Bluehone AiM VCT2 plc

2009
Annual report & accounts
for the year ended
30 November 2009

Bluehone
BLUEHONE INVESTORS LLP

Managed by
Bluehone Investors LLP

Company Summary

The Company

The Company is a venture capital trust and its shares are listed on the London Stock Exchange.

Ordinary net assets at 30 November 2009 were £24.6 million and the market capitalisation was £14.4 million.

Objective

The investment objective of the Company is to provide shareholders with a tax efficient means of gaining long term capital growth and an attractive dividend stream primarily through investment in a diversified portfolio of AiM companies and unquoted companies which anticipate a stock market quotation.

Management

The Board has appointed Bluehone Investors LLP as investment managers. The management agreement may be terminated on one year's notice. Further details on the management agreement are provided in note 3 to the accounts.

Secretarial

F&C Asset Management plc has been retained to provide administrative and company secretarial services to the Company.

Capital Structure

The Company currently has Ordinary shares in issue. Full details of the shares in issue are provided in note 11 to the accounts.

Tax Benefits

Venture capital trusts can provide substantial income and capital gains tax advantages.

Telephone

F&C Asset Management plc Broker Support Team
08457 992299.

Contents

aic
The Association of
Investment Companies

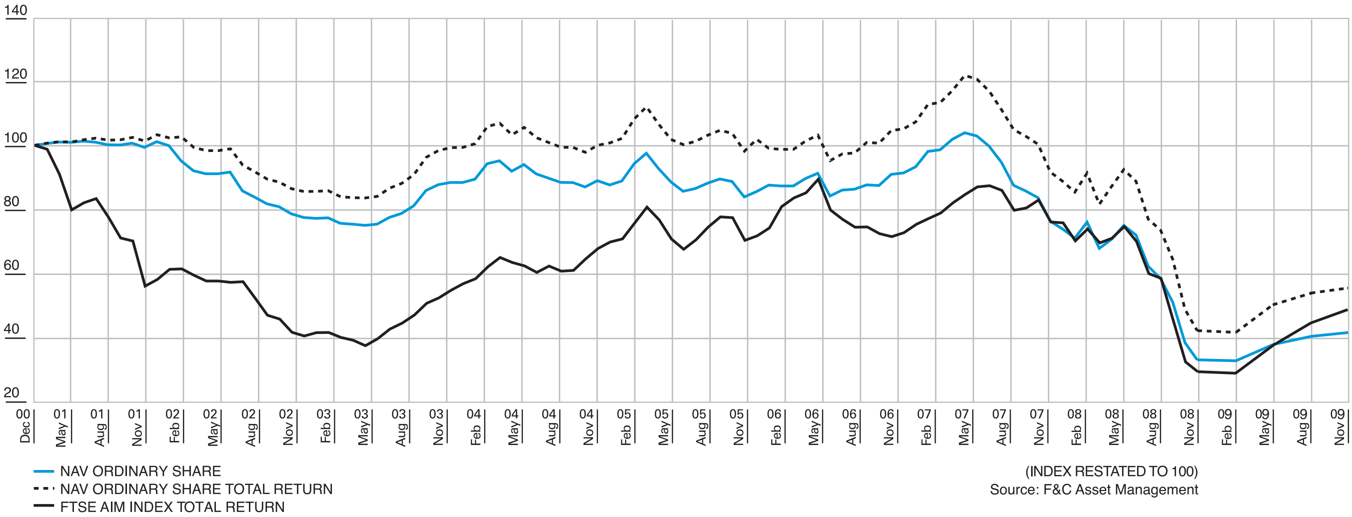
If you have sold or otherwise transferred all of your shares in Bluehone AiM VCT2 plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Financial Summary

Ordinary Shares

- Net asset value total return of 30.3 per cent for the year
- Share price total return of 30.3 per cent for the year
- Tax free dividend of 1.5p per share equivalent to a dividend yield of 6.2 per cent on the year end share price (equivalent to 10.3 per cent for a higher rate tax payer)
- Cumulative tax free dividends of 20p per share since launch

Bluehone AiM VCT2 NAV and NAV Total Return since launch against the FTSE AiM Index Total Return



(INDEX RESTATED TO 100)
Source: F&C Asset Management

Performance Summary

Year ended 30 November	Ordinary shares Total net assets £m	Ordinary shares Net asset value p	Ordinary shares Share price p	Ordinary shares Net asset value Total Return (since launch) %	C shares Total net assets £m	C shares Net asset value p	C shares Share price p	C shares Net asset value Total Return (since launch) %	FTSE AIM Index total return (since launch) %	Total expense ratio %
2001	40	95.00	80.0	2.32	NA	NA	NA	NA	(38.55)	3.0
2002	32	77.48	57.5	(14.39)	NA	NA	NA	NA	(58.25)	3.2
2003	37	88.59	72.5	(0.65)	NA	NA	NA	NA	(43.00)	3.1
2004	38	87.83	72.5	0.74	NA	NA	NA	NA	(30.04)	3.1
2005 (restated)	36	83.03	73.5	1.86	NA	NA	NA	NA	(28.14)	3.2
2006	35	86.97	73.5	5.13	3	104.37	100.00	9.85	(27.14)	3.1
2007	28	72.76	57.5	(8.3)	3	95.73	92.00	4.0	(22.66)	3.3
2008	18	32.32	19.0	(57.5)	2	56.47	45.0	(38.7)	(70.40)	2.9
2009	**25**	**41.59**	**24.3**	**(44.6)**	**n/a**	**n/a**	**n/a**	**n/a**	**(51.33)**	**3.2**

Dividends Paid Since Launch

Ordinary Shares Year ended	Income dividend p	Capital dividend p	Total annual dividend p	Cumulative dividends p
2001	2.2		2.2	2.2
2002	2.1		2.1	4.3
2003	1.2		1.2	5.5
2004		2.0	2.0	7.5
2005		3.0	3.0	10.5
2006		3.5	3.5	14.0
2007		3.5	3.5	17.5
2008		1.0	1.0	18.5
2009*		**1.5**	**1.5**	**20.0**

* Comprising an interim capital dividend of 0.5 pence per share and a proposed final capital dividend of 1.0 pence per share.

