BLACKROCK SMALLER COMPANIES TRUST PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS 28 FEBRUARY 2017

Registered in Scotland, No. 6176

BlackRock Smaller Companies Trust plc

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 13.	
Benchmark index	Numis Smaller Companies plus AIM (excluding Investment Companies) Index.	
Alternative Investment Fund Manager	BlackRock Fund Managers Limited ("The Manager" or "AIFM").	
Investment Manager	BlackRock Investment Management (UK) Limited – Portfolio Manager, Mike Prentis.	
Board	The Company has an independent Board of Directors which is responsible for the governance of the Company, monitors its performance and keeps the investment strategy under review.	
Website	Information about the Company can be found on the website blackrock.co.uk/brsc	
AIC	The Company is a member of the Association of Investment Companies.	
Financial calendar	May 2017	Announcement of results for year ending 28 February 2017
	June 2017	Annual General Meeting
	June 2017	Payment of final dividend on ordinary shares
	October 2017	Announcement of results for six months ending 31 August 2017
	November 2017	Payment of interim dividend on ordinary shares
Depositary	BNY Mellon Trust & Depositary (UK) Limited ("BNYMTD")	
Custodian and Fund Accountant	Bank of New York Mellon (International) Limited ("BNYM")	

A MEMBER OF THE ASSOCIATION OF INVESTMENT COMPANIES

Contents

Overview

Performance record

FINANCIAL HIGHLIGHTS

	Year ended 28 February 2017	Year ended 29 February 2016	Change %
Performance			
Net asset value per share (debenture at par value)	1,247.03p	992.18p	+25.7
Net asset value per share (debenture at par value, capital only)[1]	1,232.56p	978.61p	+25.9
Net asset value per share (debenture at fair value)[2]	1,237.77p	982.59p	+26.0
Numis Smaller Companies plus AIM (excluding Investment Companies) Index[3]	5,265.38	4,372.19	+20.4
Share price	1,060.00p	863.00p	+22.8
Revenue return per share	22.47p	20.57p	+9.2
Interim dividend per share	8.00p	7.00p	+14.3
Proposed final dividend per share	13.00p	10.50p	+23.8
Total dividends paid and payable	21.00p	17.50p	+20.0
Total assets less current liabilities (£'000)	646,994	514,962	+25.6
Equity shareholders' funds (£'000)	597,073	475,055	+25.7
Ongoing charges ratio[4]	0.7%	0.7%	
Ongoing charges ratio (including performance fees)	1.0%	0.9%	
Dividend yield	2.0%	2.0%	
Gearing	8.5%	6.6%	

1. The capital only NAV is calculated without income for the year to 28 February 2017 and 29 February 2016 respectively, net of dividends paid in respect of the relevant financial years. More detail is given in the glossary on page 76.
2. The basis of calculation for the fair value of the debenture is disclosed in note 13 on page 55.
3. Excludes income reinvested.
4. Ongoing charges ratio caclulated 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 1 MARCH 2007 TO 28 FEBRUARY 2017

Overview

Chairman's statement

Your Company has a remarkable record. For fourteen consecutive years it has outperformed its benchmark and increased its dividend. Over that period, the NAV has grown nearly ten-fold whereas the benchmark has almost quadrupled. The compound annual increase in dividends paid over the past five years has been 20% per annum.

Nicholas Fry

PERFORMANCE

During the year to 28 February 2017, the Company's net asset value ("NAV") increased by 25.7% to 1,247.03p per share, compared with its benchmark, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index, which increased by 20.4%[1]. During the financial year, your Company's share price increased by 22.8%[1] to 1,060.00p per share, and subsequently reached an all-time high of 1,151.50 pence per share on 26 April 2017.

The year under review was exceptionally volatile, with the results of the EU referendum and the US General Elections being major factors. In the UK markets initially recovered well following the sharp setback at the time of the EU referendum in June, buoyed by strong UK GDP growth and the effect on export revenues (and balance sheet values) caused by the substantial fall in sterling. In the US, markets reacted positively to President Trump's indicated economic policies which were seen as supportive to US GDP growth. Recent economic data from China and Europe was also better than expected.

Against this improving backdrop, small capitalisation stocks outperformed mid and large capitalisation stocks; the FTSE AIM All Share Index[1] rose by 30.9% compared with the FTSE 250 Index[1,2] which increased by 11.0% and the FTSE 100 Index[1] which rose by 19.1%.

The significant outperformance of the Company's NAV over the year was largely attributable to good stock selection and to the positive impact of gearing. The best individual stock performances came from companies with exposure to leisure and UK consumer discretionary spending and the mining and biotechnology sectors.

Despite the positive contribution from mining companies held within the portfolio, the Company's underweight exposure to this sector detracted from performance in the year. Other detractors from performance included the overweight portfolio exposure to general retailers and an exposure to certain individual companies supplying the housing sector. More details of the various contributors to performance can be found in the Investment Manager's Report on pages 7 and 8.

1. Percentages in sterling terms without income reinvested unless otherwise specified.
2. Excluding investment trusts.

Performance to 28 February 2017	1 Year change %	3 Years change %	5 Years change %	10 Years change %
NAV per share	25.7	26.4	101.4	173.9
Benchmark	20.4	5.2	46.9	28.4
NAV per share (with income reinvested)	27.9	32.5	117.7	218.0
Benchmark (with income reinvested)	23.6	14.1	67.5	65.8
Share price (with income reinvested)	25.4	23.2	130.2	221.8

Since the financial year end, and up to 27 April 2017, the Company's NAV has increased by 9.5%, against an increase in the benchmark of 5.9%, and the share price has risen by 8.1%. Over the longer term the Company's performance has substantially exceeded its benchmark, as shown in the table above.

The progression of the Company's total return performance (with income reinvested) over the last ten years is shown in the chart below.

EARNINGS AND DIVIDENDS

The Company's revenue return per share for the year ended 28 February 2017 increased by 9.2%, to 22.47 pence per share compared with 20.57 pence per share for the previous year.

Regular dividends from portfolio companies also rose by 11%, while special dividends received were 21% lower than in the previous year.

In October 2016 the Board declared an interim dividend of 8.00p per share (2016: 7.00p per share). The Directors are pleased to recommend the payment of a final dividend of 13.00p per share (2016: 10.50p per share), making a total for the year of 21.00p, an increase of 20.0% over the total dividend of 17.50p paid in the previous year. Subject to shareholder approval, the final dividend will be paid on 19 June 2017 to shareholders on the register on 19 May 2017; the ex-dividend date is 18 May 2017.

The compound annual increase in dividends paid over the past five years has been 20.0% per annum.

Your Company has now increased its dividends every year for each of the last fourteen years. The Board is very conscious of the importance of income to many investors, and while the objective of the Company remains long term capital growth, it is clear that investing in smaller companies can also result in substantial income growth over the long term.

The profile of growth in dividends paid by the Company over the last ten years is shown in the graph below.

GEARING AND SOURCES OF FINANCE

The Company has a range of borrowings and facilities in place to provide balance between longer term and short term maturities and between fixed and floating rates of interest.

As well as the Company's existing £15 million debenture, the Company has a £35 million three year revolving loan facility with Scotia Bank (Ireland) Limited and an uncommitted overdraft facility of £10 million.

The Company has recently agreed to issue £25 million senior unsecured fixed rate private placement notes (the "Notes") at a coupon of 2.74% with a 20 year bullet maturity. This transaction will provide fixed rate, long dated, Sterling financing on terms that the Company considers highly attractive.

It is the Board's intention that gearing will not exceed 15% of the net assets of the Company at the time of the drawdown of the relevant borrowings. Under normal operating conditions it is envisaged that gearing will be within a range of 0%-15% 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 year end, the Company's gearing was 8.5% of net assets.

DISCOUNT

During the year the share price traded at an average discount of 15.4% to NAV. The discount ranged between 9.5% and 20.0% and ended the year at 14.4% (all measured against NAV with debt at fair value). The discount has since widened slightly to 15.5% as at 27 April 2017.

CHANGE IN INVESTMENT POLICY

The Board, in conjunction with the Manager and the Company's stockbroker, has conducted a review of the validity of the AIM limit of 40%.

In recent years, some of the Company's AIM holdings have performed very well and this has resulted in an increase in the portfolio's aggregate exposure to AIM to about 39% of the total portfolio. The Investment Manager is reluctant to sell some of these AIM stocks just because the exceptional performance has brought total AIM holdings close to the current 40% AIM limit. This limit could also preclude the Investment Manager from taking part in IPOs or placings of companies that are regarded as attractive investment propositions.

Apart from the IPOs offered on AIM, the Investment Manager believes that in general the quality of AIM constituents has improved compared with several years ago. The Investment Manager's investment process involves looking for companies entirely on their own merits. Whether such a company is AIM listed or fully listed should, we believe, be a secondary consideration; it is important that the Investment Manager should have access to a full range of investment opportunities.

Consequently the Board announced on 4 April 2017 that the limit on the percentage of the portfolio in AIM-listed investments would be raised from 40% to 50% with immediate effect.

Chairman's statement continued

ANNUAL GENERAL MEETING

The AGM of the Company will be held at the offices of BlackRock at 12 Throgmorton Avenue, London EC2N 2DL on 8 June 2017 at 11.30 a.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 Manager look forward to meeting shareholders informally after the meeting and I hope that as many shareholders as possible will choose to attend.

OUTLOOK

The anticipated changes to economic policies following the US electiona re expected,o ver time, to support an acceleration of US spending and an increase in US GDP growth. In the UK consumer and business confidence is holding up well despite BREXIT concerns; European and Chinese economic data is also encouraging.

The Company's portfolio continues to be well diversified by stock, sector and geographic exposure. The focus remains on high quality, well run UK companies which have strong balance sheets and are cash generative. Your Board is confident that the portfolio is constructed to continue to produce rewarding results for shareholders.

NICHOLAS FRY
Chairman
2 May 2017

Performance

Investment manager's report

Your Company continues to outperform its benchmark and to deliver its objective of achieving long term capital growth for shareholders, as well as increasing its dividend for fourteen consecutive years.

Mike Prentis

MARKET REVIEW AND OVERALL INVESTMENT PERFORMANCE

UK stock markets have recovered well following the sharp setback at the time of the EU referendum last June, helped in part by stronger than expected UK GDP growth. In the US, the Trump victory has been taken well by stock markets as he seems determined to take measures to accelerate US GDP growth. In China, data has tended to suggest growth is holding up well, again probably better than expected. The political uncertainties in Europe have so far taken second place to generally improving economic data. The direction of interest rates has started to point upwards, most obviously in the US.

PERFORMANCE REVIEW

The Company's NAV per share increased by 25.7% to 1,247.03p. This compares to an increase in the benchmark index of 20.4% and the FTSE100 of 19.1% (all calculations without income reinvested).

Outperformance was largely driven by stock selection and gearing. The stocks contributing most positively to outperformance were Fevertree Drinks, 4imprint Group, MaxCyte, Keywords Studios, KAZ Minerals and Tharisa, each of which contributed at least 0.5% to relative performance. With the exception of 4imprint Group, one of our largest holdings, share prices in each of the others comfortably doubled.

Fevertree Drinks continues to grow strongly, with 73% organic sales growth in 2016, helped by a focus on new product development and good international distribution. The company is competing effectively in a large global market in which it still has a small share for its superior premium mixers. 4imprint Group generates virtually all of its profits in the US and should be helped by a stronger US economy. Revenues increased by 14% in 2016 on a like for like basis. MaxCyte is a developer and supplier of cell engineering products and technologies to biopharmaceuticals firms. Revenues, although still quite modest, grew by more than 30% in 2016 and look set to continue growing strongly. Keywords Studios is a leading international technical services provider to the global video games industry. It is seeing further strong organic growth and geographic expansion complemented by suitable acquisitions. The growth of virtual and augmented reality platforms is increasing the complexity of video games and providing more opportunities, enabling them to deliver better than expected profit growth. KAZ Minerals is executing well as it ramps up production at its two large mines in Eastern Kazakhstan. The increase in the copper price is timely and should help it achieve significant improvement in cash flow in 2017. Tharisa is a producer of platinum group metals and chrome from a shallow and large scale, long life open pit. Chrome prices rose sharply in late 2016 adding significantly to Tharisa's margins and cash flows. Management are very positive about the prospects for 2017.

The only holding which detracted more than 0.5% from relative performance was Topps Tiles, the UK's leading retailer of ceramic tiles, which saw weakening like for like sales post the EU referendum; we reduced the Company's position. However, not holding a number of strongly performing stocks in the benchmark also detracted from relative performance, notably mining stocks such as Evraz and Vedanta. The portfolio was underweight the mining sector for most of the year and this detracted 1.0% from relative performance. The overweight sector position in general retailers also materially detracted from relative performance.

Gearing was on average 7.8% during the year, and this contributed 2.0% to relative performance.

ACTIVITY

We reduced exposure to the UK economy during the second half of 2016 cutting holdings in a number of retailers, challenger banks, wealth managers and software companies. We continued to sell positions in other holdings where we were less confident about growth prospects. A few holdings were bid for, notably Lavendon and e2v Technologies. These were examples of overseas buyers seeing good value in UK listed stocks.

We have continued to invest selectively in IPOs. In the first half we invested in Joules, the retailer of good value, colourful country wear. In the second half the IPOs we invested in included Premier Asset Management, Warpaint and Xafinity. Premier Asset Management is a fast-growing and profitable UK retail asset management group with a particular focus on

Performance

Investment manager's report continued

multi-asset and income investment management. Warpaint is a colour cosmetics business. Their own-brand division consists primarily of the Group's flagship brand, W7 – a creative, design-focused cosmetic brand proposition with a focus on the 16-30 age range, delivering high-quality cosmetics at affordable prices. W7 is sold in more than 40 countries. Xafinity is a UK specialist in pensions actuarial, consulting and administration, providing advisory and compliance services to more than 550 pension scheme clients. Xafinity's revenues are very dependable because it typically works closely with trustees on pension schemes over the long term.

We added a number of other holdings to the portfolio, some acquired in placings, including Countryside Properties, Ferrexpo and Hurricane Energy. Countryside Properties builds houses both on land owned or controlled by itself, and also on land owned by public bodies including local authorities. The latter approach avoids the need to buy land in these situations and helps the company generate good returns on investment on such long term developments, and also provides visibility of revenues. We believe the company looks set for good earnings growth. Ferrexpo mines, processes and sells high quality iron ore pellets to the global steel industry, and has been doing so for 35 years. It owns the largest iron ore deposit in Europe with 20 billion tonnes of resources located in the Poltava region of Ukraine. Hurricane Energy is an oil and gas exploration company which owns 100% of one the largest undeveloped fields offshore UK which it is in the process of proving up.

PORTFOLIO POSITIONING

The Company's benchmark is rebalanced annually at the start of each calendar year. Relative to the benchmark index the portfolio is currently most overweight in media, industrial engineering, household goods and retailers. Our media stocks include 4imprint Group and Next Fifteen which are both heavily US and business to business focussed. Our engineering holdings include Hill & Smith, Avon Rubber, Bodycote, Gooch & Housego and Trifast. All these companies are very internationally focussed and generally supplying attractive vertical markets. The portfolio's mining holdings include Centamin, a gold producer, and KAZ Minerals; both are low cost, well run operations. About half of the revenues of the portfolio originate in the UK and these include defensive consumer companies such as CVS Group, a large supplier of veterinary services, and Cineworld. More cyclical consumer companies include JD Sports and Headlam Group, but both of these continue to trade well. The portfolio is also overweight in the construction sector with holdings having a more infrastructure and public housing focus, including Morgan Sindall, Marshalls and Costain.

The portfolio is underweight in food producers, technology hardware and challenger banks.

OUTLOOK

Markets have taken the outcome of the US election well so far with hopes that this will see an acceleration of US spending and an increase in US GDP growth. The UK now faces a General Election which takes place against a backdrop of stronger than expected GDP growth. A greater Conservative majority and a new five year mandate will give the Government a stronger negotiating hand in BREXIT discussions and will probably be taken well by markets. Within Europe there are some signs of improving growth trends, and investors appear more focused on these rather than possible electoral upsets. Chinese GDP growth also looks to be better than feared.

Our portfolio continues to be well diversified by stock, end markets and geography. Many of our holdings are long term winners and others are relatively defensive. Most importantly we have considerable confidence in the management teams running our holdings and their ability to adjust and cope in the face of uncertainty.

MIKE PRENTIS
BlackRock Investment Management (UK) Limited
2 May 2017

Performance

Summary of the ten largest investments as at 28 February 2017

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

CVS GROUP: 2.4% (2016: 2.3%) is one of the leading veterinary services providers in the UK and owns more than 380 veterinary surgeries throughout the UK and in the Netherlands. The services provided by the group include preventative health care through the Healthy Pet Club, their own night services and their own pet crematoria and cemeteries. CVS Group has grown organically and by way of a number of bolt on acquisitions to accelerate national coverage. Earnings growth has been strong for several years and we expect this to continue.

4IMPRINT GROUP: 2.2% (2016: 2.0%) is a leading supplier of promotional products operating almost wholly in the US market. It sells an extensive range of products to businesses and organisations of all sizes, typically customised with the customers' brand or logo. Its growth is underpinned by a range of data-driven traditional and online marketing. In 2016, the company grew revenues organically by 13% and earnings per share by 12%. It continues to have excellent growth prospects not least because of the strength of the US economy but also its market share of about 5% in a highly fragmented market.

DECHRA PHARMACEUTICALS: 2.0% (2016: 1.8%) is an international specialist veterinary pharmaceutical products business. Their expertise is in the development, manufacture, marketing and sales of a range of predominantly pharmaceutical products. Sales of its main products are long life and growing well and the company has a good pipeline of prospective products in development.

AVON RUBBER: 1.7% (2016: 1.4%) is an engineering company which is focused on two core markets, protection & defence and dairy. The protection & defence business is the global leader in advanced chemical, biological, radiological and nuclear respiratory protection solutions for use by the military, national security and emergency services. The company's principal products are a range of respiratory masks and replacement filters. There is scope to grow considerably in its core US market as well as overseas. The dairy business manufactures and supplies dairy liners and tubing both to OEM manufacturers of milking parlour systems and directly to farms under its market leading Milkrite brand. Growth has been strong in both divisions and looks well set.

