash in the period	(660)	6,891	6,198
Drawdown of revolving loan facility	(8,000)	(10,500)	(15,000)
Exchange movement	1	-	(1)
Amortised debenture stock issue expenses	(7)	(7)	(14)
Movement in net debt in the period	(8,666)	(3,616)	(8,817)
Opening net debt	(31,600)	(22,783)	(22,783)
Closing net debt	(40,266)	(26,399)	(31,600)

## 9. Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Flow from Operating Activities

	Six months ended 31 August 2013 £'000 (unaudited)	Six months ended 31 August 2012 £'000 (unaudited)	Year ended 28 February 2013 £'000 (audited)
Net return/(loss) before finance costs and taxation	44,565	(9,511)	54,214
(Less)/add: capital (gains)/losses before finance costs and taxation	(40,010)	12,711	(48,324)
Net revenue return before finance costs and taxation	4,555	3,200	5,890
Investment management and performance fees charged to capital	(1,792)	(1,103)	(2,114)
Increase in accrued income	(240)	(196)	(12)
Increase in creditors	959	194	333
<b>Net cash inflow from operating activities</b>	<b>3,482</b>	<b>2,095</b>	<b>4,097</b>

# Notes to the Financial Statements continued

## 10. Related party disclosure

BlackRock Investment Management (UK) Limited (“BlackRock”) provides management and administration services to the Company under a contract which is terminable on six months’ notice. Details of the fees receivable by BlackRock in relation to these services are set out in note 3 on page 20.

The fee due to the Investment Manager for the six months ended 31 August 2013 amounted to £2,056,000 (six months ended 31 August 2012: £1,294,000 and year ended 28 February 2013: £2,532,000). At the period end, £2,533,000 was outstanding in respect of investment management and performance fees (six months ended 31 August 2012: £1,702,000 and year ended 28 February 2013: £1,762,000).

The Board consists of five non-executive Directors, all of whom are considered to be independent by the Board. None of the Directors has a service contract with the Company.

With effect from 1 March 2013, the Chairman receives an annual fee of £32,250, the Chairman of the Audit Committee receives an annual fee of £24,750 and each of the other Directors receives an annual fee of £21,500.

At the period end members of the Board held ordinary shares in the Company as set out below:

	Ordinary shares
Nicholas Fry (Chairman)	40,000
Caroline Burton	3,000
Gillian Nott	11,500
Michael Peacock	1,000
Robert Robertson	80,062

### **11. Publication of non statutory accounts**

The financial information contained in this half yearly financial report does not constitute statutory accounts as defined in the Companies Act 2006. The financial information for the six months ended 31 August 2013 and 31 August 2012 has not been audited.

The information for the year ended 28 February 2013 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditor on those accounts contained no qualification or statement under sections 498(2) or 498(3) of the Companies Act 2006.

### **12. Contingent liabilities**

There were no contingent liabilities at 31 August 2013 (31 August 2012 and 28 February 2013: nil).

### **13. Annual results**

The Board expects to announce the annual results for the year ended 28 February 2014 in late April 2014. Copies of the annual results announcement can be obtained from the Secretary on 020 7743 3000. The annual report should be available by the beginning of May 2014 with the Annual General Meeting being held in June 2014.

# Independent Review Report

to BlackRock Smaller Companies Trust plc

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six month period ended 31 August 2013 which comprises the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement, and the related notes 1 to 13. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly financial report in accordance with the Listing Rules of the Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with the Accounting Standards Board Statement "Half Yearly Financial Reports".

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report does not give a true and fair view of the financial position of the Company as at 31 August 2013, and of its financial performance and its cash flows for the six month period then ended, in accordance with the Accounting Standards Board Statement “Half Yearly Financial Reports” and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Scott-Moncrieff  
Chartered Accountants  
Edinburgh  
24 October 2013

# Directors, Management & Administration

## Directors

Nicholas Fry (Chairman)  
Caroline Burton  
Gillian Nott (Senior Independent Director)  
Michael Peacock (Chairman of the Audit Committee)  
Robert Robertson

## Registered Office

(Registered in Scotland, No. 6176)  
Exchange Place One  
1 Semple Street  
Edinburgh EH3 8BL\*\*

## 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.

\*\* The Company's registered office relocated from 40 Torpichen Street, Edinburgh EH3 8JB with effect from 17 October 2013.

# Shareholder Information

## Contact information

General enquiries about the Company should be directed to the Secretary, BlackRock Investment Management (UK) Limited ("BlackRock"), on 020 7743 3000.

Enquiries about the Savings Plan and ISA should be directed to BlackRock on 0800 44 55 22.

## Website

[www.blackrock.co.uk/brsc](http://www.blackrock.co.uk/brsc)

## Main register holders of ordinary shares

Shareholders who wish to manage their shareholding online can do so using Investor Centre, Computershare's secure website [www.investorcentre.co.uk](http://www.investorcentre.co.uk). All you need is your Shareholder Reference Number (SRN) to access any of these features. Your SRN can be found on paper or electronic communications you have previously received from Computershare. Details of individual shareholdings and other information can be obtained from the website. Shareholders can also update bank details and download forms, including dividend mandates, stock transfer, dividend reinvestment and change of address forms. Alternatively, please contact the Registrar on 0870 707 1649.

Internet dealing is available via Investor Centre.

**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. To use this service please call 0870 703 0084 with your SRN to hand.

## Savings Plan

The Company participates in the BlackRock Investment Trust Savings Plan, which facilitates both regular and monthly investments and occasional lump sum investments in the Company's ordinary shares. If you would like information on the Savings Plan you 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 Trust stocks and shares ISA. Details are available from BlackRock free on 0800 44 55 22.

## Financial calendar

End April 2014 – Announcement of results for year ended 28 February 2014

June 2014 – Annual General Meeting

End October 2014 – Announcement of results for six months ended 31 August 2014









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[blackrock.co.uk/brsc](http://blackrock.co.uk/brsc)

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