C Shares Period ended	Income dividend p	Capital dividend p	Total annual dividend p	Cumulative dividends p
2006	1.0	1.0	2.0	2.0
2007		1.0	1.0	3.0
2008		–	–	3.0
2009		**–**	**–**	**3.0**

Chairman's Statement

During the period under review the world experienced the most severe synchronised slump in demand and economic activity for at least fifty years. Starting in the financial sector, the recession quickly spread to most other areas of the economy, with drastic action required in the form of historically low rates of interest and unprecedented levels of quantitative easing by governments to avoid widespread economic depression. In the UK, the economy shrank by 5.1 per cent over the year and by its end the country had experienced six consecutive quarters of contraction. Whilst banks were forced to rebuild their own balance sheets their customers suffered. Smaller companies in particular found it difficult to borrow and for the first half of the year, at least, also difficult to raise finance from the equity markets.

As it became more troublesome to conduct business, companies were forced to cut costs, delay contracts and conserve cash. Inevitably the level of corporate failures increased. However, after falling for the first three months of the year, stock markets sensed that economic catastrophe had been averted and then staged a remarkable recovery in anticipation of the major economies coming out of recession. Towards the end of 2009 China and India resumed higher levels of growth and the US took its first tentative steps out of recession. The UK has lagged behind and is the last major economy to show signs of recovery although this does not seem to have held back the domestic stock markets which have also started to look ahead.

In the twelve months to the end of November the FTSE ALL Share Index increased by 25.6 per cent and the FTSE AIM Index recovered by 62.4 per cent. As in the past, the AiM Index has been heavily influenced by its oil & gas and natural resource sectors which saw dramatic increases in value, fuelled by a strong rebound in commodity prices. These two sectors combined make up 34 per cent of the AiM market's value and increased by 111 per cent and 204 per cent respectively during the year. Elsewhere it was encouraging to see an improvement in investors' appetite for risk, leading to more interest being shown in smaller companies generally. The increase in the AiM Index brought with it an improvement in share trading in the market which has enabled your Manager to more actively manage the portfolio by taking profits and cutting losses, as well as supporting both existing and new holdings with investment.

Performance

The portfolio produced a total return of 30.3 per cent over the year with the Net Asset Value per share increasing to 41.6 pence at the year end and an interim distribution of 0.5 pence per share being paid in August 2009. Although there were some disappointments during the year, including a number of companies that succumbed to the financial crisis and had to be written down to zero, companies in the portfolio generally coped well with the intensive economic pressures and the majority saw an increase in their value over the year. It was heartening to see a partial recovery in the share price of the portfolio's largest holding, Infrastrata (formerly known as Portland Gas) which recommenced the financing process for its underground gas storage facility to be built deep beneath Portland harbour in Dorset. The lack of gas storage capability in the UK has been brought into sharp focus during this winter's severe weather and it must be hoped that Infrastrata is able to capitalise on its strategic position by completing the financing and commencing construction this year. Elsewhere, despite the very weak economic background, there was encouraging news from some of the larger holdings within the portfolio which helped increase individual valuations. In addition, takeover bids were received by six companies including: FDM; Supporta and Essentially. FDM was bid for by its management team, backed by a venture capitalist at a substantial premium to its share price at the time. Supporta was bid for by Mears Group and remains outstanding. Essentially was bid for by Chime Communications and has been completed. Towards the end of the period and into the New Year a number of other investee companies announced bid approaches, which may or may not come to fruition but which nevertheless highlight the potential value within the portfolio.

Portfolio Developments

Improved market conditions generally in the smaller company sector enabled a more active stance to be taken by the Manager in running the portfolio. As a result, the level of investment activity within the portfolio increased as the year progressed and the Manager followed a strategy of streamlining the portfolio, selling thirteen of the smaller underperforming investments as well as reducing exposure to three of the larger holdings; comprising Infrastrata, FDM and Healthcare Locums. The proceeds of these disposals amounted to £2.5 million and provided the cash resources to fund further investment in the portfolio of £2 million.

Initially, available funds were used to support existing investee companies and to this end follow on investments were made in Servoca, Optare, Kiotech, Colliers, Datum International and Formjet. As market conditions improved and more cash was realised from divestment, a number of investment opportunities presented themselves and the Manager made secondary market purchases of non-qualifying shares in eight existing investee companies. They also introduced three new companies to the portfolio, namely: Avia Health Informatics, Island Gas Resources and Omega Diagnostics. The Manager's Review sets out a more detailed comment on these and other investments within the

Chairman's Statement

portfolio.

There has been a noticeable increase in the level of corporate activity at the smaller end of the market. It is encouraging therefore that there has been an improvement in the level of cash resources post the year end and the Company is in a more advantageous position to consider investment opportunities as they arise.

At the AGM in April 2009, C shareholders voted not to tender their shares for realisation and as a result these shares converted into Ordinary shares in November 2009 at the conversion ratio of 1.299 Ordinary shares for each C share. At the same time the portfolio of investments of the C share pool was combined with the Ordinary share portfolio and the number of holdings increased to 65. It is the Manager's intention to continue to streamline the portfolio in the current period.

Earnings and Dividends

Following the recovery from HM Revenue and Customs of VAT paid in the past on investment management fees and the cancellation of the Company's share premium account, which has created a distributable reserve; the Board declared an interim distribution of 0.5 pence per share which was paid to Ordinary shareholders in August 2009. Profits taken from the portfolio during the second half of the year allows the Board to recommend the payment on 30 April 2010 of a final capital distribution of a further 1 pence per share, to shareholders on the register on 9 April 2010, giving a total distribution of 1.5 pence per share for the year. Following the payment of the final distribution, the Company will have paid 20 pence per Ordinary share to shareholders since launch. For shareholders who invested at launch and have continued to hold their investment, the effective original book cost is now 20 pence per share after receipt of all tax reliefs and tax free dividends.

Change of Broker, Trading in Bluehone AiM VCT2 shares and Top-Up Offer

The Company was pleased to appoint Matrix Securities as its new brokers in March 2009. The Company currently has three market makers and during 2009 saw a noticeable improvement in the two-way trading of its shares, albeit that there remains a sizeable discount in the price of the shares against the net asset value per share.

Historically, investment returns have been greater when investments are made in the weaker parts of economic cycles as valuations are lower and beneficial terms can be more easily negotiated. The Manager continues to look for opportunities for the uninvested cash, whilst maintaining funds for follow-on investments, and in both regards has experienced a steady flow of investment candidates for consideration.

In light of the potential opportunities and advantageous time in market cycles for investing, the Board has decided to make available a limited number of new shares in the Company by way of a top-up offer (''Top-Up Offer'') to provide shareholders and investors with the opportunity to invest further in the Company and the Top-Up Offer documentation has been sent to shareholders. If this offer is fully subscribed it would raise up to a maximum of approximately £2.175 million. The new Ordinary shares would benefit from income tax relief of up to 30 per cent.