JD SPORTS FASHION: 1.6% (2016: 1.8%) is a retailer of sports fashion and outdoor brands operating in the UK and Europe. It has excellent relationships with some of the biggest global sports brands with whom it works closely as it expands its footprint.

HEADLAM GROUP: 1.5% (2016: 1.5%) is the UK's leading distributor of a wide range of products sourced from floorcovering suppliers across the world. These are sold to a customer base which mainly comprises independent floorcovering retailers and contractors. The company is well invested and should continue to grow earnings as market conditions improve.

HILL & SMITH: 1.5% (2016: 1.2%) has three main business segments: Infrastructure Products - Roads, supplying products and services such as permanent and temporary road safety barriers, hostile vehicle mitigation products, street lighting columns, bridge parapets, variable road messaging solutions and traffic data collection systems. Infrastructure Products - Utilities, supplying products and services such as pipe supports for the power and liquid natural gas markets, energy grid components, flood prevention barriers and security fencing. Galvanizing Services which provides zinc and other coatings for a wide range of products including fencing, lighting columns, structural steel work and for the infrastructure and construction markets. Hill & Smith operates mainly in the US, UK and France. It is a clear beneficiary of increased spending on infrastructure in the UK and US especially on roads.

WORKSPACE GROUP: 1.4% (2016: 1.6%) is a provider of office premises tailored to the needs of new and growing businesses across London. It owns more than 100 properties in London providing 5.2 million square feet of space which is home to some 4,000 businesses employing more than 30,000 people. The company 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. The company 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.

BODYCOTE: 1.4% (2016: 1.3%) is a leading provider of thermal processing services worldwide. Thermal processing encompasses a variety of techniques and specialist engineering processes which improve the properties of metals and alloys and extend the life of components. These are a vital part of many manufacturing processes. Through its global network of more than 180 facilities, and the experience and knowledge of its people, Bodycote is well placed to offer a high quality, reliable and cost effective specialist service to manufacturers. It supplies most sectors including aerospace and automotive, and is well placed to benefit from increasing global economic growth.

ADVANCED MEDICAL SOLUTIONS: 1.4% (2016: 1.4%) is a leading developer and manufacturer of innovative and technologically advanced products for the global advanced wound care, surgical and wound closure markets. It manufactures a wide range of products including those marketed under the brands ActivHeal®, LiquiBand® and RESORBA®. The LiquiBand wound closure products have been especially successful winning 23% of the US market by combining good adhesive technology with innovatively designed applicators which are easier for surgeons to use and allow rapid wound closure. There is good scope to gain further market share.

All percentages reflect the value of the holding as a percentage of total investments. For this purpose, where more than one class of securities is held, these have been aggregated. Together, the ten largest investments represent 17.1% of total investments (ten largest investments as at 29 February 2016: 17.5%).

Performance

Fifty largest investments

Company	Market value £'000	% of total portfolio	*Business activity*
CVS Group	15,419	2.4	Operation of veterinary surgeries
4imprint Group	14,407	2.2	Supply of promotional merchandise in the US
Dechra Pharmaceuticals	13,173	2.0	Development and supply of pharmaceutical and other products focused on the veterinary market
Avon Rubber	10,900	1.7	Production of safety masks and dairy related products
JD Sports Fashion	10,642	1.6	Retail of sports and leisure footwear and clothing
Headlam Group	9,671	1.5	Distribution of carpets and other floor coverings
Hill & Smith	9,557	1.5	Production of infrastructure products and supply of galvanizing services
Workspace Group	9,379	1.4	Supply of flexible workspace to businesses in London
Bodycote	9,368	1.4	Provision of thermal processing services
Advanced Medical Solutions	8,771	1.4	Development and provision of products for global wound care and wound closure markets
Savills	8,493	1.3	Provision of property services
Accesso Technology	8,446	1.3	Development and supply of ticketing and virtual queuing solutions for leisure attractions
Cineworld Group	8,205	1.3	Operation of cinemas
Next Fifteen Communications	8,125	1.3	Provision of digital communications services
Big Yellow	7,890	1.2	Provision of self storage facilities
Centamin	7,719	1.2	Mineral exploration, development and mining
Fevertree Drinks	7,560	1.2	Development and sale of soft drinks and mixers
Scapa	7,424	1.2	Manufacture of bonding solutions and adhesive components for applications in the health care and industrial markets
Gooch & Housego	7,403	1.1	Design and manufacture of precision optical components, subsystems and instruments used to transmit and measure light
Polar Capital Holdings	7,339	1.1	Provision of investment management services
Restore	7,311	1.1	Management of business information in both paper and digital form
Young & Co's Brewery – Non-Voting Young & Co's Brewery – A Shares	4,083 2,916	1.1	Ownership of pubs in the London area
KAZ Minerals	6,967	1.1	Copper mining
Marshalls	6,943	1.1	Manufacture and sale of concrete and stone paving and related products
Sanne	6,886	1.1	Provision of fund and corporate administration services
St. Modwen Properties	6,883	1.1	Investment in, and development of, property
Trifast	6,354	1.0	Manufacturing and distribution of industrial fastenings
Cairn Energy	6,352	1.0	Exploration for oil
Robert Walters	6,334	1.0	Provision of specialist professional recruitment services
Ocean Wilsons	6,168	1.0	Port servicing and related manufacturing
Faroe Petroleum	6,148	0.9	Oil and gas exploration and production
Morgan Sindall	6,135	0.9	Supply of office fit out, construction and urban regeneration services
Hansteen Holdings	5,987	0.9	Ownership of industrial property
Johnson Service Group	5,936	0.9	Provision of textile related services
Keywords Studios	5,906	0.9	Provision of services to the global video games industry
Coats Group	5,863	0.9	Manufacture of industrial thread
Fuller Smith & Turner - A Shares	5,599	0.9	Ownership of pubs in the London area
Walker Greenbank	5,590	0.9	Design, manufacture and distribution of wallcoverings and furnishing fabrics
Diploma	5,499	0.8	Supply of specialised technical products and services
GB Group	5,312	0.8	Development and supply of identity verification solutions
Quartix	5,101	0.8	Design and supply of vehicle tracking systems
MaxCyte	5,036	0.8	Development and supply of biopharmaceutical products

Company	Market value £'000	% of total portfolio	Business activity
Xafinity	4,996	0.8	Provision of pensions advisory and compliance services
Cohort	4,950	0.8	Development of technology in defence and security markets
Warpaint London	4,820	0.7	Design and supply of fashion cosmetics
Joules	4,734	0.7	Design and retail of colourful clothing and footwear
Ferrexpo	4,725	0.7	Mining, processing and supply of quality iron ore pellets
First Derivatives	*4,623*	*0.7*	*Development of software to facilitate the management of data and related services*
Tarsus	4,622	0.7	Organisation of exhibitions, mainly in emerging markets
Safestore Holdings	4,616	0.7	Ownership and operation of self storage facilities
50 largest investments	363,286	56.1	
116 remaining investments	284,695	43.9	
Total	647,981	100.0	

A complete listing of all of the Company's portfolio holdings as at 28 February 2017 is given on the Company's website at the following link: blackrock.com/uk/individual/literature/fund-update/brsct-portfolio-disclosure.pdf. At 28 February 2017, the Company did not hold any equity interests comprising more than 3% of any company's share capital other than as disclosed in the table below:

Company	% owned
MaxCyte Inc.	4.92
Brighton Pier Group Plc	4.59
WLL London Plc	4.43
Richland Resources Ltd	4.42
Capital Drilling Ltd	4.32
BrainJuicer Group Plc	4.32
Air Partner Plc	4.14
Walker Greenbank Plc	4.01
City of London Investment Group Plc	3.94
Kromek Group Plc	3.86
Avon Rubber Plc	3.62
Northbridge Industrial Services Plc	3.17
Kalibrate Technologies Plc	3.17
Filta Group Plc	3.15
4imprint Group Plc	3.13
Zotefoams Plc	3.01

COMPARATIVES FOR TEN LARGEST INVESTMENTS

Company	2017 Market value £'000	2017 % of total portfolio	2016 Market value £'000	2016 % of total portfolio
CVS Group	15,419	2.4	11,583	2.3
4imprint Group	14,407	2.2	10,322	2.0
Dechra Pharmaceuticals	13,173	2.0	9,070	1.8
Avon Rubber	10,900	1.7	7,290	1.4
JD Sports Fashion	10,642	1.6	9,236	1.8
Headlam Group	9,671	1.5	7,465	1.5
Hill & Smith	9,557	1.5	6,268	1.2
Workspace Group	9,379	1.4	8,327	1.6
Bodycote	9,368	1.4	6,459	1.3
Advanced Medical Solutions	8,771	1.4	6,883	1.4
	111,287	**17.1**	**82,903**	**16.3**

Performance

Distribution of investments

Sector	% of portfolio
Oil & Gas Producers	3.9
Oil & Gas	**3.9**
Chemicals	3.1
Mining	7.0
Industrial Metals & Mining	0.7
Basic Materials	**10.8**
Construction & Materials	6.0
Aerospace & Defence	2.9
Electronic & Electrical Equipment	1.7
General Industrials	1.2
Industrial Engineering	5.5
Industrial Transportation	2.2
Support Services	8.9
Industrials	**28.4**
Beverages	1.2
Household Goods & Home Construction	6.1
Personal Goods	0.7
Leisure Goods	0.6
Consumer Goods	**8.6**
Health Care Equipment & Services	3.0
Pharmaceuticals & Biotechnology	3.7
Health Care	**6.7**

Sector	% of portfolio
General Retailers	6.9
Media	7.6
Travel & Leisure	5.1
Consumer Services	**19.6**
Banks	0.2
Financial Services	7.0
Nonlife Insurance	0.3
Real Estate Investment & Services	2.8
Real Estate Investment Trusts	4.9
Financials	**15.2**
Software & Computer Services	6.4
Technology	**6.4**
Gas, Water & Multiutilities	0.4
Utilities	**0.4**

Performance

Strategic report

The Directors present the Strategic Report of the Company for the year ended 28 February 2017. The aim of the Strategic Report is to provide shareholders with the information to assess how the Directors have performed their duty to promote the success of the Company for the collective benefit of shareholders.

PRINCIPAL ACTIVITY

The Company carries on business as an investment trust and its principal activity is portfolio investment. Investment trusts, like unit trusts and OEICs, are pooled investment vehicles which allow exposure to a diversified range of assets through a single investment, thus spreading, although not eliminating investment risk.

OBJECTIVE

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 the Company's investment objective without shareholder approval.

STRATEGY, BUSINESS MODEL AND INVESTMENT POLICY

To achieve its investment objective the Company invests predominantly in UK Smaller Companies which are listed on the London Stock Exchange or on the Alternative Investment Market (AIM). The Board has previously indicated that its intention was that the value of AIM listed stocks as a percentage of the Company's portfolio should not exceed 40%. However, for the reasons set out in the Chairman's Statement on page 5, the Board announced on 16 March that it was undertaking a review of this threshold. After consultation with the Company's largest shareholders, it was subsequently announced on 4 April 2017 that the Board had decided to increase the AIM limit from 40% to 50% of the portfolio by value. The Investment Manager's approach in determining the optimal exposure to AIM investments, subject to the parameters set by the Board, is to focus on the merits of the underlying company and to seek value rather than to focus on the exchange on which the holding is listed, and consequently the level of exposure to AIM investments will vary from time to time. The Company may also invest in securities which are listed overseas but have a secondary UK quotation. 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. At 28 February 2017 the Company did not hold any unquoted investments in its portfolio.

Business model

The Company's business model follows that of an externally managed investment trust. Therefore the Company does not have any employees and outsources its activities to third party service providers including the Manager, who is the principal service provider. The management of the investment portfolio and the administration of the Company have been contractually delegated to the Manager who in turn (with the permission of the Company) has delegated certain investment management and other ancillary services to the Investment Manager. The Manager, operating under guidelines determined by the Board, has direct responsibility for the 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.

Other service providers include the Depositary, BNYM (who provide both fund accounting and custody services), and the Registrar, Computershare Investor Services PLC (Computershare). Details of the contractual terms with third party service providers are set out in the Directors' Report.

Investment policy

The 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.

The Company may 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.

Performance is measured against an appropriate benchmark, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index.

INVESTMENT PROCESS

An overview of the investment process is set out below.

The Investment Manager seeks to identify companies which it believes have superior long term growth prospects and the management in place to take advantage of these prospects. This is done through monitoring market newsflow carefully, looking for signs of outperformance and by working closely with BlackRock's network of brokers. Initially, if the Investment Manager is sufficiently impressed with a company's prospects, it will look to take a small position, usually 0.25% to 0.50% of the Company's net assets, in a new holding. These holdings will be closely monitored, and members of the portfolio management team will meet with management on a regular basis. If these companies continue to prosper and make the most of opportunities, the Investment Manager will gradually add to the portfolio holding. Where initial expectations are disappointed, the holding will be sold. The anticipation is that each holding will develop into a core holding over time; one that meets BlackRock's criteria for high quality growth companies. These criteria are shown in the 'steering wheel' diagram below.

Valuation is a key consideration; it is important not to overpay for new holdings. However, investment fundamentals are also important and the Investment Manager may be prepared to pay what seems like a high price if it believes that long term growth prospects are very strong. Generally a company will be held within the portfolio as long as it meets the criteria for core holdings; in respect of recent investments, the Investment Manager will consider whether they have the potential to meet these criteria. Holdings will be sold if there are concerns that the investment case has changed in a negative way. Holdings will be reduced where the position size becomes too large and raises concerns about risk and diversification. The general aim is for portfolio holdings not to exceed 3% of the Company's net assets (excluding cash fund investments held for cash management purposes).

INVESTMENT PHILOSOPHY

The Investment Manager believes that consistent outperformance can be achieved by employing a combination of bottom-up and top-down analysis, based upon strong fundamental research.

In building a robust portfolio the Investment Manager will also consider the macro-economic background, working with strategists, economists and other teams internally and externally to understand this better. It also works closely with BlackRock's risk team to assess the risks in the structure of the portfolio. Any necessary adjustments will be made to the portfolio to ensure that it is structured in an appropriate way from a macro and risk point of view.

GEARING POLICY

The Board believes that gearing can add value over the long term. The Company currently has £15 million of debenture stock in issue, a £35 million three year revolving loan facility with Scotia Bank (Ireland) Limited and an uncommitted overdraft facility of £10 million with Bank of New York Mellon (International) Limited (BNYM). The benefits of gearing are discussed and the effective level agreed with the Manager regularly. It is intended that gearing will not exceed 15% of the net assets of the Company at the time of the drawdown of the relevant borrowings and at the balance sheet date gearing stood at 8.5% of net assets (with debt at par). Under normal operating circumstances, it is envisaged that gearing will be within a range between 0%-15% of net assets.

Subsequent to 28 February 2017, the Company has agreed to issue £25 million senior unsecured fixed rate private placement notes (the "Notes") at a coupon of 2.74% with a 20 year bullet maturity. The funding date for the Notes will be 24 May 2017 and the Notes will be due for repayment on 24 May 2037. The semi-annual interest payment dates for the Notes will be May 24 and November 24. Additional information is given in the Chairman's Statement on page 5 and in note 20 on page 63.

PORTFOLIO ANALYSIS

A detailed analysis of the portfolio has been provided on pages 10 to 12.

PERFORMANCE

Details of the Company's performance including the dividend are set out in the Chairman's Statement on pages 4 and 5. The Chairman's Statement on pages 4 to 6 and the Investment

Manager's Report on pages 7 and 8 form part of this Strategic Report and include 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 44. The total net profit for the year, after taxation, was £130,875,000 (2016: £25,780,000) of which the revenue return amounted to £10,759,000 (2016: profit of £9,847,000), and the capital return amounted to £120,116,000 (2016: £15,933,000).

The Company's revenue return amounted to 22.47p per share (2016: 20.57p). The Directors recommend the payment of a final dividend of 13.00p per share as set out in the Chairman's Statement on page 5.

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. 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.

Key Performance Indicators	2017	2016
NAV per share (debenture at par)	1,247.03p	992.18p
NAV per share (debenture at fair value)	1,237.77p	982.59p
NAV per share (debenture at par value, capital only)	1,232.56p	978.61p
Share price	1,060.00p	863.00p
NAV total return performance (debenture at fair value)	28.2%	5.4%
Discount to NAV with debenture at fair value	14.4%	12.2%
Revenue return per share	22.47p	20.57p
Ongoing charges[1]	0.7%	0.7%
Ongoing charges ratio (including performance fees)	1.0%	0.9%

1. 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 Board also reviews the performance and ongoing charges of the Company against a peer group of UK smaller companies trusts and open ended funds.

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 between a discount of 9.5% and a discount of 20.0%, ending the year at 14.4% (based on NAV with debt at fair value).

The 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 the Investment Manager is devoting considerable effort to broadening the awareness of the Company's outstanding attractions particularly to wealth managers and to the wider retail shareholder market. Over the last six years, the number of shares held by retail shareholders has increased from 20% to nearly 54%.

PRINCIPAL RISKS

The Company is exposed to a variety of risks and uncertainties. As required by the 2014 UK Corporate Governance Code (the UK Code) the Board has in place a robust ongoing process to assess and monitor the principal risks of the Company including those that would threaten its business model, future performance, solvency or liquidity. A core element of this process is the Company's risk register which identifies the risks facing the Company, the likelihood and potential impact of each risk and the controls established for mitigation. A residual risk rating is calculated for each risk.

The risk register, its method of preparation and the operation of key controls in BlackRock's and third party service providers' systems of internal control are reviewed on a regular basis by the Audit Committee. In order to gain a more comprehensive understanding of BlackRock's and other third party service providers' risk management processes and how these apply to the Company's business, BlackRock's internal audit department provides an annual presentation to the Audit Chairman setting out the results of testing performed in relation to BlackRock's internal control processes. The Audit Committee also periodically receives presentations from BlackRock's Risk & Quantitative Analysis team and reviews Service Organisation Control (SOC 1) reports from the Company's service providers. The current risk register categorises the Company's main areas of risk as follows:

- Investment performance risk;
- Market risk;
- Income/dividend risk;
- Legal & compliance risk;
- Operational risk;
- Financial risk; and
- Marketing risk.