New Articles of Association

We are also seeking shareholders approval for a number of amendments to our articles of association primarily to reflect the provisions of the Companies Act 2006. An explanation of the main proposed changes between the proposed and the existing articles of association is set out in the Notice of Annual General Meeting on pages 42 to 46.

The Directors consider that all the Resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

Board Composition

The Company is now entering its ninth year of operation during which there have been a number of changes, both internal and external, which have impacted upon the responsibilities of the Board. In light of this we will be undertaking an assessment of the composition and role of the Board and its individual members in order to ensure that your Board is operating as effectively and efficiently as possible going forward.

Outlook

The UK appears to be showing some tentative signs of emerging from recession at last. The prolonged period of sterling weakness has helped exporters, enabling a rebalancing of trade, whilst exceptionally low interest rates and monetary easing have in the past provided the necessary ingredients for corporate recovery. However, the likely strength of any recovery will no doubt be tempered by the need for significant cuts in public expenditure in order to reduce an unsustainable budget deficit. Furthermore, increased taxes and higher utility bills will result in a fall in disposable income, which could dampen consumer demand and there remains a continuing threat of unemployment for many.

Smaller company shares have recovered well from their low point but remain at a discount to their larger peers, with many yet to participate fully in the market's recovery. Recent realisations have increased the cash balance of the Company, giving greater flexibility to take advantage of new investment opportunities. I am encouraged that a number of Bluehone AiM VCT2 investee companies have received interest from potential bidders which adds support to the Board's and Manager's conviction that there remains unrealised value in the portfolio. We enter the new decade looking forward with cautious optimism.

Gordon H Brough
Chairman
2 March 2010

Investment Managers

The Company's investment portfolio is managed by Bluehone Investors LLP, which is a wholly owned operating subsidiary of Bluehone Holdings plc which is itself listed on the PLUS- quoted market. Bluehone Investors is a fund management company focussed on managing small company investment and currently manages two closed ended investment companies which are listed on the London Stock Exchange. Bluehone Investors is authorised and regulated by the FSA.

Robert Mitchell

(Investment Manager)

Robert began his career at Throgmorton Investment Management in 1987 as a small companies analyst and progressed to fund management of specialist pension funds. When Throgmorton merged with Framlington in 1992 Robert also took on balanced pension fund remits.

Robert joined Ivory & Sime plc in 1995 to help launch The AiM Trust plc and then assist in its management. Robert has been the lead investment manager for Bluehone AiM VCT plc and Bluehone AiM VCT 2 plc since their respective launches in December 1998 and December 2000.

Bill Brown

(Investment Manager)

Bill qualified as a Chartered Accountant in 1986 with KPMG, where he began his career in 1983. He worked in general practice and latterly in the corporate finance department, specialising in advising small companies on raising capital. In 1988 Bill moved to INVESCO where he worked in the venture capital department.

Bill joined Ivory & Sime plc in 1993 as part of its private equity business. He managed The AIM Trust plc from its launch in 1996 and 3PC Investment Trust PLC from its launch in 2001; in 2003 these two companies merged to form Active Capital Trust plc. From October 2000, prior to the completion of the merger with ISIS and F&C, Bill ran the smaller companies business of ISIS, responsible for seven fund managers and total assets of some £550 million. Bill serves on the London Stock Exchange's AiM Advisory Group.

Stuart Rollason

(Investment Manager)

Stuart gained a medical degree from Birmingham University in 1985 and practised as a hospital doctor for five years. In 1990, he entered research at Oxford University. In 1992, he was awarded a Wellcome Trust Vision Research Fellowship to support his research. In January 1996, he made a career change by joining Beeson Gregory as a research analyst specialising in biotechnology, pharmaceuticals and healthcare and subsequently performed similar roles at West LB Panmure and Nomura International.

Stuart joined Ivory & Sime plc in August 2000, moving eventually into a more generalist role, taking over the management of ISIS Institutional UK Smaller Companies Fund and the ISIS MPF UK Smaller Companies Fund in August 2003. In addition, in January 2004, he took over the management of the small cap sub portfolio of the Institutional UK Equity Fund.

Manager's Review

The Market

Despite the worst economic background experienced for more than fifty years stock markets around the world staged a strong recovery during 2009. Following unprecedented and coordinated monetary easing by governments, investors realised that a full blown economic depression was going to be avoided and furthermore, evidence of an end to the downturn would appear before the year end. Having reached their nadir in March, markets were driven by a recovery in banking shares and escalating commodity prices and in the twelve month period up to the end of November the FTSE All-Share Index rose by 25.6 per cent.

After such a dire year in 2008, when the FTSE AiM All Share Index posted its single largest fall, it was encouraging to see investment in smaller companies return to favour in 2009 as investors' appetite for risk increased. As a result the FTSE AiM All Share index increased by 62.4 per cent in the twelve months to 30 November 2009. The bounce back by the AiM market was an acknowledgement by investors of the depths company valuations had reached as the market fell and also of the resultant investment opportunities that were available. Once again the strength of the recovery in the AiM market was heavily influenced by the particularly strong performance of the oil and gas and basic resource sectors which grew by 111 per cent and 204 per cent respectively and together accounted for 35 per cent of the index as a whole. Elsewhere, the performance of shares was mixed and reflected how capable individual businesses were at avoiding the ravages of the economic downturn by cutting costs or whether they could cope with the difficulties of accessing either bank or equity finance. During the second half of the period there was a noticeable increase in the amount of corporate activity in the AiM market, with takeovers being launched by both trade buyers and venture capital institutions at substantial premiums to individual market valuations. This has provided further impetus to the Index and is indicative of a theme we expect to continue into 2010.

The Portfolio

The Company produced a total return of 30.3 per cent over the year. As in previous reports we highlight the ten most influential investments in terms of both positive and negative returns. It was however encouraging that over the period the majority of holdings increased in value and investee companies on the whole coped well with the extreme pressures placed on smaller companies by the banking crisis and the recession.

It was particularly encouraging to see the 119 per cent improvement in the share price of the portfolio's largest holding **Infrastrata** following the disappointment of last year. The company updated the market on its two gas storage projects at the time of announcing its finals in November. Construction work commenced in July on the wellpad area at Portland from which it will drill down to the salt sequence and create 14 caverns, providing storage for 1000 million cubic metres of gas. This will start once funding for the entire project has been secured during 2010. To this end a co-operation group was established following a successful first phase of the funding process. This group consists of five companies (utilities and oil & gas companies) who have expressed interest in acquiring a working interest in the project, alongside Infrastrata. Ernst & Young have been appointed as financial advisors to the company in respect of the proposed divestment of shares in its subsidiary Portland Gas Holdings Limited, with BNP Paribas being appointed to advise the subsidiary and incoming partners on financing for the project itself. Field Fisher Waterhouse LLP has been appointed as legal advisors to the project. The company also entered into discussions with the European Investment Bank (EIB) concerning project finance to support the joint venture funding. The financing of large-scale energy projects which promote the security and diversification of energy supply is a priority objective within the EIB's lending strategy and in November the company successfully secured appraisal status for the project. In Northern Ireland the company was expected to submit a planning application early in 2010 which, if successful, will be followed by exploration drilling to confirm the salt sequence with a view to constructing a facility to store first gas in 2014. This winter has seen the longest period of freezing conditions across Britain for thirty years and has served to highlight the UK's vulnerability to gas supply shortages. Together, Portland's two gas storage projects will add significantly to the country's meagre gas storage infrastructure and as such, have the potential to be valuable assets to the company. In December Portland Gas changed its name to Infrastrata plc in order to distinguish the holding company from the projects held in subsidiaries. The market value of the investment at the year end was £3.1 million, compared to an original cash investment of £895,000.

The share price of **Vectura** increased by 51 per cent over the year as it continued to make progress towards the development and commercial launch of its portfolio of drugs and drug delivery systems, as well as announcing a healthy increase in revenues from existing products. In particular, good progress

Manager’s Review

was made with both generic asthma/chronic obstructive pulmonary disease products partnered with Sandoz, the generic division of Novartis and in June Vectura announced that its drug NVA237 for the treatment of COPD had entered Phase III. The company received milestone payments for these and further milestone payments are expected in the current year. The company has strong balance sheet with cash balances of more than £75 million.

It was encouraging to see further progress being made by the portfolio’s largest unquoted investment. **Cambridge Sensors** has successfully developed and launched its glucose measurement strips and readers for the diabetic market in both European and North American territories. Sales and profits have shown steady growth to date but should accelerate following the recent progressive launch of its new Microdot+ product through Primary Care Trusts of the NHS starting with the Cambridge and Fendland PCT.

A number of companies within the portfolio were subject to takeover approaches during the year, most of which remained outstanding at the end of the period. One such company was **FDM** which received a bid from its management, backed by a venture capitalist, at a substantial premium to the prevailing share price prior to its announcement. Despite tough trading conditions in its sector FDM produced an impressive set of results with profit before tax increasing by 23 per cent to £5.3 million and fully diluted earnings per share up 31 per cent, with cash balances growing by £3.6 million to £10 million. These results demonstrated that FDM appears to have a resilient model which is gaining market share by being cost effective to its chosen clients. Its shares, however, remained undervalued by the market prompting the management to take the company private. Bluehone AiM VCT2 sold part of its holding after the announcement of the bid, following a 105 per cent increase in the share price.

The holding in **Healthcare Locums** was inherited following the merger with the Bluehone AiM VCT and was one of the top performing shares for a second year running, increasing by a further 105 per cent prior to the holding being realised in the autumn. The company is a market leading healthcare recruitment business specialising in placing social workers, locum doctors and allied health professionals with both the NHS and private hospitals in the UK and overseas. Following a series of acquisitions, which were used to establish the business, recent growth has been both impressive and organic in nature providing stimulus to the share price and enabling the holding to reach target valuation.

Following a change in management at software supplier **Clarity Commerce Solutions** in 2007 and refinancing in 2008 (part supported by Bluehone AiM VCT2) Clarity has been successfully turned round with costs cut and a refocus on profitable activities. The company returned to profit in the year ended 31 March 2009 and its most recent interim results were ahead of market expectations. The company was also successful in winning a number of significant contracts across all of its core divisions and territories, proving that it remains competitive in a generally difficult market. As a result the shares have recovered by 192 per cent and the outlook for the current year is positive.

Another software supplier **Bond International** saw its shares increase by 82 per cent coming off a low base, having previously been marked down by the market due to exposure to the recruitment sector. The company announced its finals in March; these demonstrated that, despite a difficult economic backdrop, the company remained profitable and continued to win significant contracts. Recurring revenues accounted for 49 per cent of sales underlining the resilience of the business model. Recent acquisitions in human resource management software and payroll software and bureau services have also helped diversify away from its historic reliance on the recruitment sector. Despite experiencing a decrease in order intake from existing customers and deferrals or delays to some anticipated contracts during 2009, Bond’s wide customer base and healthy recurring revenues should help it weather the downturn affecting the human capital sector. The company remains optimistic about prospects for 2010.

Straight is one of the UK’s leading suppliers of waste and recycling containers but the company disappointed in the past due to stocking problems in its retail division. In 2009 it announced an encouraging improvement in trading and that the difficulties in its retail division had been resolved. In its interim announcement in September the company highlighted a 36 per cent increase in sales from its trade division and a return to profitability in its retail division. Straight has also followed a strategy of broadening its spread of activities and reducing its dependence on public spending; to this end it has successfully broken into the continental European, North American and Australian markets. The outlook for the remainder of its year looks encouraging and the shares have responded by increasing by 277 per cent.

Manager's Review

Egdon Resources was demerged from Portland Gas in January 2008 to concentrate on the exploration and production of oil and gas from its licences in the UK and France. The company announced a number of positive developments over the period which highlighted its potential to investors and the shares rose by 150 per cent. New exploration permits were awarded to the company in France. Production started at its part owned field at Avington Hampshire and the company increased its share in the project to 37 per cent. The company also started production at its Kirkleatham oil field in Nottinghamshire and was granted planning permission for further development of the field. The sale of 10 per cent of its interest in the Keddington field to Alba Resources for £260,000 helped with its future financial commitments on this well and set a value for its remaining 90 per cent holding at £2.34 million. The company expects to increase its own production significantly in the current year and to become self financing as well as having sufficient funding for its immediate programme of development and exploration work.