Performance

Strategic report continued

The principal risks and uncertainties faced by the Company during the financial year, together with the potential effects, controls and mitigating factors, are set out in the following table.

Principal Risk	Mitigation/Control
Investment performance risk Returns achieved are reliant primarily upon the performance of the portfolio. The Board is responsible for: ▸ deciding the investment strategy to fulfil the Company's objective; and ▸ monitoring the performance of the Investment Manager and the implementation of the investment strategy. An inappropriate investment strategy may lead to: ▸ poor performance compared to the Benchmark Index and the Company's peer group; ▸ a loss of capital; and ▸ dissatisfied shareholders.	To manage this risk the Board: ▸ regularly reviews the Company's investment mandate and long term strategy; ▸ has set investment restrictions and guidelines which the Investment Manager monitors and regularly reports on; ▸ receives from the Investment Manager a regular explanation of stock selection decisions, portfolio exposure, gearing and any changes in gearing and the rationale for the composition of the investment portfolio; ▸ monitors the maintenance of an adequate spread of investments in order to minimise the risks associated with factors specific to particular sectors, based on the diversification requirements inherent in the investment policy; and ▸ receives reports showing the Company's performance against the benchmark.
Market risk Market risk arises from volatility in the prices of the Company's investments influenced by currency, interest rate or other price movements. It represents the potential loss the Company might suffer through holding market positions in financial instruments in the face of 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.
Income/dividend risk The amount of dividends and future dividend growth will depend on the performance of the Company's underlying portfolio. In addition, 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. The Company has substantial revenue reserves which can be utilised.
Legal & Compliance risk The Company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant eligibility conditions and 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. Any breach of the relevant eligibility conditions could lead to the Company losing investment trust status and being subject to corporation tax on capital gains realised within the Company's portfolio. In such event the investment returns of the Company may be adversely affected. Any serious breach could result in the Company and/or the Directors being fined or the subject of criminal proceedings or the suspension of the Company's shares which would in turn lead to a breach of the Corporation Tax Act 2010. The Company is required to comply with the provisions of the Companies Act 2006, the Alternative Investment Fund Managers Directive and the UK Listing Rules and Disclosure & Transparency Rules.	The Investment Manager monitors investment movements 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. The results are reported to the Board at each meeting. Compliance with the accounting rules affecting investment trusts is also carefully and regularly monitored. The Company Secretary and the Company's professional advisers provide regular reports to the Board in respect of compliance with all applicable rules and regulations.

Principal Risk	Mitigation/Control
Operational risk In common with most other investment trust companies, the Company has no employees. The Company therefore relies on the services provided by third parties. Accordingly, it is dependent on the control systems of the Manager, BNY Mellon Trust & Depositary (UK) Limited (the Depositary) and the Bank of New York Mellon (International) Limited (the Fund Accountant), who maintain the Company's assets, dealing procedures and accounting records. Failure by any service provider to carry out its obligations to the Company could have a material adverse effect on the Company's performance. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position. The security of the Company's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements depend on the effective operation of the systems of these third party service providers.	Due diligence is undertaken before contracts are entered into with third party service providers. Thereafter, the performance of the provider is subject to regular review and reported to the Board. Most third party service providers produce Service Organisation Control (SOC 1) reports to provide assurance regarding the effective operation of internal controls as reported on by their reporting accountants. These reports are provided to the Audit Committee. The Company's assets are subject to a strict liability regime and in the event of a loss of financial assets held in custody, the Depositary must return assets of an identical type or the corresponding amount, unless able to demonstrate the loss was a result of an event beyond its reasonable control. The Board reviews the overall performance of the Manager, Investment Manager and all other third party service providers and compliance with the Investment Management Agreement on a regular basis. The Board also considers the business continuity arrangements of the Company's key service providers.
Financial risk The Company's investment activities expose it to a variety of financial risks that include interest rate, credit and liquidity risk. Further details are disclosed on pages 56 to 63, together with a summary of the policies for managing these risks.	Details of these risks are disclosed in note 16 to the financial statements, together with a summary of the policies for managing these risks.
Marketing risk Marketing efforts are inadequate, do not comply with relevant regulatory requirements, and fail to communicate adequately with shareholders or reach out to potential new shareholders resulting in reduced demand for the Company's shares and a widening discount.	The Board focuses significant time on communications with shareholders and reviewing marketing strategy and initiatives. All investment trust marketing documents are subject to appropriate review and authorisation.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months referred to by the 'Going Concern' guidelines. The Board conducted this review for the period up to the AGM in 2021 being a five year period from the date that this Annual Report will be approved by shareholders. This assessment term has been chosen as it represents a medium term performance period over which investors in the smaller companies sector generally refer to when making investment decisions.

In making this assessment the Board has considered the following factors:

- The Company's principal risks as set out above;
- the impact of a significant fall in UK equity markets on the value of the Company's investment portfolio;
- The ongoing relevance of the Company's investment objective in the current environment; and
- The level of demand for the Company's ordinary shares.

The Board has also considered a number of financial metrics, including:

- The level of current and historic ongoing charges incurred by the Company;
- The discount to NAV;
- The level of income generated by the Company;
- Future income forecasts; and
- The liquidity of the Company's portfolio.

The Company is an investment company with a relatively liquid portfolio. As at 28 February 2017, the Company held no unquoted investments, and 60.5% of the Company's portfolio investments were readily realisable and listed on the London Stock Exchange. The remaining 39.5% that were listed on the Alternative Investment Market are also considered to be readily realisable. The Company has largely fixed overheads (excluding performance fees) which comprise a very small percentage of net assets (0.7%). In addition, any performance fees are capped at 0.25% of NAV. Therefore the Board has concluded that even in exceptionally stressed operating conditions, the Company would comfortably be able to meet its ongoing operating costs as they fall due.

Performance

Strategic report continued

However, investment companies may face other challenges, such as a significant decrease in size due to substantial share buy back activity. The Company has in place the authority to buy back up to 14.99% of issued share capital, but under current circumstances the Board do not envisage that this facility will need to be utilised. In making this assessment the Board have considered the Company's performance which has outstripped the Company's benchmark for the last fourteen consecutive years; the Company's share price has outperformed the benchmark index by 2.4% over one year, 11.5% over three years and 63.8% over five years respectively (all performance calculations exclude income reinvestment).

Based on the results of their analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

FUTURE PROSPECTS

The Board's main focus is to achieve long term capital growth. The future performance of the Company is 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 Chairman's Statement on page 6 and the Investment Manager's Report on page 8.

SOCIAL, COMMUNITY AND HUMAN RIGHTS ISSUES

As an investment trust, the Company has no direct social or community responsibilities. However, the Directors believe that it is in shareholders' interests to consider human rights issues, environmental, social and governance matters when selecting and retaining investments. Details of the Company's policy on socially responsible investment are set out on pages 33 and 34.

MODERN SLAVERY ACT

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015. In any event, the Board considers the Company's supply chain, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

DIRECTORS, GENDER REPRESENTATION AND EMPLOYEES

The Directors of the Company on 28 February 2017 are set out in the Directors' biographies on page 20. The Board consists of three male Directors and two female Directors. The Company's policy on diversity is set out on page 31. The Company does not have any executive employees.

The Chairman's Statement on pages 4 to 6 together with the Investment Manager's Report on pages 7 and 8, forms part of the Strategic Report. The Strategic Report was approved by the Board at its meeting on 2 May 2017.

BY ORDER OF THE BOARD
SARAH BEYNSBERGER
FOR AND ON BEHALF OF
BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED
Company Secretary
2 May 2017

Governance

Governance structure

Responsibility for good governance lies with the Board. The governance framework of the Company reflects that as an investment company, the Company has no employees, the Directors are all non-executive and the investment management and *administration functions are outsourced to the Manager and other service providers.*

The Board

Five non-executive Directors (NEDs), all independent of the Investment Manager

Chairman: Nicholas Fry

5 scheduled meetings per annum

Objectives:

- To determine the Company's strategy including investment policy and investment guidelines;
- To provide leadership within a framework of prudent and effective controls which enable risk to be assessed and managed and the Company's assets to be safeguarded;
- To challenge constructively and to scrutinise the performance of all outsourced activities; and
- To determine the Company's remuneration policy.

Committees

Audit Committee

3 scheduled meetings per annum

Membership: All NEDs.

Chairman: Michael Peacock

Key objectives:

- To oversee financial reporting;
- To consider the adequacy of the control environment and review the Company's risk register;
- To review the reporting of the auditors, review and form an opinion on the effectiveness of the external audit process; and
- To review the provisions relating to whistleblowing and fraud.

Nomination Committee

1 scheduled meeting per annum

Membership: All NEDs.

Chairman: Nicholas Fry

Key objectives:

- To regularly review the Board's structure and composition;
- To be responsible for the Board succession planning; and
- To make recommendations for any new appointments.

Management Engagement Committee

1 scheduled meeting per annum

Membership: All NEDs.

Chairman: Nicholas Fry

Key objectives:

- To ensure that the provisions of the management agreement follow industry practice, remain competitive and are in the best interest of shareholders;
- To review the performance of the Manager; and
- To review other service providers.

Terms of reference for each of the committees are available at blackrock.co.uk/brsc.

Governance

Directors' biographies

DIRECTORS

Nicholas Fry – Chairman

Appointed a Director in January 2005 and became Chairman in June 2012, is 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.

Michael Peacock – Audit Committee Chairman

Appointed a Director in July 2012, was previously 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, and was the 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.

Caroline Burton

Appointed in July 2011, is a non-executive director of Liverpool Victoria and a member of the appointments committee of the 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.

Robert Robertson

Appointed in April 2008, is the Chairman of Lowland Investment Company plc and director of a number of private companies. He was previously chairman of West China Cement Limited, a director of Buro Happold Engineers Limited and Metallon Corporation plc 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.

Susan Platts-Martin

Appointed on 21 April 2016, is a non-executive director of Witan Pacific Investment Trust PLC, sits on the Board of the Targeted Return Fund and also acts as Protector of Power to Change Trust. A qualified chartered accountant with 26 years experience in financial services, she was the first head of investment trusts at Fidelity International, responsible for establishing and growing a successful investment trust business. She has experience of both open and closed ended funds having also been director of product development and head of fund accounting at Fidelity.

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 registered office of the Company and will be available at the Annual General Meeting.

Directors' report

The Directors present the Annual Report and audited Financial Statements of the Company for the year ended 28 February 2017.

STATUS OF THE COMPANY

The Company was incorporated in Scotland on 2 May 1906 under the registered number 006176 and is domiciled in the United Kingdom. The Company is registered as a public limited company under the Companies Act 2006 and is an investment company under section 833 of the Companies Act 2006 and operates as such.

The Company has been approved by HM Revenue & Customs as an investment trust in accordance with sections 1158 and 1159 of the Corporation Tax Act 2010, subject to the Company continuing to meet eligibility conditions. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval.

As an investment company that is managed and marketed in the United Kingdom, the Company is an Alternative Investment Fund (AIF) falling within the scope of, and subject to the requirements of the Alternative Investment Fund Managers' Directive (AIFMD). The Company is governed by the provisions of the European Union (Alternative Investment Fund Managers' Regulations 2013) (the Regulations) and is required to be authorised by the Financial Conduct Authority (FCA) and must comply with a number of new obligations, including the appointment of an Alternative Investment Fund Manager (AIFM) and a depositary to carry out certain functions. The Company must also comply with the Regulations in respect of leverage, outsourcing, conflicts of interest, risk management, valuation, remuneration and capital requirements and must also make additional disclosures to both shareholders and the FCA. Further details are set out in the AIFMD disclosures on page 70 and in the notes to the financial statements on pages 56 to 63.

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

FACILITATING RETAIL INVESTMENTS

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by independent financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

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 and professionally-advised private clients. It is also attractive to 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 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.

THE COMMON REPORTING STANDARD

New tax legislation under the Organisation for Economic Cooperation and Development (OECD) Common Reporting Standard for Automatic Exchange of Financial Account Information (the Common Reporting Standard) was introduced on 1 January 2016.

The legislation requires investment trust companies to provide personal information to HMRC about investors who purchase shares in investment trusts. The Company has to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders, and corporate entities. The local tax authority to which the information is initially passed may in turn exchange the information with the tax authorities of another country or countries in which the shareholder may be tax resident, where those countries (or tax authorities in those countries) have entered into agreements to exchange financial account information.

All new shareholders, excluding those whose shares are held in CREST, entered onto the share register, will be sent a certification form for the purposes of collecting this information.

DIVIDENDS

Details of the dividends paid and payable in respect of the year are set out in the Chairman's Statement on page 5.

FUTURE PROSPECTS

Commentary on future prospects for the Company is set out in both the Chairman's Statement on page 6 and the Investment Manager's Report on page 8.

INVESTMENT MANAGEMENT AND ADMINISTRATION

The Manager was appointed as the Company's AIFM with effect from 2 July 2014, having been authorised as an AIFM by the FCA on 1 May 2014. The management contract is terminable by either party on six months' notice. Under the agreement the Board continues to be independent from the AIFM. The agreement provides the appropriate balance between the Board's control over the Company, its investment policies and compliance with regulatory obligations. The Manager has (with the Company's consent) delegated certain portfolio and risk management services, and other ancillary services, to the Investment Manager. The Investment Manager also acted as the Secretary of the Company throughout the year. The Manager receives an investment management fee which 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. The fee is calculated quarterly, as one quarter of the amount equal to the fee rate of 0.50% multiplied by total assets (excluding current year income) less the current liabilities of the Company at the relevant quarter end and less the £50 million initial threshold charged at 0.65%, plus one quarter of the amount equal to 0.65% multiplied by the initial threshold of £50 million.

A performance fee is payable at the average 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. This average calculation is based on the total assets (excluding current year income) less the current liabilities of the Company at the start of the year and at the year end date added together and divided by two. 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.

Further details are disclosed in note 4 on page 51 and note 17 on page 63. 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 the Manager. There are no provisions relating to payment of fees in lieu of notice.

The Company contributes to a focused investment trust sales and marketing initiative operated by BlackRock on behalf of the investment trusts under its management. The Company's contribution to the consortium element of the initiative, which enables the trusts to achieve efficiencies by combining certain sales and marketing activities was a fixed amount of £124,000 and this contribution is matched by the Investment Manager for the year ended 31 December 2016. In addition, a budget of £30,000 has been allocated for Company specific sales and marketing activity also for the year to 31 December 2016. For the year ended 28 February 2017, £134,000 (including VAT) has been accrued in respect of these initiatives. The purpose of the programme overall is to ensure effective communication with existing shareholders and to attract new shareholders to the Company. This has the benefit of improving liquidity in the Company's shares and helps sustain the stock market rating of the Company.

The Manager and the Investment Manager are subsidiaries 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.

APPOINTMENT OF THE 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 Manager as AIFM, with investment management services delegated to 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.

DEPOSITARY AND CUSTODIAN

The Company is required under AIFMD to appoint an AIFMD compliant depositary. The Company appointed BNYMTD in this role with effect from 2 July 2014. The main role of the Depositary under AIFMD is to monitor the operations of the Company, including monitoring cash flows and ensuring that the Company's assets are valued appropriately in accordance with the relevant regulations and guidance. The Depositary is also responsible for enquiring into the conduct of the AIFM in each annual accounting period. The Depositary receives a fee payable at 0.0115% of the net assets of the Company per annum. The Company has appointed the Depositary in a tripartite agreement, to which the Manager as AIFM is also a signatory. The Depositary is also liable for the loss of financial instruments held in custody. The depositary agreement is subject to 90 days' notice of termination by any party. Under the depositary agreement, custody services in respect of the Company's assets have been delegated to BNYM who receive a custody fee payable by the Company at rates depending on the number of trades effected and the location of securities held.

REGISTRAR

The Company has appointed Computershare as its Registrar. The principal duty of the registrar is the maintenance of the register of shareholders (including registering transfers). It also provides services in relation to corporate actions (including tender offers and the exercise of subscription shares), dividend administration and shareholder documentation. Computershare receives a fixed fee plus disbursements and VAT per annum. Fees in respect of corporate actions are negotiated on an arising basis.

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.

EXERCISE OF VOTING RIGHTS IN INVESTEE COMPANIES

The exercise of voting rights attached to the Company's portfolio has been delegated to the Investment Manager, whose voting policy is set out below. BlackRock's approach to voting at shareholder meetings, engagement with companies and corporate governance is framed within an investment context. BlackRock believes that sound corporate governance practices by companies contribute to their long term financial performance and thus to better risk-adjusted returns.

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team, located in five offices around the world. In addition to its own professional staff, the BlackRock Investment Stewardship team draws upon the expertise of BlackRock's portfolio managers, researchers and other internal and external resources globally. BlackRock's global corporate governance and engagement principles are published on the website at blackrock.com/corporate/en-us/about-us/investment-stewardship. The principles set out BlackRock's views on the overarching features of corporate governance that apply in all markets. For each region, BlackRock also publishes market-specific policies, which are updated every year to ensure they remain relevant. The voting guidelines are principles-based and not prescriptive because BlackRock believes that each voting situation needs to be assessed on its merits. Voting decisions are taken to support the outcome that BlackRock believes (in its professional judgement) will best protect the economic interests of its clients.

During the year under review, the Investment Manager voted on 2,125 proposals at 184 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 44 management resolutions and abstained from voting on 13 resolutions. Most of the votes against were in respect of resolutions in respect of directors' remuneration or to elect or remove directors and to approve the issuance of equity, which were deemed by the Investment Manager as not being in the best interest of shareholders.

PRINCIPAL RISKS

The key risks faced by the Company are set out in the Strategic Report on pages 15 to 17.

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 0.7% of net assets. Ongoing expenses with performance fees included were 1.0% of net assets for the year end 28 February 2017, 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.

The Company's longer term viability is considered in the Viability Statement on pages 17 and 18.

DIRECTORS

The Directors of the Company as at 28 February 2017 and their biographies are set out on page 20. Details of Directors' interests in the ordinary shares of the Company are set out in the Directors' Remuneration Report on page 30. All of the Directors, with the exception of Susan Platts-Martin, held office throughout the year under review. Susan joined the Board as a Director with effect from 21 April 2016 and her biography is also set out on page 20. The Board employed the services of an executive search firm to identify potential new directors. A shortlist was drawn up and the Board interviewed a number of candidates resulting in Susan's appointment. Her appointment was fully debated by all of the Directors. Gillian Nott was a Director at the start of the year and retired on 9 June 2016.