Secure Electrans is an unquoted investment in the portfolio. The company is intending to offer major power supply utilities its "Greengage" secure payment and energy management system, enabling consumers to pay bills remotely. This is particularly appealing to the 6 million un-banked utility customers in the UK. The system will run as a component to the Smart Meter (which all the utilities are currently looking at installing) and will act as a universal payment solution, covering the 6 million customers who currently pre-pay and introducing a "Pay As You Go" alternative, which could potentially cover the remaining 40 million utility accounts in the UK. The vision for the product is that it will sit in the kitchen of a home and will consist of a high definition touch screen capable of providing user friendly service to several useful services. This includes making payments for utilities used as well as enabling banks and financial institutions to guarantee card not present transactions. The company closed a successful fundraising in March which brought in Centrica as a 22 per cent shareholder and its first customer, raising £4 million to fund further development. The holding value of this investment was increased by 400 per cent in the period to reflect the price Centrica paid for its shareholding.

Quadnetics, a leading supplier of security products and systems, appointed a high calibre Chief Executive in November 2008 to work alongside the old CEO, who stayed on as Chief Technology Officer – a position much better suited to his skill set. The new CEO, John Shepherd, has a security and technology background and has significant experience of building businesses. The market responded favourably to the structural changes the new CEO has made, which included a significant reduction in the cost base of the company, and the company's shares increased by 58 per cent over the period.

There were inevitably some casualties to the downturn and those companies with either high levels of bank borrowings or a requirement for further funding proved the most vulnerable. The performance of the portfolio was held back by the write off of seven investments which were placed into administration during the period, due to an inability to raise further funds in order to continue trading.

The most notable and the single largest loss for the year was the investment in **U4EA** which was written down to zero following the company being put into administration by its largest shareholder who had been funding the company up to that point via loans. These investors arranged a pre-packaged deal to acquire the business out of administration with the remaining minority shareholders being left with nothing.

The recession has been particularly difficult for businesses exposed to financial services and house building and **Buildstore** has been doubly hit by being in both sectors at once. The company was quick to cut costs wherever possible to match falling revenues and a total of £3.6 million has been taken out of its cost base over the past two years. However, the company has remained loss making and relied on the support of both its bankers and shareholders in order to survive through this difficult period. After a number of further rounds of fund raising during 2009 (in which Bluehone AiM VCT2 did not participate) the investment was written down to zero following the company being put into administration towards the end of the period.

In addition, the businesses of **Sanastro,** the niche financial publisher, software supplier **Infonic**, telecommunications supplier **AT Comms** and biotechnology drug developer **Alizyme** all faced funding difficulties in the period which they were unable to solve prior to being placed into administration.

Elsewhere in the portfolio there were companies whose share prices reflected difficult trading conditions due to the recession. In a trading statement issued in August, **Vindon Healthcare** said some of its customers were showing a reluctance to place orders for the purchase of its specialist storage equipment and

Manager's Review

as such market expectations for its annual results would not be met. This led to a 42 per cent fall in its valuation. We met the company and it would appear that these are delayed projects of some considerable size where Vindon's equipment is just a small part of the whole and which management fully expect to come through in due course, although not in the current period. Vindon's own storage service continues to trade well and the company remains profitable and cash generative.

Good results in March from **CBG Group**, which reported an increase in revenue, profits and earnings per share, were followed by an AGM trading update in May which said that trading conditions were challenging and its financial performance was under pressure. The company's share price fell by 61.5 per cent. CBG has cut costs to remain efficient in leaner times and we believe it remains a fundamentally well run business with a strong regional presence in the North West.

Jelf Group which operates in the same financial sector as **CBG** also found its share price under pressure falling by 45 per cent in the period. The company is traditionally second half weighted and whilst the first half was profitable – at a lower level than the previous year- trading conditions were said to be extremely challenging, leading to a fall in estimates for the full year.

A trading update in June from **Amino,** followed by interims in August, highlighted a slower take up of Internet Protocol Television (IPTV) in Europe and the Americas due to weaker consumer demand, which has led to lower than expected sales of the company's set top boxes, as well as a temporary increase in costs following an acquisition. This resulted in a move back into losses for the first half and a 52 per cent fall in the company's share price. The company is expected to move back into profit in the second half following the cost savings and an improvement in US sales. The company's balance sheet remains strong with £8m in cash.

It was decided to make a 20 per cent provision to the holding value of the unquoted investment in Infrared Integrated Systems (**IRISYS**). This company is an emerging technology business with advanced infrared detection and imaging capabilities developed for mass market applications. The company has chosen to focus on solutions for people counting, thermal imagers, flame detection, security, healthcare and automotive. After three years of development and launch, the company has gained considerable interest for its technology and has a promising pipeline of retail customers paying for trials. During 2008 it was successful in winning a 300 store roll out at Morrisons which demonstrated the positive impact these larger contracts can have on the numbers, enabling it to move through break even and into a healthy level of profit. 2009 saw the company move back into losses as customers delayed signing further contracts, thus highlighting that the company remains in the early stages of its development and is likely to be influenced by the unpredictable timing and size of its early contracts. It has a strong cash position to help weather the recession and is confident that current negotiations with prospective customers will result in it winning further large roll out contracts for implementation in 2010.

Investment Activity

Market conditions improved as the year progressed and it became possible to more actively manage the portfolio once again. This included improving the portfolio's focus by divesting some of the smaller holdings, where either significant recovery was not anticipated or where it was unlikely to have much positive impact. To this end the following holdings were either sold outright or reduced: **Craneware**, **Byotrol**, **Autoclenz**, **Tanfield**, **Sport Media**, **Connexion Media**, **Kellan Group**, **Evolutec**, **Managed Support Services, First Dental Laboratories, Expansys, Altitude Group, ALL IPO, Clearspeed Technology** and **Image Scan**.

After an increase of 275 per cent over the original cost, when it formed part of the portfolio in the Bluehone AiM VCT, it was decided to sell the investment in **Healthcare Locums**, realising £819,000. The holding in **FDM** was reduced by £418,000, realising a profit of 81 per cent after a take over bid was announced by its management team. The remainder of the holding was sold after the period end.

The shares in **Infrastrata** recovered after reaching a low point in February 2009 and given its size within the portfolio, further profits were taken from this holding during the summer. Shares worth £333,000 were sold, bringing the total amount realised from this investment of £3.5 million over the years, compared to an original investment of £895,000. The investment remains an important part of the portfolio and one where we anticipate further developments to occur in the current year.

It was decided to sell the holding in **Universe Group** to **Brulines** in return for Brulines stock. This will provide a platform for Brulines to enter discussions with Universe which may result in a

Manager's Review

bid for that company. The sale realised £145,000 and helped consolidate the investment in Brulines, which subsequently increased in value by 40 per cent.

The sales of investments realised £2.478 million,helping to provide the cash resources for further investment into the portfolio of £1.958 million and the payment of an interim distribution to shareholders of £0.277 million.

It was a busier time for investment by the Trust with an increase in the number of investment opportunities being presented for appraisal to the manager. Initially, funds were focused on supporting existing investee companies where further investment was deemed appropriate and necessary, but as the year progressed and more cash was realised from the portfolio, a number of new investment opportunities were completed. Of the existing portfolio investments, further funding rounds were supported in **Servoca**, £150,000, **Optare**, £140,000, **Kiotech**, £150,000, **Colliers**, £100,000, **Datum International**, £45,000 and **Formjet**, £30,000. Secondary market purchases of non qualifying stock were also made in the following stocks: **Egdon Resources**, **Servoca**, **Supporta**, **Brulines**, **Armour Group**, **Kiotech**, **Win** and **Datum** with a combined investment of £463,000. New holdings were established in **Avia Health Informatics**, £250,000, **Island Gas Resources**, £400,000 and **Omega Diagnostics**, £200,000 and these are detailed later in this report.

At the AGM in April, C shareholders voted not to tender their shares for realisation and as a result these shares converted into Ordinary shares in November at the conversion ratio of 1.299 Ordinary shares for each C share. At the same time the portfolio of investments of the C share pool was combined with the Ordinary share portfolio and the number of holdings has now increased to 65. It is the Manager's intention to continue to streamline the portfolio in the current period.

Market Outlook

Most of the major economies around the world are showing signs of emerging from recession and returning to growth. The UK appears to be lagging behind, having experienced a deeper downturn than most, but is expected to follow as the year progresses. There remain, however, a number of risks to the domestic economy which could mean that when it comes the recovery is anaemic. Consumers generally are likely to have less disposable income in 2010 following a combination of higher prices and increased taxes, whilst continuing to be overshadowed by the spectre of unemployment. At the same time, public expenditure will inevitably come under pressure, regardless of who governs the country, as the level of government debt is unsustainable. On the other hand, corporate profitability has held up surprisingly well, reflecting efficiency gains and better debt management. Therefore, as a result of a continuing background of economic uncertainty, the stock market may have a period of volatility whilst searching for a clear direction. Nevertheless, even after the strong recovery in the AiM market, smaller company valuations compare favourably to those of larger companies – with many yet to participate fully in the market's rally.

Company Outlook

Towards the end of 2009 there was a noticeable increase in corporate activity in the AiM market and a number of companies within the portfolio were subject to bid approaches, supporting our conviction that there remains unrealised value therein. At the same time it is encouraging to see an increasing number of investment opportunities being presented, some of which we expect to see join the portfolio. In 2010, we also anticipate further progress being made by some of the larger investments and look forward to reporting on these in due course.

Robert Mitchell

Investment Manager

2 March 2010

Manager's Review of New Investments

Island Gas Resources

Status: AiM
Cost: £400,000 Value: £425,000

Island Gas Resources (IGAS) was founded in 2003 with the intention of pursuing coal bed methane (CBM) developments in the UK. Since then IGAS has successfully built a portfolio of 1656 square kilometres of acreage in the UK, concentrated in Staffordshire, Lancashire and Yorkshire in England and offshore Flintshire in North Wales. In 2005 the company partnered with Nexen, a Canadian oil major experienced in CBM. Nexen farmed into IGAS's acreage at between 50% and 80% and took over operatorship, carrying IGAS's share of appraisal costs into 2011 as well as paying management fees to IGAS. IGAS has successfully commenced generating electricity in Cheshire which is being sold to a major utility. The Company also has a framework agreement with Peel Environmental Ltd which gives IGAS sufficient surface access to exploit almost all of its CBM reserves in the North West of England from Peel's land alone. Seven wells have been drilled and planning permission is in place for five further wells. CBM is a nascent industry in the UK and not without risk, however, we have taken comfort that IGAS is the first company amongst other CBM players such as British Gas and Marathon to have reached production and has successfully reduced its cost of exploration by partnering with a major. The Company has had two rounds of funding this year and Bluehone AiM VCT2 supported both.

www.igasplc.com

Omega Diagnostics

Status: AiM
Cost: £200,000 Value: £340,000

Omega is involved in the medical diagnostics industry, supplying in-vitro diagnostic products for use in hospitals, blood banks, clinics and laboratories. Its products are sold predominantly through distributors in over 100 countries. The company is chaired by David Evans, formerly Chief Executive Officer of Axis-Shield plc and also Chairman of BBI Holdings in which Bluehone AiM VCT2 successfully exited when that company was taken over by Inverness Medical Innovations Inc. Omega has a competitive advantage in its chosen field as its manually performed diagnostic test kits, which specialise in the diagnosis of autoimmune and infectious diseases and food intolerances, do not require expensive instrumentation for their correct performance – unlike much of the competition. The diagnostics industry is rapidly growing but also highly fragmented and Omega intends to grow both organically and by way of acquisition. To this end the Company acquired Co-Tek, a manufacturer of various tests for diagnosing bacterial diseases, during the year and Bluehone AiM VCT2 supported the accompanying fund raising.

www.omegadiagnostics.com

Avia Health Informatics

Status: AiM
Cost: £250,200 Value: £300,024

Avia, via its trading subsidiary The Plain Software Company Limited, develops and delivers clinical decision support systems for primary healthcare markets in the UK and internationally. Its Odessey branded software products are designed to enable timely and safe assessment of a patient's condition by trained healthcare professionals and others, both face to face and by telephone. The provision and use of clinical decision support software (CDSS) is a relatively new but fast growing sector and stems from the need to improve the safety, efficiency and effectiveness of healthcare resources. Plain's CDSS system uses a unique approach to the evaluation and analysis of clinical information applying a more natural Bayesian approach to interviewing patients rather than the more rigid algorithmic binary approach adopted by competing systems. As a result, patients have a more natural consultative experience. The Company intends to add to its existing 76 customers and thereby increase market share by launching a range of newly developed software based services to be delivered over the internet. Bluehone AiM VCT2 supported the fund raising that accompanied the reversal of Plain Healthcare into Avia Investments and which provided the funding for the roll out of the new software.

www.ahi-plc.com

Ten Largest Investments

Infrastrata *Richmond, Surrey*

Market Capitalisation:	£77.5 million
Cost:	£3,850,122
Valuation:	£3,122,714
Valuation basis:	Bid price