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. Therefore at the Annual General Meeting to be held on 8 June 2017, in accordance with the Company's Articles of Association, Caroline Burton will retire by rotation and offer herself for re-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. Accordingly, Nicholas Fry and Robert Robertson who have each served on the Board for more than nine years, will also retire at the forthcoming Annual General Meeting and seek re-election.

The Board's policy on tenure is that length of service does 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. After due consideration and further to the annual evaluation process, the Board has concluded that both Nicholas Fry and Robert Robertson, who have each served as a Director for over nine years, continue to be independent in both character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Board has considered the position of the Directors, as part of the evaluation process, and believes that it would be in the Company's best interests for them to be proposed for re-election, given their material level of contribution. Details of the evaluation process are set out in the Corporate Governance Statement on page 32.

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 is entitled to compensation for loss of office on the takeover of the Company. The Directors' attendance record is shown in the table on page 24.

DIRECTORS' INDEMNITY AND DIRECTORS' LIABILITY INSURANCE

The Company has maintained appropriate Directors' Liability Insurance cover throughout the year. 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 registered office of the Company and will 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.

GLOBAL GREENHOUSE GAS EMISSIONS FOR THE PERIOD 1 MARCH 2016 TO 28 FEBRUARY 2017

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

ARTICLES OF ASSOCIATION

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

REMUNERATION REPORT

The Directors' Remuneration Report is set out on pages 27 to 30. An ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting.

NOTIFIABLE INTEREST IN THE COMPANY'S VOTING RIGHTS

As at 28 February 2017, the following investors had declared a notifiable interest in the Company's voting rights:

	Holding	%
BlackRock, Inc.*	5,743,210	12.0
Investec Wealth & Management	3,022,027	6.3
Rathbone Bros	2,609,467	5.5
Derbyshire County Council	2,385,000	5.0
Aberdeen Asset Managers	2,348,421	4.9
East Riding of Yorkshire Council	1,880,500	3.9
Royal London Asset Management	1,827,894	3.8
West Yorkshire Pension Fund	1,615,087	3.4

* Including 2,856,457 shares held by BlackRock Institutional Funds (The Dynamic Diversified Growth Fund) representing 6.0% 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 as at 28 February 2017, 0.8% of the Company's share capital was held through the BlackRock Investment Trusts Savings Plan and ISA.

As at 28 April 2017, the following investors had declared a notifiable interest in the Company's voting rights:

	Holding	%
BlackRock, Inc.*	5,763,876	12.0
Investec Wealth & Management	3,022,027	6.3
Rathbone Bros	2,609,467	5.5
Derbyshire County Council	2,100,000	4.4
Aberdeen Asset Managers	2,348,421	4.9
East Riding of Yorkshire Council	1,880,500	3.9
Royal London Asset Management	1,827,894	3.8
West Yorkshire Pension Fund	1,615,087	3.4

* Including 2,856,457 shares held by BlackRock Institutional Funds (The Dynamic Diversified Growth Fund) representing 6.0% 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.

Attendance Record[1]	Total meetings	Nicholas Fry	Michael Peacock	Robert Robertson	Caroline Burton	Susan Platts-Martin[1]
Board	5	5	5	5	5	4
Audit Committee	3	3	3	3	3	2
Management Engagement Committee	1	1	1	1	1	1
Nomination Committee	1	1	1	1	1	1

1 As Susan Platts-Martin only became a Director on 21 April 2016 and her attendance record excludes any meetings held in the year under review falling prior to this date; Ms Platts-Martin has attended all meetings held in the year subsequent to her appointment.

As at 28 April 2017, 0.8% of the Company's share capital is held through the BlackRock Investment Trusts Savings Plan and ISA.

SHARE CAPITAL

Full details of the Company's share capital are given in note 14 on page 55. 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 75. 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. At 28 February 2017, the Company's issued share capital was 47,879,792 ordinary shares, excluding 2,113,731 shares held in treasury.

SHARE ISSUES AND REPURCHASES

The Company has the authority to purchase ordinary shares in the market to be held in treasury or for cancellation and to issue new ordinary shares for cash. No shares were purchased or issued under either authority during the year. The current authority to repurchase ordinary shares was granted to Directors on 9 June 2016 and expires at the conclusion of the Annual General Meeting in 2017. The Directors are proposing that their authority to buy back shares to be held in treasury, or for cancellation, and to issue new ordinary shares or sell shares from treasury, 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 effectively, 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). Any shares in treasury will be held indefinitely. In the interests of all shareholders, the Board will continue to keep the matter of treasury shares under review.

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 10 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 £1,196,994 which is equivalent to 4,787,976 ordinary shares of 25p each and represents 10% 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 in 2018, unless renewed prior to that date at an earlier general meeting.

Resolution 11 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 11 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 £1,196,994 which is equivalent to 4,787,976 ordinary shares of 25p each and 10% 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 2018.

Resolution 12 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, 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 in 2018.

Governance

Directors' report continued

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 31 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 auditors are 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 auditors are aware of that information.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and resolutions proposing their reappointment and authorising the Audit Committee to determine their remuneration for the ensuing year will be submitted at the Annual General Meeting.

SUBSEQUENT EVENTS

Since the year end, the Company has agreed to issue £25 million senior unsecured fixed rate private placement notes ('Notes') at a coupon of 2.74% with a bullet 20 year maturity. Additional details are given in the Chairman's Statement on page 5 and in note 20 on page 63.

The Directors' Report was approved by the Board at its meeting on 2 May 2017.

BY ORDER OF THE BOARD
SARAH BEYNSBERGER
FOR AND ON BEHALF OF
BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED
Company Secretary
2 May 2017

Governance

Directors' remuneration report

INTRODUCTION

The Board presents the Directors' Remuneration Report for the year ended 28 February 2017 which has been prepared in accordance with the requirements of sections 420-422 of the Companies Act 2006.

The Remuneration Report comprises a remuneration policy report, which is subject to a triennial binding shareholder vote, and a remuneration policy implementation report, which is subject to an annual advisory vote. The remuneration policy (as set out in the policy table on page 28) was last approved by shareholders at the Company's Annual General Meeting on 10 June 2014. The remuneration policy will next be put to shareholders for approval at the forthcoming AGM in June 2017.

The law requires the Company's independent auditors to audit certain parts of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 39 to 43.

STATEMENT BY THE CHAIRMAN

The Board's policy on remuneration is set out in the policy table on page 28. A key element is that fees payable to Directors should be sufficient to attract and retain individuals with suitable knowledge and experience, and that consideration is given to the value and amount of time committed. The Board's focus is on setting the strategy for the successful progression of the Company and monitoring performance against the strategic objectives set. In order to do this effectively, Directors spend a substantial amount of time preparing for the five Board meetings and three Audit Committee meetings held each year. At these meetings, the Directors review the Company's portfolio, monitor investment performance and review compliance with investment guidelines.

The Board also reviews and monitors the Company's ongoing operating costs to ensure that these represent optimal value and are in line with agreed budgets. In addition, the Board sets the marketing strategy of the Company and contributes to a sales and marketing initiative operated by BlackRock; the Board has set key performance indicators to monitor progress and reviews these on a regular basis to monitor and assess the effectiveness of this initiative. The Chairman makes himself available to meet directly with shareholders when required and the Board monitors the Company's share rating closely and is responsible for determining the appropriate action to be taken to manage this where necessary. Directors are also responsible for establishing and maintaining the Company's control systems to manage risk effectively, and a register of these controls and the risks facing the Company are reviewed at each Audit Committee meeting, along with control reports from external auditors. Directors also receive an annual update from BlackRock's internal audit department.

As well as this usual business, Directors also spend additional time as and when required in ad hoc meetings to address other issues as they arise. Investment trusts are subject to a large number of regulatory and disclosure requirements, including the requirements of the Model Code, UKLA Listing Rules, and Investment Trust Company tax regulations. The regulatory burden has increased significantly in recent years, with the implementation of AIFMD, FATCA and the Common Reporting Standard requiring considerable additional time to be spent by the Board to ensure that new Depositary and Management agreements complied with best industry practice. There are yet more new regulatory obligations that will become applicable to the Company over the next few years, all of which are expected to generate an increased workload for Directors, and your Board will continue to be mindful of this in setting remuneration levels.

For the year ended 28 February 2017, the Chairman received an annual fee of £38,500, the Audit Committee Chairman received £28,750 per annum and the other Directors received £25,750 per annum. Following a review on 16 March 2017 and with effect from 1 March 2017, the Chairman will receive an annual fee of £40,000, the Audit Committee Chairman will receive £30,000 per annum and the other Directors will each receive £26,750 per annum. Additional information regarding the basis for determining Directors' remuneration is set out in the policy report below.

REMUNERATION COMMITTEE

The Board as a whole fulfils the function of the Remuneration Committee and considers 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. No advice or services were provided by any external agencies or third parties.

POLICY REPORT

In determining Directors' fees, a number of factors are considered, including the time commitment required, the level of skills and appropriate experience required, and the need for Directors to maintain on an ongoing basis an appropriate level of knowledge of regulatory and compliance requirements in an industry environment of increasing complexity. The Board also considers the average rate of inflation during the period since the last fee increase, and reviews the level of remuneration in comparison with other investment trusts of a similar size and/ or mandate as well as taking account of any data published by the Association of Investment Companies to ensure that fees are in line with industry practice. This comparison, together with consideration of any alteration in non-executive Directors' responsibilities, is used to review whether any change in remuneration is necessary. The review is performed on an annual basis.

The Company has no executive employees and consequently no consideration is required to be given to employment conditions elsewhere in setting Directors' fees.

Directors' remuneration report continued

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 BlackRock's offices at 12 Throgmorton Avenue, London EC2N 2DL.

CONSIDERATION OF SHAREHOLDERS' VIEWS

An ordinary resolution to approve the remuneration report is put to members at each Annual General Meeting, and shareholders have the opportunity to express their views and raise any queries in respect of remuneration policy at this meeting. To date, no shareholders have commented in respect of the remuneration policy. In accordance with the Companies Act 2006, the Company obtained shareholder approval for its remuneration policy at the Annual General Meeting in 2014. 99.64% of the votes cast were in favour of the resolution to approve the Directors' remuneration policy and 0.36% of votes were cast against. The remuneration policy is subject to a triennial binding shareholder vote and will be put to shareholders for approval at the forthcoming AGM in June 2017.

At the Company's Annual General Meeting held on 9 June 2016, the resolution to approve the Directors' remuneration report was approved by 99.52% of votes cast in favour of the resolution and 0.48% votes cast against.

POLICY TABLE

	Purpose and link to strategy	Fees payable to Directors should be sufficient to attract and retain individuals of high calibre with suitable knowledge and experience. Those chairing the Board and key Committees should be paid higher fees than other Directors in recognition of their more demanding roles. Fees should reflect the time spent by Directors on the Company's affairs and the level of complexity of responsibilities borne by the Directors.
	Description	Current levels of fixed annual fee: Chairman – £40,000 Audit Committee Chairman – £30,000 Directors – £26,750 All reasonable expenses to be reimbursed.
	Maximum levels	Remuneration consists of a fixed fee each year, set in accordance with the stated policies and as such there is no set maximum threshold; however, any increase granted must be in line with the stated policies. The Company's Articles of Association set a limit of £200,000 per annum in respect of the total fees that may be paid to Directors in any financial year. In addition, the Directors propose a limit of £50,000 per annum in relation to the maximum that may be paid in respect of taxable benefits. These ceilings have been set at a level to provide flexibility in respect of the recruitment of additional Board members and inflation.
	Fixed fee element	The Board reviews the quantum of Directors' fees each year to ensure that this is appropriate in view of the time commitment required, the level of skills and appropriate experience required, and the need for Directors to maintain on an ongoing basis an appropriate level of knowledge of regulatory and compliance requirements in an industry environment of increasing complexity. The average rate of inflation during the period since the last fee increase will also be considered as well as the level of remuneration in comparison with other investment trusts of a similar size and/or mandate. There is no compensation for loss of office.
Operation	Discretionary Payments	The Company's Articles authorise the payment of discretionary fees to Directors for any additional work undertaken on behalf of the Company which is outside of their normal duties. Any such extra work undertaken is subject to the prior approval of the Chairman or, in the case of the Chairman undertaking the extra work, subject to the prior approval of the Chairman of the Audit Committee. The level of discretionary fees shall be determined by the Directors and will be subject to a maximum of £25,000 per annum per Director. Any discretionary fees paid will be disclosed in the Directors' remuneration implementation report within the Annual Report.
	Taxable benefits	Taxable benefits comprise travel and subsistence expenses incurred by the Directors in the course of travel to attend Board and Committee meetings which are held at BlackRock's offices in London, and which are reimbursed by the Company and therefore treated as a benefit in kind and are subject to tax and national insurance. The Company's policy in respect of this element of remuneration is that all reasonable costs of this nature will be reimbursed as they are incurred.

REMUNERATION IMPLEMENTATION REPORT (AUDITED)

A single figure for the total remuneration of each Director is set out in the table below for the years ended 28 February 2017 and 29 February 2016:

	2017 Fees £	2017 Taxable benefits[5] £	2017 Total £	2016 Fees £	2016 Taxable benefits[5] £	2016 Total £
Nicholas Fry (Chairman)	38,500	–	38,500	37,500	408	37,908
Caroline Burton	25,750	–	25,750	25,000	–	25,000
Gillian Nott[1]	7,081	–	7,081	25,000	–	25,000
Michael Peacock[2]	28,750	5,041	33,791	28,000	2,610	30,610
Susan Platts-Martin[3]	22,174	962	23,136	–	–	–
Robert Robertson[4]	25,750	963	26,713	25,000	–	25,000
Total	148,005	6,966	154,971	140,500	3,018	143,518

1. Retired as a Director on 9 June 2016.
2. Audit Committee Chairman.
3. Appointed on 21 April 2016.
4. Senior Independent Director.
5. Taxable benefits relate to travel and subsistence costs.

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. As at 28 February 2017, there were no amounts outstanding to Directors in respect of their annual fees (*29 February 2016: £nil*).

As the Company has no employees, the table above also comprises the total remuneration costs and benefits paid by the Company. To enable shareholders to assess the relative importance of spend on pay, this has been shown in the table below compared with the Company's dividend distributions, total revenue and any share buy backs.

RELATIVE IMPORTANCE OF SPEND ON DIRECTORS' REMUNERATION

	2017 £'000	2016 £'000	Change £'000
Directors' total remuneration	155	144	+11
Dividends paid and payable	10,054	8,379	+1,675
Income from investments	12,531	11,550	+981

No payments were made in the period to any past Directors (2016: nil).

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. This composite index was selected for comparison purposes, as it was the Company's benchmark used for investment performance measurement purposes.

Governance

Directors' remuneration report continued

SHAREHOLDINGS (AUDITED)

The Board has not adopted a policy that Directors are required to own shares in the Company.

The interests of the Directors in the ordinary shares of the Company are set out in the table below. The Company does not have a share option scheme therefore none of the Directors has an interest in share options. All of the Directors, with the exception of Susan Platts-Martin, held office throughout the year under review.

	28 February 2017	29 February 2016
Nicholas Fry (Chairman)	40,000	40,000
Caroline Burton	5,500	4,500
Michael Peacock	1,000	1,000
Susan Platts-Martin	2,000	–
Robert Robertson	91,062	86,062

All of the holdings of the Directors are beneficial. No changes to these holdings had been notified up to the date of this report. Susan Platts-Martin was appointed on 21 April 2016.

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 AGM 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.

FOR AND ON BEHALF OF THE BOARD
NICHOLAS FRY
Chairman
2 May 2017

Nicholas J. Fry

Governance

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 Code. 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 February 2015, which addresses the governance issues relevant to investment companies and meets the approval of the Financial Reporting Council.

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 that 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 party service providers. The Company has no executive employees and the Directors are all non-executives, therefore not all the provisions 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, except for the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Code, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company with no executive employees and, in relation to the internal audit function, in view of BlackRock having an internal audit function.

Information on how the Company has applied the principles of the AIC Code and the UK Code is set out below.

The UK Code is available from the Financial Reporting Council's website at frc.org.uk. The AIC Code is available from the Association of Investment Companies at theaic.co.uk.

THE BOARD

The Board currently consists of five non-executive Directors, all of whom are considered to be independent of the Company's Manager. The provision of the UK Code (A.2.1) which relates to the combination of the roles of the chairman and chief executive does not apply as the Company has no executive directors. The Board's primary purpose is to direct the Company to maximise shareholder value within a framework of proper controls and in accordance with the Company's investment objective.

Board structure and management

Details of the Board's structure, roles and responsibilities and management are set out in the summary of governance structure and Directors' biographies on pages 19 and 20. The Company does not have a chief executive as day-to-day management of the Company's affairs is delegated to the Manager as AIFM, with investment management and other ancillary services delegated to the Investment Manager. Representatives of the Manager and the Company Secretary attend each Board meeting. The Board, the AIFM, the Investment Manager and the Company Secretary operate in a supportive and co-operative manner.

Board independence and tenure

Details of the Board's policy on tenure and independence are set out on page 23.

Diversity

The Board's policy on diversity, including gender, is to take this into account during the recruitment and appointment process. However, the Board is committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity and therefore no targets have been set against which to report.

Directors' appointment, retirement and succession

The rules concerning the appointment, retirement and rotation of Directors are set out in the Directors' Report on page 23.

The Board believes that it has a reasonable balance of skills and experience. The Board recognises the value of progressive refreshing of, and succession planning for, company boards. None of the Directors considers length of service as an impediment to independence or good judgement but believes that continuity and experience can add significantly to the strength of the Board.

Governance

Corporate governance statement continued

The Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense.

Directors' induction, training and development

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 auditors and the Company Secretary regarding any proposed developments or changes in laws or regulations that could affect the Company and/or the Directors. Directors' training and development needs are reviewed by the Chairman on an annual basis.

BOARD'S RESPONSIBILITIES

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 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.