Year ended 31 July	**2009 £ million**	2008 £ million
Sales	**–**	–
Loss before tax	**1.3**	1.6
Retained loss	**1.3**	2.0
Net assets	**22.3**	22.7

Infrastrata (formerly Portland Gas) is a developer of gas storage sites. The company is currently operating two projects: Larne Lough, an early stage project in Northern Ireland with an anticipated capacity of 500 million cubic metres of gas and Portland, the company's largest project, a salt cavern gas storage facility underneath the Isle of Portland in Dorset. This facility has proven feasibility for storing 1,000 cubic metres of gas and in May 2008 was granted planning permission from Dorset County Council after undergoing rigorous environmental and safety planning. Preliminary works have started on site but major construction will begin once finance is secured from prospective partners and the company is being assisted in this process by BNP Paribas and is expected to be concluded in 2010. It is further expected that the first gas could be stored in the winter of 2013/14. The UK became a net importer of gas in 2004 and the strategic importance of gas storage facilities to hold gas as a reserve in the UK is of national importance – Portland would provide storage of approximately 1% of the UK's annual demand, or 5% of the nation's supply on a cold winter's day. The Company successfully de-merged from Egdon Resources to form a new AiM company in January 2008.

www.infrastrata.co.uk

Vectura Group *Chippenham, Wiltshire*

Market Capitalisation:	£238.9 million
Cost:	£1,678,359
Valuation:	£2,554,825
Valuation basis:	Bid price

Year ended 31 March	**2009 £ million**	2008 £ million
Sales	**31.2**	25.5
Loss before tax	**19.6**	21.4
Retained loss	**16.7**	19.2
Net assets	**154.9**	169.5

Vectura is a pharmaceutical company focussing on developing a range of inhaled drugs for the treatment of lung diseases and conditions where delivery via the lungs can provide significant benefits. The company is developing several drugs to be delivered through its own patented delivery system, Gyrohaler and is mostly targeting the market for asthma and COPD (Chronic Obstructive Pulmonary Disease), which covers emphysema, lung disease and chronic bronchitis. In 2007, the company acquired Innovata plc, another UK listed pulmonary product development company which already has several products under licence; the mature revenue stream will off-set further development costs of Vectura's future major products. The company has key collaborations with Sandoz, the generics division of Novartis, as well with Novartis itself. These partnerships are providing revenue streams in the form of milestone payments linked to the achievement of clinical, regulatory and commercial milestones as well as future royalties. The company is well funded with more than £75million on its balance sheet and has recently joined the FTSE 250 index after moving from AiM to the main market of the London Stock Exchange.

www.vectura.com

Cambridge Sensors *Huntingdon, Cambs*

Estimated Market Capitalisation:	£10.4 million
Cost:	£1,174,976
Valuation:	£1,174,976
Valuation basis:	Unquoted

Year ended 30 April	**2009 £ million**	2008 £ million
Sales	**2.8**	1.7
Profit/ (loss) before tax	**0.5**	(0.3)
Retained profit/(loss)	**0.5**	(0.3)
Net assets	**1.7**	1.1

Cambridge Sensors manufactures and supplies an advanced range of glucose strips used in electrochemical blood glucose monitoring systems for the diabetic market. Diabetes is the body's inability to produce or use insulin and if left untreated it can cause blindness, heart disease and neurological complications. Diabetes care is a huge global market with an estimated 17 million Americans and 2.5 million people in the UK suffering from the condition and a similar number to the USA again in the EU, using approximately 7 billion test strips worldwide every year. Blood glucose testing systems are essential to diabetes sufferers, as they need to test their blood sugar levels daily and take insulin as necessary. The Company has developed its own Microdot branded products and has successfully entered the US market and now supplies 1500 long term care facilities with its strips. This year the Company began a progressive launch of its new Microdot+ product through Primary Care Trusts of the NHS starting with the Cambridge and Fenland PCT.

www.cs-limited.co.uk

IS Pharma *Wrexham, N Wales*

Market Capitalisation:	£28.0 million
Cost:	£843,403
Valuation:	£823,939
Valuation basis:	Bid price

Year ended 31 March	**2009 £ million**	2008 £ million
Sales	**12.2**	7.0
Profit before tax	**2.0**	1.2
Retained profit	**2.7**	1.7
Net assets	**28.6**	12.1

IS Pharma (formerly Maelor plc) is a medical distribution group, specialising in medicines for the hospital environment. The group's strategy is to grow its product portfolio via acquisition of new products and companies and then develop and market these assets using its existing expertise and distribution networks. The group's products include both pharmaceuticals and medical devices and are focussed in the fields of critical care, neurology and oncology. Brands include Volplex, a plasma substitute, Aloxi, to treat chemotherapy induced nausea and Mysoline, to treat epilepsy. In March 2008, the company announced the acquisition of Speciality European Pharma Intl, whose main product is Variquel, a critical care drug for the treatment of oesophageal varices (enlarged veins) and the management of liver disease. This is expected to offer good growth opportunities across the EU having recently received European regulatory approval for Variquel.

www.ispharma.plc.uk

Bond International Software *Goring, W. Sussex*

Market Capitalisation:	£26.5 million
Cost:	£513,950
Valuation:	£800,000
Valuation basis:	Bid price

Year ended 31 December	**2008 £ million**	2007 £ million
Sales	**32.0**	29.5
Profit before tax	**2.8**	5.1
Retained profit	**2.0**	3.7
Net assets	**48.7**	41.6

Bond is a leading supplier of Human Capital Management software. The company counts among its customers some of the world's leading recruitment houses, including Hays, Adecco and Michael Page and also corporate customers who recruit in-house, such as British Airways and the Bank of New York. Acquisitions made in 2007 enabled the group to expand its human resource and payroll software and included Gowi Group, a provider of personnel tools and Strictly Education, a provider of resource management software to schools and colleges. The company is rapidly expanding globally and to reflect this, its recently launched next generation of platform-independent software has multi-language capabilities. Its wide customer list and healthy recurring revenues have helped it weather the downturn affecting the human capital sector and the Company looks forward to a recovery with a strong order book.

www.bondadapt.com

Ten Largest Investments

Quadnetics *Studley, Warwicks*

Market Capitalisation:	£25.5 million
Cost:	£1,173,124
Valuation:	£760,041
Valuation basis:	Bid price

Year ended 31 May	**2009** **£ million**	2008 £ million
Sales	**70.7**	79.2
Profit before tax	**3.7***	4.4
Retained profit	**0.3**	3.4
Net assets	**32.2**	32.9