MEETINGS AND PERFORMANCE APPRAISAL

The Board meets at least five times each year to review investment performance, financial reports and other reports of a strategic nature. Board or Board committee meetings are also held on an ad hoc basis to consider particular issues as they arise. The attendance record for each meeting is set out on page 24.

Key representatives of the Investment Manager attend each meeting. Details of the Directors' other significant time commitments can also be found on page 20.

PERFORMANCE EVALUATION

In order to review the effectiveness of the Board, the Committees and the individual Directors, the Board carries out an annual appraisal process. This encompasses both quantitative and qualitative measures of performance in respect of the Board and its Committees, implemented by way of the completion of an evaluation survey and a subsequent review of the findings. The appraisal of the Chairman follows the same process and is carried out by the Board as a whole under the leadership of the Senior Independent Director without the Chairman present.

The appraisal process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and its Committees and the contribution of individual Directors, as well as building on and developing individual and collective strengths. There were no significant actions arising from the evaluation process.

Following the formal evaluation the Chairman is pleased to confirm that each of the Directors continues to be effective and to demonstrate commitment to the role (including time for Board and Committee meetings and any other duties). Robert Robertson, as Senior Independent Director, is pleased to confirm that, following the formal evaluation, the Chairman also continues to be effective and to demonstrate commitment to the role (including time for Board and Committee meetings and any other duties).

DELEGATION OF RESPONSIBILITIES

Management and Administration

Details on the arrangements for the management of the investment portfolio and the administration of the Company are given on pages 21 and 22 of the Directors' Report.

Details of the Manager's approach to voting at shareholder meetings are set out on pages 22 and 23.

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out at every Board meeting. In addition, a formal review is undertaken annually, details of which are set out in the Directors' Report on page 22.

The Company Secretary

The Board has direct access to company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and Committee procedures are followed, and that applicable regulations are complied with. The appointment and removal of the Company Secretary is a matter for the whole Board.

COMMITTEES OF THE BOARD

The Board has appointed a number of Committees as set out below.

Audit Committee

Details of the Committee's membership and responsibilities are set out on page 19. Further details are provided in the Report of the Audit Committee on pages 35 to 37.

Remuneration Committee

Under the UK Listing Rules, where an investment trust company has no executive directors, the Code provisions relating to directors' remuneration do not apply. The remuneration of the Chairman and the Directors is determined by the Board. Details of the Directors' fees are given in the Directors' Remuneration Report on pages 27 to 30.

Nomination Committee

Details of the Committee's membership and responsibilities are set out on page 19, along with details of the number of scheduled meetings each year. The Directors' attendance at each meeting is set out on page 24. Appointments of new Directors will be made on a formalised basis, with the Committee agreeing the selection criteria and the method of selection, recruitment and appointment. The services of an external search consultant may be used to identify potential candidates.

Management Engagement Committee

Details of the Committee's membership and responsibilities are set out on page 19.

INTERNAL CONTROLS

The Board is responsible for establishing and maintaining the Company's internal 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, through the Audit Committee, regularly reviews the effectiveness of the internal control systems to identify, evaluate and manage the Company's significant risks. If any significant failings or weaknesses are identified, the Manager and the Board ensure that necessary action is taken to remedy the failings. The Board is not aware of any significant failings or weaknesses arising in the year under review.

Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the operations of the Company. 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. This accords with the FRC's "Internal Control: Revised Guidance of Directors on the UK Corporate Code".

The Company's Risk Register sets out risks relevant to the Company and describes, where relevant, the internal controls that are in place at the AIFM, the Investment Manager and other third party service providers to mitigate these risks. The Board formally review this register on a semi-annual basis and the Manager as the Company's AIFM reports on any significant issues that have been identified in the period. In addition, BlackRock's internal audit department report on an annual basis on the results of testing performed in relation to BlackRock's internal control processes. The Depositary also reviews the control processes in place at the Custodian, the Fund Accountant and the AIFM and reports formally to the Audit Committee twice yearly. Both the AIFM and the Depositary will escalate issues and report to the Audit Committee outside of these meetings on an ad hoc basis to the extent that this is required. The Audit Committee also receives annual and quarterly SOC 1 reports respectively, from BlackRock and BNYM as Custodian and Fund Accountant on the internal controls of their respective operations.

The Company does not have its own internal audit function as all the administration is delegated to BlackRock and other third party service providers. This matter is kept under review.

The Board has overall responsibility for the control systems in respect of the Company, as part of that responsibility the Board conducts a review of those controls, although it relies on the controls at the third party service providers. The Board recognises that these control systems can only be designed to manage rather than to 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 BlackRock and BNYM in its capacity as Custodian and Fund Accountant.

The 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 acting under delegation from the 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.

FINANCIAL REPORTING

The Statement of Directors' Responsibilities is set out on page 38, the Independent Auditors' Report on pages 39 to 43, and the Statement of Going Concern on page 23.

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. BlackRock'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.

Corporate governance statement continued

BlackRock's policies on socially responsible investment and Corporate Governance are detailed on the website blackrock.com/corporate/en-gb/about-us/responsible-investment/responsible-investment-reports. The Manager is supportive of the UK Stewardship Code, which is voluntary and operates on a "comply or explain basis".

BRIBERY 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 at least 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 25 to 26. Separate resolutions are proposed for substantive issues. Shareholders are updated on performance through the publication of the interim and annual reports and the Portfolio 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 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 Manager's website shortly after the meeting. The Investment Manager on behalf of the Company also carries out programmes of institutional presentations in conjunction with BlackRock, following the release of each set of Company results.

The Manager and the Investment Manager provide both Investment Management and Company Secretarial services; however the Board is confident that there are comprehensive controls and procedures in place to ensure that conflicts of interest do not arise and that the Company Secretarial function is independently maintained. The Board discusses with BlackRock at each Board meeting any feedback from meetings with shareholders, and it also receives reports from its corporate broker, and has the opportunity to meet independently with the broker without the Manager or Secretary present. The Company's broker interacts with investors on a regular basis in regard to all investor issues, and will conduct shareholder meetings with the Company when requested by investors and brief the Board on shareholder views. The brokers also attend the Annual General Meeting (alongside investors) and will alert investors to the results (final and interim) as well as other newsflow that they believe to be relevant to investors in the Company. If shareholders want to contact the Chairman they may either speak to the Company Secretary or they could speak to the corporate broker. As such, investors have an entirely alternative route to the Investment Manager to contact the Chairman if required. The Chairman is also available to meet directly with shareholders from time to time, as and when required, and on a regular basis will write directly to the Company's largest shareholders to offer the opportunity to meet at their convenience.

There is a section within the Annual Report and Financial Statements entitled "Shareholder Information", on pages 67 to 69, which provides an overview of useful information available to shareholders. The Company's Annual Report and Financial Statements, the Half Yearly Report, regular factsheets and other information are also published on blackrock.co.uk/brsc which is the website maintained by the Manager. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept 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 21 to 26 because it is information which refers to events that have taken place during the course of the year.

FOR AND ON BEHALF OF THE BOARD
NICHOLAS FRY
Chairman
2 May 2017

Report of the audit committee

ROLE AND RESPONSIBILITIES

The Company has a separately chaired Audit Committee whose duties include considering and recommending to the Board for approval the contents of the half yearly and annual financial statements, and providing an opinion as to whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee also reviews the external auditors' report on the annual financial statements and is responsible for reviewing and forming an opinion on the effectiveness of the external audit process and audit quality. Other duties include reviewing the appropriateness of the Company's accounting policies and the adequacy of the internal control systems and standards. The Audit Committee operates within written terms of reference detailing its scope and duties and these are available on the website at blackrock.co.uk/brsc.

The Audit Committee meets at least three times a year. Two of the planned meetings are held prior to the Board meetings to approve the half yearly and annual results. The third meeting focuses on the audit plan, internal controls and assessment of fraud. The Audit Committee receives information from BlackRock's internal audit and compliance departments on a regular basis.

COMPOSITION

The Audit Committee comprises all the Directors including the Chairman of the Company; all of whom, including the Chairman of the Committee, have recent and relevant financial experience from their senior management roles. The biographies of the Directors may be found on page 20.

RESPONSIBILITIES AND REVIEW OF THE EXTERNAL AUDIT

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 auditors' report thereon;
- reviewing the scope, execution, results, cost effectiveness, independence and objectivity of the external auditors;
- reviewing and recommending to the Board for approval the audit and non-audit fees payable to the external auditors and the terms of their engagement;
- reviewing and approving the external auditor's plan for the financial year, with a focus on the identification of areas of audit risk, and consideration of the appropriateness of the level of audit materiality adopted;
- reviewing the role of the Board, the Manager and third party service providers in an effective audit process;
- reviewing the efficiency of the external audit process and the quality of the audit engagement partner and the audit team, and making a recommendation to the Board with respect to the reappointment of the auditors;
- considering the quality of the formal audit report to shareholders;
- reviewing the appropriateness of the Company's accounting policies; and
- reviewing the Company's internal control systems and standards and evaluating the need for an internal audit function as set out in the Corporate Governance Statement on page 33.

The fees paid to the external auditors are set out in note 5 on page 51.

The Committee has also reviewed and accepted the 'whistleblowing' policy that has been put in place by BlackRock 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.

SIGNIFICANT ISSUES CONSIDERED REGARDING THE ANNUAL REPORT AND FINANCIAL STATEMENTS

During the year, the Audit Committee considered the significant issues and areas of key audit risk in respect of the Annual Report and Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Company had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the financial statements as a whole would be free of material misstatements. The table on page 36 sets out the key areas of risk identified and also explains how these were addressed.

Governance

Report of the audit committee continued

Significant issue	How the issue was addressed
The accuracy of the valuation of the investment portfolio	Listed investments are valued using stock exchange prices provided by third party pricing vendors. Unquoted or illiquid investments, if any, are valued by the Directors based on recommendations from BlackRock's Pricing Committee. The Board reviews detailed portfolio valuations at each of its Board meetings and receives confirmation from the Manager that the pricing basis is appropriate, in line with relevant accounting standards as adopted by the Company and that the carrying values are materially correct. The Board also relies on the Manager's and Fund Accountant's controls which are documented in a semi-annual internal controls report which is reviewed by the Audit Committee.
The risk of misappropriation of assets and unsecured ownership of investments	The Audit Committee reviews reports from its service providers on key controls over the assets of the Company. Any significant issues are reported by the Manager to the Audit Committee. The Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Company's assets.
The accuracy of the calculation of the management fee and performance fee	The management and performance fees are calculated in accordance with the contractual terms in the investment management agreement by the Fund Accountant and are reviewed in detail by the Manager and are also subject to an analytical review by the Board.
The risk that income is overstated, incomplete or inaccurate through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income	The Board reviews income forecasts, including special dividends, and receives explanations from the Manager for any variations or significant movements from previous forecasts and prior year figures.

As the provision of portfolio valuation, fund accounting and administration services is delegated to the Investment Manager, which sub-delegates fund accounting to a third party service provider, and the provision of depositary services is contracted to BNYMTD, the Audit Committee has also reviewed the Service Organisation Control (SOC 1) reports prepared by BlackRock, the Custodian and the Fund Accountants to ensure that the relevant control procedures are in place to cover these areas of risk as identified in the table above are adequate and appropriate and have been designated as operating effectively by the reporting auditors.

AUDITORS AND AUDIT TENURE

The Audit Committee review the performance of the auditor on an annual basis, taking into consideration the services and advice provided to the Company and the fees charged for these services. The last formal tender for audit services was conducted in December 2015, and following presentations and interviews with a number of audit firms, it was agreed to replace Scott-Moncreiff with PricewaterhouseCoopers LLP with effect from 12 January 2016. Mr Allan McGrath has been the audit partner since that date.

The Committee, in conjunction with the Board, is committed to reviewing this appointment on an annual basis to ensure the Company is receiving an optimal level of service. In addition to this, even if no change is made to the audit firm appointed, the audit partner changes at least every five years.

There are no contractual obligations that restrict the Company's choice of auditors. The new EU regulations on mandatory "firm" rotation require the appointment of new auditors every ten years, although this can be extended up to an additional ten years if tenders are carried out at the decade mark or another audit firm is appointed to do a joint audit.

The non-audit service work carried out during the year related to the review of the debenture certificate. Fees paid to PricewaterhouseCoopers LLP in respect of these services were £2,575 (excluding VAT) (2016: £2,500).

The Committee also considers the risks associated with audit firms withdrawing from the market and the relationship with the Company's auditors.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and resolutions proposing their appointment and authorising the Directors to determine their remuneration for the ensuing year will be proposed at the forthcoming Annual General Meeting.

ASSESSMENT OF THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

To assess the effectiveness of the external audit, members of the Audit Committee work closely with the Manager to obtain a good understanding of the progress and efficiency of the audit. The Audit Committee has adopted a framework in its review of the effectiveness of the external audit process and audit quality. This includes a review of the following areas:

- The quality of the audit engagement partner and the audit team;
- The expertise of the audit firm and the resources available to it;
- Identification of areas of audit risk;
- Planning, scope and execution of the audit;
- Consideration of the appropriateness of the level of audit materiality adopted;

- The role of the Audit Committee, the Manager and third party service providers in an effective audit process;
- Communications by the auditors with the Audit Committee;
- How the auditors support the work of the Audit Committee and how the audit continues to add value;
- A review of independence and objectivity of the audit firm; and
- The quality of the formal audit report to shareholders.

Feedback in relation to the audit process and the effectiveness of the Manager in performing its role is also sought from relevant involved parties, notably the audit partner and team. The external auditors attend the audit committee meeting at which the annual financial statements are considered and at which they have the opportunity to meet with the Audit Committee without representatives of the Manager being present.

The effectiveness of the Board and the Manager in the external audit process is assessed principally in relation to the timely identification and resolution of any process errors or control breaches that might impact the Company's net asset values and accounting records. It is also assessed by reference to how successfully any issues in respect of areas of accounting judgement are identified and resolved, the quality and timeliness of papers analysing these judgements, the Board and the Manager's approach to the value of independent audit and the booking of any audit adjustments arising, and the timely provision of draft public documents for review by the auditors and the Audit Committee.

To form a conclusion with regard to the independence of the external auditors, the Audit Committee considers whether the skills and experience of the auditors make them a suitable supplier of any non-audit services 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 any such services. On an annual basis, PricewaterhouseCoopers LLP review the independence of their relationship with the Company and report to the Audit Committee, providing details of any other relationship with the Manager. As part of this review, the Audit Committee also receives information about policies and processes for maintaining independence and monitoring compliance with relevant requirements from the Company's auditors, including information on the rotation of audit partners and staff, the level of fees that the Company pays in proportion to the overall fee income of the firm, and the level of related fees, details of any relationships between the audit firm and its staff and the Company as well as an overall confirmation from the auditors of their independence and objectivity. As a result of their review, the Audit Committee has concluded that PricewaterhouseCoopers LLP is independent of the Company.

CONCLUSIONS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The production and the audit of the Company's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors. In order to reach a conclusion that the Annual Report and Financial Statements are fair, balanced and understandable, the Board has requested that the Audit Committee advise on whether it considers that these criteria are satisfied. In so doing, the Audit Committee has given consideration to the following:

- the comprehensive control framework over the production of the Annual Report and Financial Statements, including the verification processes in place to deal with the factual content;
- the extensive levels of review that are undertaken in the production process by the Manager, the Depositary and the Audit Committee;
- the controls that are in place at the Manager and third party service providers to ensure the completeness and accuracy of the Company's financial records and the security of the Company's assets; and
- the existence of satisfactory Service Organisation Control reports that have been reviewed and reported on by external auditors in respect of the effectiveness of the internal controls of BlackRock, the Custodian and the Fund Accountants.

In addition to the work outlined above, the Audit Committee has reviewed the Annual Report and Financial Statements and is satisfied that, taken as a whole, they are fair, balanced and understandable. In reaching this conclusion, the Audit Committee has assumed that the reader of the Annual Report and Financial Statements would have a reasonable level of knowledge of the investment trust industry. The Audit Committee has reported on these findings to the Board who affirm the Committee's conclusions in the Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements on page 38.

MICHAEL PEACOCK
Chairman
Audit Committee
2 May 2017

Governance

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

The Directors are responsible for preparing the Annual Report and 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 year.

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

- present fairly the financial position, financial performance and cash flows of the Company;
- 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 and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Strategic Report, Directors' Report, the Directors' Remuneration Report, the Corporate Governance Statement and the Report of the Audit Committee in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules. The Directors have delegated responsibility to the Manager for the maintenance and integrity of the Company's corporate and financial information included on BlackRock'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 19 confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report contained in the Annual Report and Financial Statements 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.

The UK Code also requires Directors to ensure that the Annual Report and Financial Statements are fair, balanced and understandable. In order to reach a conclusion on this matter, the Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Financial Statements fulfils these requirements. The process by which the Committee has reached these conclusions is set out in the Audit Committee's report on pages 35 to 37. As a result, the Board has concluded that the Annual Report and Financial Statements for the year ended 28 February 2017, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

FOR AND ON BEHALF OF THE BOARD
NICHOLAS FRY
Chairman
2 May 2017

Financial statements

Independent auditors' report to the members of BlackRock Smaller Companies Trust plc

REPORT ON THE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, BlackRock Smaller Companies Trust plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 28 February 2017 and of its profit and cash flows 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.

WHAT WE HAVE AUDITED

The financial statements, included within the Annual Report, comprise:

- the Income Statement for the year then ended;
- the Balance Sheet as at 28 February 2017;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

OUR AUDIT APPROACH

Overview

Materiality	▶ Overall materiality: £5.97 million which represents 1% of Net assets.
Audit Scope	▶ The Company is a standalone Investment Trust Company and engages BlackRock Fund Managers Limited (the "Manager") to manage its assets. ▶ We conducted our audit of the financial statements using information from Bank of New York Mellon (International) Limited (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions. ▶ We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates. ▶ We obtained an understanding of the control environment in place at both the Manager and the Administrator, and adopted a fully substantive testing approach using reports obtained from the Administrator.
Areas of focus	▶ Valuation and existence of investments. ▶ Accuracy, existence and completeness of dividend income. ▶ Performance fee.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Financial statements

Independent auditors' report to the members of BlackRock Smaller Companies Trust plc continued

Area of focus	How the audit addressed the area of focus
Valuation and existence of investments *Refer to page 36 (Report of the Audit Committee), page 49 (Accounting Policies) and page 54 (Notes to the financial statements).* The investment portfolio at the year-end comprised listed equity investments valued at £648.0 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation. No differences were identified by our testing which required reporting to those charged with governance.
Accuracy, existence and completeness of dividend income *Refer to page 36 (Report of the Audit Committee), page 48 (Accounting Policies) and page 50 (Notes to the financial statements).* We focused on the accuracy, existence and completeness of dividend income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. We also focused on the accounting policy for income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP") as incorrect application could indicate a misstatement in income recognition.	We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We tested dividend receipts by agreeing the dividend rates from investments to market data. No misstatements were identified which required reporting to those charged with governance. To test for completeness, we tested that dividends recorded in the year had been declared by investment holdings in the portfolio, and that all dividend declared by investment holdings had been recorded. We tested existence by agreeing a sample of dividends received to bank statements. We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions. Our procedures did not identify any misstatements which required reporting to those charged with governance.
Performance fee *Refer to page 36 (Report of the Audit Committee), page 48 (Accounting Policies) and page 51 (Notes to the financial statements).* A performance fee of £1.44 million is payable for the year. We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager.	We tested the calculation of the performance fee to ensure that it complied with the methodology as set out in the Investment Management Agreement, and agreed the inputs to the calculation, including the net asset value and benchmark data, to independent third party sources, where applicable. We tested the allocation of the performance fee between the income and capital return columns of the Income Statement with reference to the accounting policy as set out on page 48. We found that the allocation of the performance fee was consistent with the accounting policy.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates.

The Company's accounting is delegated to the Fund Accountants who maintain their own accounting records and controls.

We conducted a fully substantive audit however, as part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to obtain an understanding of the control environment in place at service providers. This assessment of the operating and accounting structure in place at both organisations involved obtaining and analysing the relevant control reports, issued by the independent auditor of the Manager and the Fund Accountants. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£5.97 million (2016: £4.75 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £298,000 (2016: £238,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 23, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or - otherwise misleading.	We have no exceptions to report.
the statement given by the directors on page 38, in accordance with provision C.1.1 of the UK Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.	We have no exceptions to report.
the section of the Annual Report on pages 35 to 37, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

▸ the Directors' confirmation on page 33 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
▸ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
▸ the Directors' explanation on pages 17 and 18 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the company and the Directors' statement in relation to the longer-term viability of the company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

ADEQUACY OF ACCOUNTING RECORDS AND INFORMATION AND EXPLANATIONS RECEIVED

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

DIRECTORS' REMUNERATION

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 38, 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 and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

ALLAN McGRATH (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Statutory Auditors
London
2 May 2017

Financial statements

Income statement for the year ended 28 February 2017

		2017			2016		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	10	–	124,817	124,817	–	20,409	20,409
Gains/(losses) on foreign exchange		–	2	2	–	(4)	(4)
Income from investments held at fair value through profit or loss	3	12,531	167	12,698	11,550	53	11,603
Other income	3	2	–	2	24	–	24
Total income		12,533	124,986	137,519	11,574	20,458	32,032
Expenses							
Investment management and performance fees	4	(736)	(3,651)	(4,387)	(681)	(3,299)	(3,980)
Operating expenses	5	(601)	(17)	(618)	(630)	(20)	(650)
Total operating expenses		(1,337)	(3,668)	(5,005)	(1,311)	(3,319)	(4,630)
Net profit on ordinary activities before finance costs and taxation		11,196	121,318	132,514	10,263	17,139	27,402
Finance costs	6	(401)	(1,202)	(1,603)	(402)	(1,206)	(1,608)
Net profit on ordinary activities before taxation		10,795	120,116	130,911	9,861	15,933	25,794
Taxation	7	(36)	–	(36)	(14)	–	(14)
Net profit on ordinary activities after taxation	9	10,759	120,116	130,875	9,847	15,933	25,780
Revenue return per ordinary share	9	22.47p	250.87p	273.34p	20.57p	33.27p	53.84p

The total column of this statement represents the Profit and Loss Account of the Company.

The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above statement derive from continuing operations and no operations were acquired or discontinued during the year. All income is attributable to the equity holders of the Company.

The net profit for the period disclosed above represents the Company's total comprehensive income.

The notes on pages 48 to 63 form part of these financial statements.

Financial statements

Statement of changes in equity for the year ended 28 February 2017

	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 28 February 2017							
At 29 February 2016		12,498	38,952	1,982	405,323	16,300	475,055
Total comprehensive income:							
Profit for the year		–	–	–	120,116	10,759	130,875
Transactions with owners, recorded directly to equity:							
Dividends paid[(a)]	8	–	–	–	–	(8,857)	(8,857)
At 28 February 2017		12,498	38,952	1,982	525,439	18,202	597,073
For the year ended 29 February 2016							
At 28 February 2015		12,498	38,952	1,982	389,390	14,114	456,936
Total comprehensive income:							
Profit for the year		–	–	–	15,933	9,847	25,780
Transactions with owners, recorded directly to equity:							
Dividends paid[(b)]	8	–	–	–	–	(7,661)	(7,661)
At 29 February 2016		12,498	38,952	1,982	405,323	16,300	475,055

(a) Interim dividend paid in respect of the year ended 28 February 2017 of 8.00p was declared on 25 October 2016 and paid on 30 November 2016. Final dividend paid in respect of the year ended 29 February 2016 of 10.50p was declared on 25 April 2016 and paid on 20 June 2016.

(b) Interim dividend paid in respect of the year ended 29 February 2016 of 7.00p was declared on 26 October 2015 and paid on 30 November 2015. Final dividend paid in respect of the year ended 28 February 2015 of 9.00p was declared on 27 April 2015 and paid on 25 June 2015.

The notes on pages 48 to 63 form part of these financial statements.

Financial statements

Balance sheet as at 28 February 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	647,981	506,588
Current assets			
Debtors	11	1,823	1,254
Cash and cash equivalents		29	11,988
		1,852	13,242
Creditors – amounts falling due within one year	12	(2,839)	(4,868)
Net current (liabilities)/assets		(987)	8,374
Total assets less current (liabilities)/assets		646,994	514,962
Creditors - amounts falling due after more than one year	13	(49,921)	(39,907)
Net assets		597,073	475,055
Capital and reserves			
Called up share capital	14	12,498	12,498
Share premium account	15	38,952	38,952
Capital redemption reserve	15	1,982	1,982
Capital reserves	15	525,439	405,323
Revenue reserve	15	18,202	16,300
Total shareholders' funds		597,073	475,055
Net asset value per ordinary share (debenture at par value)	9	1,247.03p	992.18p
Net asset value per ordinary share (debenture at fair value)	9	1,237.77p	982.59p

The financial statements on pages 44 to 63 were approved and authorised for issue by the Board of Directors on 2 May 2017 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

Nicholas J. Fry

The notes on pages 48 to 63 form part of these financial statements.

Financial statements

Statement of cash flows for the year ended 28 February 2017

	Notes	2017 £'000	2016 £'000
Operating activities			
Net profit before taxation*		130,911	25,794
Add back finance costs		1,603	1,608
Gains on investments held at fair value through profit or loss		(124,984)	(20,409)
Net movement on foreign exchange		(2)	4
Sales of investments held at fair value through profit or loss		195,444	205,660
Purchases of investments held at fair value through profit or loss		(214,179)	(193,747)
Decrease/(increase) in debtors		81	(70)
(Decrease)/increase in creditors		(356)	6
Taxation on investment income		(36)	(14)
Net cash (used)/generated from operating activities		(11,518)	18,832
Financing activities			
Net drawdown of loan		10,000	–
Interest paid		(1,586)	(1,593)
Dividends paid	8	(8,857)	(7,661)
Net cash used in financing activities		(443)	(9,254)
(Decrease)/increase in cash and cash equivalents		(11,961)	9,578
Cash and cash equivalents at start of the year		11,988	2,414
Effect of foreign exchange rate changes		2	(4)
Cash and cash equivalents at end of the year		29	11,988
Comprised of:			
Cash at bank		29	2,241
BlackRock's Institutional Cash Series plc - Sterling Liquidity Fund		–	9,747
		29	11,988

* Dividends and interest received in the year amounted to £12,565,000 and £32,000 (2016: £11,473,000 and £25,000) respectively

The notes on pages 48 to 63 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 financial statements have been prepared on a going concern basis in accordance with FRS 102 and the revised Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies (AIC) in November 2014 and the provisions of the Companies Act 2006.

The principal accounting policies adopted by the Company are set out below. Unless specified otherwise, 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 reflect better 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 a capital nature has been presented alongside the Income Statement.

(c) Segmental reporting

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

(d) 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. Provisions are made for dividends not expected to be received. The return on a debt security is recognised on a time apportionment basis.

Special dividends are recognised on an ex-dividend basis and are treated as capital or revenue receipt depending on the facts or circumstances of each dividend.

Dividends are accounted for in accordance with Section 29 of FRS 102 on the basis of income actually receivable, without adjustment for tax credits attaching to the dividend. Dividends from overseas companies continue to be shown gross of withholding tax.

Deposit Interest receivable is accounted for on an accruals basis.

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

(e) Expenses

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

- expenses which are incidental to the acquisition or disposal of investments are treated as capital. Details of transaction costs on the purchases and sales of investments are disclosed in note 10 on page 54. Transaction charges in relation to the purchase and sale of investments are charged to the capital column of the Income Statement;

- 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.

(f) 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.

(g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

Deferred taxation is recognised in respect of all timing differences at the financial reporting date, where transactions or events that result in an obligation to pay more taxation in the future or right to less taxation 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 taxation 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 timing differences can be deducted.

(h) 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 Section 11 and 12 of FRS 102 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. Purchases of investments are recognised on a trade date basis. Sales are recognised at the trade date of the disposal. Proceeds will be measured at fair value, which will be regarded as the proceeds of the sale less any transaction costs.

The fair value of the financial investments is based on their quoted bid price at the balance sheet date on the exchange on which the investment is quoted, without deduction for the 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.

The Company has early adopted the amendments to FRS 102 - 'Fair value hierarchy disclosures' effective for annual periods beginning on or after 1 January 2017. These amendments improve consistency of fair value disclosure for financial instruments compared with those required by EU adopted IFRS.

The fair value hierarchy consists of the following three levels:

Level 1 – Quoted market price for identical instruments in active markets

Level 2 – Valuation techniques using observable inputs

Level 3 – Valuation techniques using significant unobservable inputs

(i) Foreign currency translation

In accordance with Section 30 of FRS 102, the Company is required to nominate a functional currency, being the currency in which the Company predominately operates. The functional and reporting currency is Sterling, reflecting the primary economic environment in which the Company operates. Transactions in foreign currencies are translated into Sterling at the rates of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the Balance Sheet date. Profits and losses thereon are recognised in the capital column of the Income Statement and taken to the capital reserve.

2. ACCOUNTING POLICIES continued

(j) Dividends payable

Under Section 32 of FRS 102 final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the balance sheet date.

Dividends payable to equity shareholders are recognised in the Statement of Changes in Equity when they have been approved by shareholders and have become a liability of the Company. Interim dividends are only recognised in the financial statements in the period in which they are paid.

(k) Shares repurchased and held in Treasury

The full cost of shares repurchased and held in treasury is charged to capital reserves. Where treasury shares are subsequently reissued, any surplus is taken to the share premium account.

(l) Debtors

Debtors include sales for future settlement, other debtors and pre-payments and accrued income in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

(m) Creditors

Creditors include purchases for future settlements, interest payable, share buyback cost and accruals in the ordinary course of business. Creditors are classified as creditors - amounts due within one year if payment is due within one year or less. If not, they are presented as creditors - amounts falling due after more than one year.

(n) Cash and cash equivalents

Cash comprises cash in hand, demand deposits and bank overdrafts repayable on demand. Cash equivalents include 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.

3. INCOME

	2017 £'000	2016 £'000
Investment Income:		
UK dividends	9,621	9,370
UK dividends – scrip	56	25
UK dividends – special	688	1,035
Property income dividends	861	384
Overseas dividends	1,148	736
Overseas interest income	28	–
Overseas dividends - special	129	–
	12,531	11,550
Other Income:		
Bank interest	1	7
Underwriting commission	1	17
	2	24
Total	12,533	11,574

Special dividends of £167,000 have been recognised in capital (2016: £53,000).

4. INVESTMENT MANAGEMENT AND PERFORMANCE FEES

	2017			2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	736	2,207	2,943	681	2,041	2,722
Performance fee	–	1,444	1,444	–	1,258	1,258
Total	736	3,651	4,387	681	3,299	3,980

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. The fee is calculated quarterly, as one quarter of the amount equal to the fee rate of 0.50% multiplied by total assets (excluding current year income) less the current liabilities of the Company at the relevant quarter end and less the £50 million initial threshold charged at 0.65%, plus one quarter of the amount equal to 0.65% multiplied by the initial threshold of £50 million.

A performance fee is payable at the average 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. This average calculation is based on the total assets (excluding current year income) less the current liabilities of the Company at the start of the year and at the year end date added together and divided by two. 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.

The annualised excess performance against the Company's benchmark for the two years ended 28 February 2017 was 7.0% (2016: 6.7%). The fee was restricted by the 0.25% cap and £1,444,000 has been accrued for the year ended 28 February 2017 (2016: £1,258,000).

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

5. OPERATING EXPENSES

	2017 £'000	2016 £'000
Taken from Revenue:		
Custody fees	5	6
Depositary fees	70	67
Auditor's remuneration:		
– audit services	25	25
– non audit services[1]	3	9
Registrar's fee	28	33
Directors' emoluments (excluding expenses)	148	141
Marketing fees	134	164
Other administration costs	188	185
	601	630
Taken from Capital:		
Transaction charges - capital	17	20
	618	650
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:	0.7%	0.7%
The Company's ongoing charges - calculated as a percentage of average shareholders' funds and using operating expenses, including performance fees, and excluding finance costs and taxation were:	1.0%	0.9%

1. The 2017 non audit services relate to the debenture compliance work carried out by PricewaterhouseCoopers. The 2016 non audit services relate to the review of the interim financial statements for the six months to 31 August 2015, carried out by Scott Moncrieff, and the debenture compliance work carried out by PricewaterhouseCoopers.

6. FINANCE COSTS

	2017			2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
7.75% debenture stock interest	291	872	1,163	290	872	1,162
Loan and overdraft interest	106	320	426	108	323	431
Amortised debenture stock issue expenses	4	10	14	4	11	15
	401	1,202	1,603	402	1,206	1,608

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.

7. TAXATION

(a) Analysis of charge for the year

	2017			2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Overseas tax (note 7 (b))	36	–	36	14	–	14
Total taxation	36	–	36	14	–	14

(b) Factors affecting current taxation charge for the year

The tax assessed for the year is lower than the standard rate of corporation taxation in the UK for a large company of 20.00% (2016: 20.08%). The differences are explained below:

	2017			2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit on ordinary activities before taxation	10,795	120,116	130,911	9,861	15,933	25,794
Profit on ordinary activities multiplied by *standard rate of corporation tax of 20.00%* (2016: 20.08%)	2,159	24,023	26,182	1,980	3,199	5,179
Effects of:						
Income not subject to corporation tax	(2,328)	–	(2,328)	(2,238)	(11)	(2,249)
Gains on investments held at fair value through profit or loss	–	(24,997)	(24,997)	–	(4,098)	(4,098)
Disallowed expenses	–	3	3	–	4	4
Excess expenses not utilised	169	971	1,140	258	906	1,164
Overseas tax charge	36	–	36	14	–	14
Total corporation tax charge (note 7(a))	36	–	36	14	–	14

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.

(c) Factors that may affect future tax changes

At 28 February 2017 the Company had net surplus management expenses of £43,025,000 (2016: £38,900,000), and a non-trade loan relationship deficit (relating to interest on the Company's debenture, revolving credit facility and bank overdraft) of £22,533,000 (2016: £20,959,000). 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 the Company will be able to reduce future tax liabilities through the use of the existing excess expenses and loan relationship deficits.

8. DIVIDENDS

Dividends paid on equity shares:	Record date	Payment date	2017 £'000	2016 £'000
2015 final of 9.00p	22 May 2015	25 June 2015	–	4,309
2016 interim of 7.00p	6 November 2015	30 November 2015	–	3,352
2016 final of 10.50p	20 May 2016	20 June 2016	5,027	–
2017 interim of 8.00p	4 November 2016	30 November 2016	3,830	–
			8,857	7,661

The Directors have proposed a final dividend of 13.00p per share in respect of the year ended 28 February 2017. The proposed dividend will be paid, subject to shareholders' approval on 19 June 2017 to shareholders on the Company's register on 19 May 2017. The final dividend has not been included as a liability in these financial statements as proposed dividends are only recognised in the financial statements when they have been approved by shareholders, or in the case of special dividends are not recognised until they are paid.

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 for the year ended 28 February 2017 meet the relevant requirements as set out in this legislation.

Dividends paid or proposed on equity shares:	2017 £'000	2016 £'000
Interim paid 8.00p (2016: 7.00p)	3,830	3,352
Final proposed of 13.00p per share (2016: 10.50p)*	6,224	5,027
	10,054	8,379

* Based upon 47,879,792 ordinary shares (excluding treasury shares) in issue on 2 May 2017.

All dividends paid or payable are distributed from the Company's revenue profits.

9. REVENUE RETURN AND NET ASSET VALUE PER ORDINARY SHARE

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

	2017	2016
Net revenue profit attributable to ordinary shareholders (£'000)	10,759	9,847
Net capital profit attributable to ordinary shareholders (£'000)	120,116	15,933
Total profit attributable to ordinary shareholders (£'000)	130,875	25,780
Total shareholders' funds (£'000)	597,073	475,055
The weighted average number of ordinary shares in issue during each year on which the earnings per ordinary share was calculated was:	47,879,792	47,879,792
The actual number of ordinary shares in issue at the end of the year on which the net asset value was calculated was:	47,879,792	47,879,792

Financial statements

Notes to the financial statements continued

9. REVENUE RETURN AND NET ASSET VALUE PER ORDINARY SHARE continued

	2017			2016		
	Revenue p	Capital p	Total p	Revenue p	Capital p	Total p
Earnings per share						
Calculated on weighted average number of ordinary shares	22.47	250.87	273.34	20.57	33.27	53.84
Calculated on actual number of ordinary shares	22.47	250.87	273.34	20.57	33.27	53.84
Net asset value per share (debenture at par value)	–	–	1,247.03	–	–	992.18
Net asset value per share (debenture at fair value)	–	–	1,237.77	–	–	982.59
Net asset value per ordinary share (with debenture at par value, capital only)	–	–	1,232.55p	–	–	978.61p
Ordinary share price	–	–	1,060.00p	–	–	863.00p

10. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 £'000	2016 £'000
UK investments held at fair value	391,845	327,609
UK AIM investments held at fair value	256,136	178,979
Total equity investments	647,981	506,588
Valuation brought forward	506,588	496,332
Opening investment holding gains	(103,864)	(120,641)
Opening cost of equity investments	402,724	375,691
Additions at cost	212,503	194,084
Disposals at cost	(168,676)	(167,051)
Cost carried forward	446,551	402,724
Closing investment holding gains	201,430	103,864
Closing valuation of equity investments	647,981	506,588

Transaction costs of £764,000 were incurred on the acquisition of investments (2016: £826,000). Costs relating to the disposal of investments during the year amounted to £210,000 (2016: £264,000). All transaction costs have been included within capital reserves.

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

	2017 £'000	2016 £'000
Realised gains on sales	27,251	37,186
Movement in investment holdings gains	97,566	(16,777)
	124,817	20,409

11. DEBTORS

	2017 £'000	2016 £'000
Sales for future settlement	1,533	883
Prepayments and accrued income	282	363
Taxation recoverable	8	8
	1,823	1,254

12. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Purchases for future settlement	71	1,747
Other payables	2,768	3,121
	2,839	4,868

13. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017 £'000	2016 £'000
7.75% debenture stock 2022*	15,000	15,000
Unamortised debenture stock issue expenses	(79)	(93)
	14,921	14,907
Scotia Bank loan	35,000	25,000
	49,921	39,907

* The fair value of the 7.75% debenture stock using the last available quoted offer price from the London Stock Exchange as at 28 February 2017 was 129.00p per debenture, a total of £19,350,000. (2016: 130.00p, a total of £19,500,000.)

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.

At 28 February 2017, all of the £35 million facility was utilised (2016: £35 million facility, £25 million utilised). Under the agreement the termination date of this facility is the third anniversary of the effective date being 29 May 2018. Interest on this facility is reset every three months and is currently charged at the rate of 1.30588 % (2016: 1.53938%).

14. CALLED UP SHARE CAPITAL

	Ordinary shares in issue number	Treasury shares number	Total shares number	Nominal value £'000
Allotted, called up and fully paid share capital comprised:				
Ordinary shares of 25p each:				
At 1 March 2016	47,879,792	2,113,731	49,993,523	12,498
At 28 February 2017	47,879,792	2,113,731	49,993,523	12,498

During the year no ordinary shares were purchased for cancellation or placed in or cancelled out of treasury (2016: nil).

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 ordinary shares or on the transfer of ordinary shares.

15. SHARE PREMIUM 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 2016	38,952	1,982	301,459	103,864	16,300
Movement during the year:					
Net profit for the year	–	–	–	–	10,759
Gains on realisation on investments	–	–	27,251	–	–
Change in investment holding gains	–	–	–	97,566	–
Special Dividends	–	–	167	–	–
Gain on foreign currency transaction	–	–	2	–	–
Finance costs, transaction costs, investment management and performance fees charged to capital	–	–	(4,870)	–	–
Dividends paid during the year	–	–	–	–	(8,857)
At 28 February 2017	38,952	1,982	324,009	201,430	18,202

16. RISK MANAGEMENT POLICIES AND PROCEDURES

The Company's investment activities expose it to various types of risks which are associated with the financial instruments and markets in which it invests. The following information is not intended to be a comprehensive summary of all risks and shareholders should refer to the Alternative Investment Fund Managers' Directive Fund 3.2.2R Disclosures which can be found at blackrock.co.uk/brsc for a more detailed discussion of the risks inherent in investing in the Company.

Risk management framework

The following information refers to the risk management framework of the AIFM; however, as disclosed in the Corporate Governance Statement on pages 31 to 34 and in the Statement of Director's Responsibilities on page 38, it is the ultimate responsibility of the Board to ensure that the Company's risks are appropriately monitored, and to the extent that elements of this are delegated to third party service providers, the Board is responsible for reviewing that the relevant parties are discharging their duties in accordance with the terms of relevant agreements and taking appropriate action to the extent issues are identified.

The Directors of the AIFM review quarterly investment performance reports and receive semi-annual presentations in person from the Investment Manager covering the Company's performance and risk profile during the year. The AIFM has delegated the day-to-day administration of the investment programme to the Investment Manager. The Investment Manager is also responsible for ensuring that the Company is managed within the terms of its investment guidelines and limits set out in the Alternative Investment Fund Managers' Directive Fund 3.2.2R Disclosures which can be found at blackrock.co.uk/brsc.

The AIFM is responsible for monitoring investment performance, product risk monitoring and oversight and has the responsibility for the monitoring and oversight of regulatory and operational risk for the Company. The Directors of the AIFM have appointed a Risk Manager who has responsibility for the daily risk management process with assistance from key risk management personnel of the Investment Manager, including members of the Risk and Quantitative Analysis Group ("RQA") which is a centralised group which performs an independent risk management function. RQA independently identifies, measures and monitors investment risk. RQA tracks the actual risk management practices being deployed across the Company. By breaking down the components of the process, RQA have the ability to determine if the appropriate risk management processes are in place across the Company. This captures the risk management tools employed, how the levels of risk are controlled, ensuring risk/return is considered in portfolio construction and reviewing outcomes.

The AIFM reports to the Audit Committee twice yearly on key risk metrics and risk management processes; in addition, the Depositary monitors the performance of the AIFM and reports to the Audit Committee twice yearly. Any issues are reported to the Board on an ad hoc basis as they arise.

Risk exposures

The risk exposures of the Company are set out as follows:

(a) Market risk

Market risk arises mainly from uncertainty about future values of financial instruments influenced by currency, interest rate and other price movements. It represents the potential loss the Company may suffer through holding market positions in financial instruments in the face of market movements.

Value at Risk (VaR) is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables (including foreign currency risk, interest rate risk and other price risk), unlike a traditional sensitivity analysis.

The VaR calculations are based on a confidence level of 99% with a holding period of not greater than 1 day and a historical observation period of not less than 2 years (500 days). A VaR number is defined at a specified probability and a specified time horizon. A 99% 1 day VaR means that the expectation is that 99% of the time over a 1 day period the Company will lose less than this number in percentage terms. Therefore, higher VaR numbers indicate higher risk. It is noted that the use of VaR methodology has limitations, namely assumptions that risk factor returns are normally distributed and that the use of historical market data as a basis for estimating future events does not encompass all possible scenarios, particularly those that are of an extreme nature and that the use of a specified confidence level (e.g. 99%) does not take into account losses that occur beyond this level. There is some probability that the loss could be greater than the VaR amount. These limitations and the nature of the VaR measure mean that the Company can neither guarantee that losses will not exceed the VaR amounts indicated, nor that losses in excess of the VaR amounts will not occur more frequently.

The one-day VaR as of 28 February 2017 and 29 February 2016 (based on a 99% confidence level) was 1.84% and 2.77%, respectively.

(i) Market risk arising from foreign currency risk

Exposure to foreign currency risk

As the Company's objective is to achieve capital growth for shareholders through investment mainly in smaller UK quoted companies, substantially all 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).

As at 28 February 2017, there was 1 non-sterling denominated investment with a market value of £42 (2016: 1 investment with a market value of £1,195).

(ii) Market risk arising from interest rate risk

Exposure to interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk specifically through its cash holdings and variable rate borrowings. Interest rate movements may affect the level of income receivable from any cash at bank and on deposits and the level of interest payable on variable rate borrowings. The effect of interest rate changes on the earnings of the companies held within the portfolio may have a significant impact on the valuation of the Company's investments.

Interest rate exposure

The Company's exposure to interest rates at year end was:

- floating interest rates - when the interest rate is due to be re-set.
- fixed interest rates - when the financial instrument is due for repayment.

16. RISK MANAGEMENT POLICIES AND PROCEDURES continued

	2017			2016		
	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:						
Cash and cash equivalents	29	–	29	11,988	–	11,988
Scotia Bank loan	–	(35,000)	(35,000)	–	(25,000)	(25,000)
Exposure to fixed interest rates:						
7.75% debenture stock 2022	–	(14,921)	(14,921)	–	(14,907)	(14,907)
Total exposure to interest rates	29	(49,921)	(49,892)	11,988	(39,907)	(27,919)

The above year end amounts may not be 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. During the year the Company was exposed to interest rate risk through its cash investments, its overdraft facility and cash deposits with BNYM and the loan with Scotia Bank. Borrowing is varied throughout the year as part of a Board endorsed policy. As set out in the table above, as at 28 February 2017, the Company had a net overdraft of £nil as well as a multi-currency revolving loan facility of £35,000,000 all of which was utilised at the year end (2016: overdraft of £nil and loan facility of £35,000,000 of which £25,000,000 was utilised at the year end).

Management of interest rate 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. Derivative contracts are not used to hedge against the exposure to interest rate risk. Interest rate sensitivity risk has been covered by the VaR analysis under the market risk section.

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.

Interest received on cash balances, or paid on the bank overdraft respectively, was on average 0.00% and 1.22% per annum (2016: 0.15% and 1.48%). Interest payable on the £35 million utilised multi-currency revolving loan facility is at a rate of 1.30588% (2016: £25 million payable at a rate of 1.539380%).

(iii) Market risk arising from other price risk

Exposure to other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Company is exposed to market price risk arising from its equity investments. The movements in the prices of these equity investments result in movements in the performance of the Company.

The Company's exposure to other changes in market prices at 28 February 2017 on its equity investments was £647,981,000 (2016: £506,588,000).

Management of other price risk

Exposures to individual stocks are monitored by the Fund Manager, who takes into account the strategy of the Company and the need to hold a diversified portfolio. No more than 15% of the Company's assets may be invested in any one stock, but in practice positions are much smaller. Limits on individual holdings are coded on BlackRock's trading systems and are monitored daily.

Regular review by RQA of sector allocations and various concentration of risk metrics identifies areas of concern. Portfolio concentrations are reviewed by RQA on a regular basis and areas of concern are highlighted to and discussed with the Portfolio Manager.

Concentration of exposure to market price risks

An analysis of the Company's fifty largest investments and sector analysis, is shown on pages 10 to 12. At 28 February 2017, this shows the majority of the investment value is in UK companies. Accordingly, there is a concentration of exposure to the UK, although 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.

(b) Counterparty credit risk

Credit risk is the risk that the issuer of a financial instrument will fail to fulfil an obligation or commitment that it has entered into with the Company.

The Company is exposed to counterparty credit risk from the parties with which it trades and will bear the risk of settlement default. Counterparty credit risk to the Company arises from transactions to purchase or sell equity investments.

Depositary

The Company's Depositary is BNY Mellon Trust & Depositary (UK) Limited (the 'Depositary') (Moody's long term credit rating as at 28 February 2017: Aa2). All of the equity assets and cash of the Company are held within the custodial network of the Depositary. Bankruptcy or insolvency of the Depositary may cause the Company's rights with respect to its investments held by the Depositary to be delayed or limited. The maximum exposure to this risk at 28 February 2017 is the total value of equity investments held with the Depositary and cash and cash equivalents in the Balance Sheet.

In accordance with the requirements of the depositary agreement, the Depositary will ensure that any agents it appoints to assist in safekeeping the assets of the Company will segregate the assets of the Company. Thus, in the event of insolvency or bankruptcy of the Depositary, the Company's non-cash assets are segregated and this reduces counterparty credit risk.

The Company's listed investments are held on its behalf by The Bank of New York Mellon (International) Limited as the Company's Custodian. Bankruptcy or insolvency of the Custodian may also cause the Company's rights with respect to securities held by the Custodian to be delayed or limited.

The Company will also be exposed to the counterparty credit risk of the Depositary in relation to the Company's cash held by the Depositary. In the event of the insolvency or bankruptcy of the Depositary, the Company will be treated as a general creditor of the Depositary in relation to cash holdings of the Company.

Counterparties/Brokers

All transactions in listed securities are settled/paid for upon delivery using an approved broker. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has made payment. Payment is made on a purchase once the securities have been delivered by the broker. The trade will fail if either party fails to meet its obligation.

Counterparty credit risk also arises on transactions with the broker in relation to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the broker used. The Company monitors the credit rating and financial position of the broker used to further mitigate this risk.

Cash held by a counterparty is subject to the credit risk of the counterparty. The table on the next page details the total number of counterparties to which the Company is exposed, the maximum exposure to any one counterparty, any collateral held by the Company against this exposure, the total exposure to all other counterparties and the lowest long term credit rating of any one counterparty (or its ultimate parent if unrated).

Year	Total number of counterparties	Maximum exposure to any one counterparty* £'000	Collateral held £'000	Total exposure to all other counterparties* £'000	Lowest credit rating of any one counterparty
2017	1	29	–	–	Aa2
2016	1	11,988	–	–	Aa2

* Calculated on a net exposure basis.

Cash is subject to counterparty credit risk as the Company's access to its cash could be delayed should the counterparties become insolvent or bankrupt.

Financial statements

Notes to the financial statements continued

16. RISK MANAGEMENT POLICIES AND PROCEDURES continued

Receivables

Amounts due from debtors are disclosed on the Balance Sheet as debtors. The counterparties included in debtors are the same counterparties discussed previously under counterparty credit risk and subject to the same scrutiny by RQA CCR. The Company monitors the ageing of receivables to mitigate the risk of debtor balances becoming overdue.

In summary, the exposure to credit risk in respect of cash holdings, brokers and other debtors at 28 February was as follows:

	2017 3 months or less £'000	2016 3 months or less £'000
Cash and cash equivalents	29	11,988
Sales for future settlements	1,533	883
Other debtors	290	371
	1,852	13,242

Management of counterparty credit risk

Credit risk is monitored and managed by BlackRock's RQA Counterpart & Concentration Risk team (RQA CCR). The team is headed by BlackRock's Chief Credit Officer who reports to the Global Head of RQA. Credit authority resides with the Chief Credit Officer and selected team members to whom specific credit authority has been delegated. As such, counterparty approval may be granted by the Chief Credit Officer, or by identified RQA Credit Risk Officers who have been formally delegated authority by the Chief Credit Officer.

The counterparty credit risk is managed as follows:

- transactions are entered into with those counterparties approved by RQA CCR, with a formal review carried out for each new counterparty and counterparties selected by RQA CCR on the basis of a number of risk migration criteria designed to reduce the risk to the Company of default;
- the Company's listed investments are held on its behalf by The Bank of New York Mellon (International) Limited as the Company's custodian (as sub-delegated by the Depositary). Bankruptcy or inslovency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Board monitors the Company's risk by reviewing the custodian's internal control reports:
- the creditworthiness of financial institutions with whom cash is held is reviewed regularly by RQA CCR team;
- all transactions in quoted securities are settled on a payment against delivery basis using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has made payment. Payment is made on purchase once the securities have been delivered by the broker. The trade will fail if either party fails to meets its obligation. The RQA CCR team review the credit standard of the Company's brokers on a periodic basis, and set limits on the amount that may be due from any one broker;
- amounts due from other receivables as disclosed on the Balance Sheet are subject to the same scrutiny by the BlackRock RQA CCR team and BlackRock's Fund administration team monitors the ageing of debtors to mitigate the risk of balances becoming overdue.

The Board monitors the Company's counterparty risk by reviewing:

- the semi-annual report from the Depositary, which includes the results of periodic site visits to the Company's Custodian where controls are reviewed and tested;
- the Custodian's Service Organisation Control (SOC 1) reports which include a report by the Custodian's auditor. This report sets out any exceptions or issues noted as a result of the auditor's review of the Custodians control processes;
- the Manager's SOC 1 reports which include a report by the Manager's auditor. This report sets out any exceptions or issues noted as a result of the auditor's review of the Manager's control processes; and

- in addition, the Depositary and the Manager report any significant breaches or issues arising to the Board as soon as these are identified.

There were no past or impaired assets as of 28 February 2017 (29 February 2016: nil).

The major counterparties engaged with the Company are all widely recognised and regulated entities.

(c) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At the year end, the Company has an overdraft facility of £10 million and a three year multi-currency revolving loan facility of £35 million (2016: overdraft £10million, loan facility £35 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.

Liquidity risk exposure

The remaining undiscounted gross cash outflows of the financial liabilities as at 28 February 2017 and 29 February 2016, based on the earliest date on which payment can be required, were as follows:

	2017			2016		
	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	15,484	1,162	4,650	16,647
Bank Scotia loan	–	35,000	–	–	25,000	–
Purchases for future settlement	71	–	–	1,747	–	–
Other creditors	2,768	–	–	3,121	–	–
	4,002	39,650	15,484	6,030	29,650	16,647

Management of liquidity 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's liquidity risk is managed on a daily basis by the Investment Manager in accordance with established policies and procedures in place. The Portfolio Manager reviews daily forward-looking cash reports which project cash obligations. These reports allow them to manage their obligations.

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.

For the avoidance of doubt, none of the assets of the Company are subject to special liquidity arrangements.

(d) Valuation of financial instruments

The Company has early adopted the amendments to FRS 102 'Fair value Hierarchy disclosures' effective for the annual periods beginning on or after 1 January 2017. These amendments improve the consistency of fair value disclosures from financial instruments with those required by EU adopted IFRS.

Financial assets and financial liabilities are either carried in the Balance Sheet at their fair value (investments) or at an amount which is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank and bank overdrafts). Section 11 of FRS 102 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The valuation techniques used by the Company are explained in the accounting policies note to the Financial Statements on page 49.

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.

16. RISK MANAGEMENT POLICIES AND PROCEDURES continued

The fair value hierarchy has the following levels:

Level 1 – Quoted market price for identical instruments in active markets

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Company does not adjust the quoted price for these instruments.

Level 2 – Valuation techniques using observable inputs

This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs

This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant impact on the instrument's valuation.

This category also includes instruments that are valued based on quoted prices for similar instruments where significant entity determined adjustments or assumptions are required to reflect differences between the instruments and instruments for which there is no active market. The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The table below sets out fair value measurements using FRS 102 fair value hierarchy.

Financial assets at fair value through profit or loss at 28 February 2017	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	647,981	–	–	647,981
Total	647,981	–	–	647,981

Financial assets at fair value through profit or loss at 29 February 2016	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	506,588	–	–	506,588
Total	506,588	–	–	506,588

There were no transfers between levels for financial assets during the year recorded at fair value as at 28 February 2017 and 29 February 2016. The Company did not hold any level 3 securities throughout the financial year or as at 28 February 2017 (2016: nil).

(e) Capital management policies and procedures

The Company's capital management objectives are:

- to ensure it will be able to continue as a going concern; and
- secure long term capital growth primarily through investing in smaller UK quoted companies.

This is to be achieved through an appropriate balance of equity capital and gearing. It is the Board's intention that gearing should not exceed 15% of net assets. The Company's objectives, policies and processes for managing capital remain unchanged from the preceding accounting period.

The Company's total capital at 28 February 2017 was £646,994,000 (2016: £514,962,000) comprising £35,000,000 (2016: £25,000,000) of bank loan, £14,921,000 (2016: £14,907,000) of debenture stock at par value and £597,073,000 (2016: £475,055,000) of equity share capital and other reserves.

The Board with the assistance of the Investment Manager monitor and review the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Investment Manager's view on the market; and
- the need to buyback equity shares, either for cancellation or to be held in treasury, which takes account of the difference between the NAV per share and the share price (i.e. the level of share price discount or premium).

The Company's objectives, policies and processes for managing capital remain unchanged from the preceding accounting period.

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restrictions tests imposed on investment companies by law.

During the year the Company complied with the externally imposed capital requirements to which it was subject.

17. TRANSACTIONS WITH THE MANAGER AND THE INVESTMENT MANAGER

The Manager was appointed as the Company's Alternative Investment Fund Manager (AIFM) with effect from 2 July 2014. The Manager has (with the Company's consent) delegated certain portfolio and risk management services, and other ancillary services, to the Investment Manager. Details of the fees payable to the Manager are set out in note 4 on page 51.

The investment management fee due to the Manager for the year ended 28 February 2017 amounted to £2,943,000 (2016: £2,722,000). A performance fee accrued for the year ended 28 February 2017 amounted to £1,444,000 (2016: £1,258,000). At the year end, £808,000 was outstanding in respect of the management fee (2016: £1,341,000) and £1,444,000 (2016: £1,258,000) in respect of the performance fee.

In addition to the above services, BlackRock provided the Company with marketing services. The total fees paid or payable for these services for the year ended 28 February 2017 amounted to £134,000 including VAT (2016: £164,000). Marketing fees of £206,000 (2016: £229,000) was outstanding at year end.

18. RELATED PARTIES DISCLOSURES AND TRANSACTIONS WITH DIRECTORS

Disclosures of the Directors' interests in the Ordinary Shares of the Company and fees and expenses payable to the Directors are set out in the Directors' Remuneration Report on pages 27 to 30.

19. CONTINGENT LIABILITIES

There were no contingent liabilities at 28 February 2017 (2016: nil).

20. POST BALANCE SHEET EVENT DISCLOSURE

Subsequent to the year end date (28 February 2017), the Company has agreed to issue £25 million senior unsecured fixed rate private placement notes ('Notes') at a coupon of 2.74% with a bullet 20 year maturity. The funding date for the Notes will be 24 May 2017 and the Notes will be due for repayment on 24 May 2037. The semi-annual interest payment dates for the Notes will be 24 May and 24 November.

Additional information

Analysis of ordinary shareholders as at 28 February 2017

BY SIZE OF HOLDING

Range	Number of shareholders	% of total 2017	% of total 2016	Number of shares	% of total 2017	% of total 2016
1-10,000	850	80.1	87.7	1,597,425	3.3	5.4
10,001-100,000	132	12.5	7.9	4,733,616	9.9	9.6
100,001-1,000,000	65	6.1	3.6	18,636,308	38.9	37.7
1,000,001-5,000,000	14	1.3	0.8	22,912,443	47.9	47.3
Total	1,061	100.00	100.0	47,879,792	100.00	100.0

* Excludes 2,113,731 shares held in treasury.

Additional information

Historical performance record

Year ended February	Total assets less current liabilities £'000	Shareholders' funds £'000	Net asset value per share p[4]	Share price p	Revenue available for dividends £'000	Revenue earnings per share p	Dividends per share p	Net asset value per share with income *reinvested*[5] p	Cumulative return per share with *income* reinvested[5]
2003	94,788	80,070	141.1	109.8	2,471	4.32	4.33	141.1	
2004	140,623	125,891	234.7	183.0	2,397	4.32	4.42	240.7	70.4%
2005	160,331	145,500	284.4	229.0	2,365	4.59	4.52	297.3	110.7%
2006	197,382	182,621	361.2	312.0	2,258	4.46	4.62	383.7	172.0%
2007	241,636	226,860	453.8	392.8	2,824	5.61	4.76	487.9	245.9%
2008	215,843	201,052	414.5	340.0	3,540	7.16	4.90[1]	450.2	219.1%
2009	125,071	110,265	227.4	177.0	3,499	7.21	5.05[2]	251.3	78.1%
2010	197,087	182,267	380.7	293.8	3,572	7.41	5.60[3]	428.6	203.8%
2011	312,036	297,202	620.7	542.0	4,095	8.55	7.00	708.5	402.2%
2012	311,582	296,733	619.8	503.0	4,865	10.16	8.40	716.1	407.6%
2013	374,797	344,934	720.4	626.5	5,520	11.53	10.00	845.9	499.6%
2014	511,720	471,843	985.5	908.0	6,987	14.59	12.00	1,173.2	731.6%
2015	496,828	456,936	954.3	812.0	8,105	16.93	14.50	1,152.4	716.9%
2016	514,962	475,055	992.2	863.0	9,847	20.57	17.50	1,216.7	762.4%
2017	646,994	597,073	1,247.0	1,060.0	10,759	22.47	21.00	1,556.3	1,003.1%

1. Excluding a special dividend of 1.25p.
2. Excluding a special dividend of 0.70p.
3. Excluding a special dividend of 0.50p.
4. Debenture at par value.
5. This is a theoretical net asset value per share calculated based on the assumption that dividends paid to shareholders are reinvested in the Company's shares at the first opportunity. It is used to calculate the total return that has been generated for shareholders from dividends paid out as well as from capital growth.

Additional information

Management and other service providers

REGISTERED OFFICE
(Registered in Scotland, No. 006176)
Exchange Place One
1 Semple Street
Edinburgh EH3 8BL

INVESTMENT MANAGER AND COMPANY SECRETARY
BlackRock Investment Management (UK) Limited*
12 Throgmorton Avenue
London EC2N 2DL

ALTERNATIVE INVESTMENT FUND MANAGER
BlackRock Fund Managers Limited*
12 Throgmorton Avenue
London EC2N 2DL
Telephone: 020 7743 3000

DEPOSITARY
BNY Mellon Trust & Depositary (UK) Limited*
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

REGISTRAR
Computershare Investor Services PLC*
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1649

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

SOLICITORS
CMS Cameron McKenna LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

AUDITORS
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

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

* Authorised and regulated by the Financial Conduct Authority.

Additional information

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/May
Annual results and final dividend for year announced.

April/May
Annual Report and Financial Statements 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 – 2017

The proposed final dividend in respect of the year ended 28 February 2017 is 13.00p per share.

Ex-dividend date (shares transferred without the dividend)	18 May 2017
Record date (last date for registering transfers to receive the dividend)	19 May 2017
Last date for registering DRIP instructions	26 May 2017
Dividend payment date	19 June 2017

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 investorcentre.co.uk, or by telephone on 0370 707 1649, or by completing the Mandate Instructions section on the reverse of your dividend counterfoil. Confirmation of dividends paid 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 investorcentre.co.uk, or on 0370 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 26 May 2017.

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 website at 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 computershare.com/sharedealingcentre/. The telephone share dealing service is available on 0370 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 COMMUNICATIONS

We encourage you to play your part in reducing our impact on the environment and elect to be notified by email when your shareholder communications become available online. This means you will receive timely, cost-effective and greener online annual reports, half yearly financial reports and other relevant documentation. Shareholders who opt for this service will receive an email from Computershare with a link to the relevant section of the BlackRock website where the documents can be viewed and downloaded. Please submit your email address by visiting investorcentre.co.uk/ecomms. You will require your shareholder reference number which you will find on your share certificate or tax voucher.

You will continue to receive a printed copy of these reports if you have elected to do so. Alternatively, if you have not submitted your email address nor have elected to receive printed reports, we will write and let you know where you can view these reports online.

ELECTRONIC PROXY VOTING

Shareholders are able to submit their proxy votes electronically via Computershare's internet site at 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 (NAV) (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 as 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 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 blackrock.co. uk/brsc 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 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 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 also 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 BlackRock Savings Plan should call BlackRock free on 0800 44 55 22.

DIVIDEND TAX ALLOWANCE

From April 2016 dividend tax credits were replaced by an annual £5,000 tax-free allowance on dividend income across an individual's entire share portfolio. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company continues to provide registered shareholders with a confirmation of the dividends paid and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

If you have any tax queries, please contact a Financial Advisor.

STOCKS AND SHARES INDIVIDUAL SAVINGS ACCOUNTS ("ISA")

ISAs are a tax-efficient method of investment and the Company's shares are eligible investments for inclusion within stocks and shares Individual Savings Accounts. In the 2017/2018 tax year investors have an annual ISA allowance of £20,000 (2016/2017: £15,240) which can be invested in either cash or shares. 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 investorcentre.co.uk. Alternatively, please contact the registrar on 0370 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:

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

Regulatory disclosures

AIFMD disclosures

REPORT ON REMUNERATION

The Alternative Investment Fund Managers' Directive (the AIFMD), requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM.

Details of the BlackRock AIFM Remuneration Policy are disclosed on the Company's website at blackrock.co.uk/brsc and became applicable to the Manager on 1 January 2015, being the beginning of the first financial year of BlackRock following the Manager's authorisation as an AIFM.

QUANTITATIVE REMUNERATION DISCLOSURE

Disclosures in accordance with FUND 3.3.5, Article 22(2)e and 22(2)f of the AIFMD and Article 107 of the Delegated Regulation are disclosed on the website at blackrock.co.uk/brsc.

LEVERAGE

The Company may employ leverage and borrow cash in accordance with its stated investment policy or investment strategy. Consistent with its investment objectives and policy, the Company may with the prior approval from the Board utilise derivative instruments as part of its investment policy. The use of derivatives may expose the Company to a higher degree of risk. In particular, derivative contracts can be highly volatile, and the amount of initial margin is generally small relative to the size of the contract so that transactions maybe leveraged in terms of market exposure. A relatively small market movement may have a potentially larger impact on derivatives than on standard underlying bonds or equities. Leveraged derivative positions can therefore increase the Company's volatility. The use of borrowings and leverage has attendant risks and can, in certain circumstances, substantially increase the adverse impact to which the Company's investment portfolio may be subject. For the purposes of this disclosure, leverage is any method by which the Company's exposure is increased, whether through borrowing cash or securities, or leverage embedded in contracts for difference or by any other means. The AIFMD requires that each leverage ratio be expressed as the ratio between a Company's exposure and its NAV, and prescribes two required methodologies, the gross methodology and the commitment methodology (as set out in AIFMD Level 2 Implementation Guidance), for calculating such exposure. Using the methodologies prescribed under the AIFMD, the leverage of the Company is disclosed in the table below:

	Commitment leverage as at 28 February 2017	Gross leverage as at 28 February 2017
Leverage ratio*	1.17	1.16

* Leverage arises from the Company's Revolving Credit Facility with Scotia Bank and the 7.75% debenture stock 2022.

OTHER RISK DISCLOSURES

The financial risk disclosures relating to risk framework and liquidity risk are set out in note 16 to the notes to the financial statements on pages 56 to 63.

PRE INVESTMENT DISCLOSURES

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. An Investor Disclosure Document, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information is available on the website at blackrock.co.uk/brsc.

There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider.

FOR AND ON BEHALF OF THE BOARD
SARAH BEYNSBERGER
BlackRock Investment Management (UK) Limited
Company Secretary
2 May 2017

Regulatory disclosures

Information to be disclosed in accordance with Listing Rule 9.8.4

The disclosures below are made in compliance with the requirements of Listing Rule 9.8.4.

9.8.4 (1) The Company has not capitalised any interest in the period under review.

9.8.4 (2) The Company has not published any unaudited financial information in a class 1 circular or prospectus or any profit forecast or profit estimate.

9.8.4 (3) This provision has been deleted.

9.8.4 (4) The Company does not have any long term incentive schemes in operation.

9.8.4 (5) and 9.8.4 (6) No Director of the Company has waived or agreed to waive any current or future emoluments from the Company.

9.8.4 (7) The Company has not allotted any equity securities for cash in the period under review.

The Company is a stand-alone entity therefore Listing Rules 9.8.4 (8) and 9.8.4 (9) are not applicable.

9.8.4 (10) There were no contracts of significance subsisting during the period under review to which the Company is a party and in which a Director of the Company is or was materially interested; or between the Company and a controlling shareholder.

9.8.4 (11) This provision is not applicable to the Company.

9.8.4 (12) and 9.8.4 (13) There were no arrangements under which an ordinary shareholder has waived or agreed to waive any dividends or future dividends.

9.8.4 (14) This provision is not applicable to the Company.

FOR AND ON BEHALF OF THE BOARD
SARAH BEYNSBERGER
BlackRock Investment Management (UK) Limited
Company Secretary
2 May 2017

Annual general meeting

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, 12 Throgmorton Avenue, London EC2N 2DL on Thursday, 8 June 2017 at 11.30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (which will be proposed in the case of resolutions 1 to 10 as ordinary resolutions and, in the case of 11 to 12 as special resolutions).

ORDINARY BUSINESS

1. To receive the report of the Directors and the financial statements for the year ended 28 February 2017, together with the report of the auditors thereon.

2. To approve the Directors' Remuneration Report for the year ended 28 February 2017.

3. To approve the Directors' Remuneration Policy as set out in the future policy table in the Directors' Remuneration Report on page 28.

4. To declare a final dividend of 13.00p per ordinary share.

5. To re-elect Nicholas Fry as a Director.

6. To re-elect Robert Robertson as a Director.

7. To re-elect Caroline Burton as a Director.

8. To re-appoint PricewaterhouseCoopers LLP, Chartered Accountants, as auditors to the Company until the conclusion of the next Annual General Meeting of the Company.

9. To authorise the Audit Committee to determine the auditors' remuneration.

SPECIAL BUSINESS
ORDINARY RESOLUTION

10. 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 £1,196,994 (being 10% 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 2018 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

11. That, in substitution for all existing authorities and subject to the passing of resolution 10 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 9 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 2018, 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 £1,196,994 (representing 10% 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 cum-income net asset value per share (debt at fair value).

12. 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 2018, 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
SARAH BEYNSBERGER
FOR AND ON BEHALF OF
BLACKROCK INVESTMENT MANAGEMENT (UK) LIMITED
Company Secretary
2 May 2017

Annual general meeting

Notice of annual general meeting continued

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 11.30 a.m. on 6 June 2017. Alternatively you can vote or appoint a proxy electronically by visiting 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 11.30 a.m. on 6 June 2017.
3. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.
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 and 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: 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 auditors' 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 auditors 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, 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 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 2 May 2017 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.

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 2017, shareholders' funds were £597,073,000 and there were 47,879,792 ordinary shares in issue (excluding shares held in treasury); the NAV was therefore 1,247.03p per share (debenture at par value) and 1,237.77p 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 – CAPITAL ONLY ("CAPITAL ONLY NAV")
This is the capital value of the Company's assets attributable to one ordinary share. It is calculated by taking the total shareholders' funds and subtracting the current year net revenue (net of dividends paid out for the year) and then dividing by the total number of shares in issue. For example, as at 28 February 2017, shareholders' funds were £597,073,000 (1,247.03p), current year net revenue was £10,759,000 (22.47p) and the interim dividend paid out for the year was £3,830,000 (8.00p). The net total is £590,144,000 and there were 47,879,792 ordinary shares in issue (excluding shares held in treasury); the Capital Only NAV was therefore 1,232.56p per share. 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 2017, the Company's NAV stood at 1,247.03p; a reinvestment factor of 1.01766 (rounded) was applied to reach a calculation of NAV with income reinvested of 1,269.06p. Based on this adjusted NAV, and the total NAV return for the year ended 28 February 2017 was 27.9% compared to the opening NAV of 992.18 at 29 February 2016.

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 550.00p and the NAV 620.00p, 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 550.00p and the NAV 540.00p, 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 total shareholders' funds. Cash and cash equivalents are defined by the AIC as net current assets or net current liabilities (as relevant). To the extent that the Company has net current liabilities, the net current liabilities total is added back to the total assets of the Company to calculate the numerator in this equation. At 28 February 2017 the Company had total assets of £649,833,000, current liabilities of £2,839,000, cash and cash equivalents (representing net current liabilities) of negative £987,000 and shareholders' funds of £597,073,000. The calculation of gearing under the AIC definition is therefore as follows:

(£649,833,000 - £2,839,000 + £987,000) - £597,073,000 / £597,073,000 = 8.5%)

LEVERAGE
Leverage is defined in the AIFM Directive as "any method by which the AIFM increases the exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means".

Leverage is measured in terms of 'exposure' and is expressed as a ratio of net asset value:

$$\text{Leverage ratio} = \frac{\text{Total assets}}{\text{Net assets}}$$

The Directive sets out two methodologies for calculating exposure. These are the Gross Method and the Commitment Method. The process for calculating exposure under each methodology is largely the same, except that, where certain conditions are met, the Commitment Method enables instruments to be netted off to reflect 'netting' or 'hedging' arrangements and the entity's exposure is effectively reduced.