*adjusted

Established in 1983, Quadnetics is a leading UK security service company providing the development, design, integration and management of advanced surveillance, technology and security networks. The company has several subsidiaries operating in the growing CCTV & surveillance market – developing, selling and maintaining CCTV systems for public spaces, prisons, casinos, retail and public transport. Growing incidences of terrorist threats are helping to propel this market, particularly with customers in the Middle East, South Africa and Eastern Europe. The company has recently appointed a new CEO who is restructuring the operations of the business as well as implementing a cost reduction programme to improve profitability.

www.quadnetics.com

Supporta *Bromsgrove, West Midlands*

Market Capitalisation:	£22.5 million
Cost:	£774,042
Valuation:	£673,948
Valuation basis:	Bid price

Year ended 31 March	**2009** **£ million**	2008 £ million
Sales	**53.4**	46.2
Profit before tax and exceptional items	**3.54**	2.19
Retained loss	**(13.4)**	(1.6)
Net assets	**16.3**	28.9

Supporta is a leading provider of outsourced services to Local Authorities through its Care and Professional Services divisions. Supporta Care is one of the UK's top four providers of domiciliary care services and has contracts with 52 Local Authorities and accounts for 75% of group turnover. The Company has a reputation for providing excellent quality services to its customer base and as a result has a strong forward order book of £85 million and will benefit from increasing demand due to an ageing population. Its Professional Services division, Supporta TerraQuest, provides a range of land development related consultancy services to public sector customers.

www.supportaplc.com

FfastFill *London*

Market Capitalisation:	£36.7 million
Cost:	£479,700
Valuation:	£633,889
Valuation basis:	Bid price

Year ended 31 March	**2009** **£ million**	2008 £ million
Sales	**14.4**	11.4
Profit before tax*	**0.3**	1.1
Retained profit/ (loss)	**(0.4)**	1.0
Net assets	**11.5**	10.4

*adjusted

FfastFill is a leading supplier of software as a service (SaaS) to the global derivatives trading community. Its software, which is delivered to clients over the internet or via leased lines, enables the trading, clearing, settlement and risk measurement of electronic transactions in a wide range of assets including commodities, equities, bonds and foreign exchange. After a difficult period which has seen demand dampened by the turmoil in the financial markets FfastFill reported improved trading at the interim stage as well as a strong order book looking ahead to 2010.

www.ffastfill.com

FDM Group *Brighton, East Sussex*

Market Capitalisation:	£31.4 million
Cost:	£351,194
Valuation:	£614,250
Valuation basis:	Bid price

Year ended 31 December	**2008** **£ million**	2007 £ million
Sales	**52.2**	49.8
Profit before tax	**5.3**	4.3
Retained profit	**3.7**	2.8
Net assets	**14.1**	10.5

FDM is a specialist IT recruitment and services company, placing both IT contractors and its own internally trained staff, known as Mounties, into companies looking to outsource their IT programming, application development, training and support functions. The Mountie model is unique in the IT recruitment sector; FDM trains the candidates in its own in-house training centres, based in Brighton, Manchester and now London. The Mounties command a higher margin for FDM than their IT contractor counterparts and currently account for approximately 62% of group gross profits with a 97.5% utilisation rate. So far FDM's business model has proved resilient to the economic downturn despite FDM's customer base including several blue chip banks and financial institutions, where growth is being driven by the desire to reduce operational and financial risk by improvement in IT systems. The Company was subject to a takeover by its management in November 2009.

www.fdmgroup.com

Clarity Commerce Solutions *Basingstoke, Hants*

Market Capitalisation:	£38.8 million
Cost:	£846,695
Valuation:	£608,270
Valuation basis:	Bid price

Year ended 31 March	**2009** **£ million**	2008 £ million
Sales	**17.7**	15.4
Profit/ (loss) before tax	**0.5**	(8.6)
Retained profit	**0.2**	(10.6)
Net asset	**5.9**	5.8

Clarity Commerce specialises in the delivery of transaction processing solutions for the retail, leisure, ticketing and hospitality sectors. In retail the company supplies point of sale software to grocers, department stores, DIY stores and amusement parks. In leisure the company supplies membership and management software to public and private sector health clubs. Its ticketing software is used by many of the cinema chains in the UK and mainland Europe. Its hospitality software assists businesses with the management of supply chains, stock, EPOS, staff and promotions. One of the attractions of Clarity's business model is its recurring revenue stream which comes from its installed base. Following a change in management in 2007 the company has been restructured to reduce costs and eliminate loss making activities and is showing a much improved operating performance.

www.claritycommerce.com

Investment Portfolio

Company	Sector	Book Cost £'000	Valuation £'000	% of Net Assets £'000	% of Equity held by Bluehone AiM VCT 2 £'000	% held by Others
AiM						
Infrastrata (previously Portland Gas)	Oil equipment, service and distribution	3,850	3,123	12.7	4.0	1.0
IS Pharma	Pharmaceuticals & biotechnology	843	824	3.3	3.0	–
Bond International Software	Software & computer services	514	800	3.2	3.0	–
Quadnetics	Support services	1,173	760	3.1	3.0	–
Supporta	Support services	774	674	2.7	3.0	–
Ffastfill	Software & computer services	480	634	2.6	1.7	–
FDM Group	Software & computer services	351	614	2.5	2.0	–
Clarity Commerce Solutions	Software & computer services	847	608	2.5	4.5	–
Servoca	Support services	679	561	2.3	3.4	–
Egdon Resources	Oil & gas producers	239	511	2.1	4.7	–
Straight	Diversified industries	400	490	2.0	4.3	–
Brulines Holdings	Support services	405	444	1.8	1.2	–
K3 Business Technology	Software & computer services	572	426	1.7	2.0	1.4
Island Gas Resources	Gas, water and multi utilities	400	425	1.7	0.5	–
Concurrent Technologies	Information technology hardware	373	407	1.7	1.6	–
MBL Group	Media	357	391	1.6	1.4	–
TEG Group	Industrial engineering	637	365	1.5	1.7	–
Omega Diagnostics Group	Pharmaceuticals & biotechnology	200	340	1.4	4.8	–
Avingtrans	Industrial engineering	487	334	1.4	3.3	3.4
Avia Health Informatics	Healthcare equipment services	250	300	1.2	8.4	–
Vindon Healthcare	Healthcare equipment services	500	263	1.1	2.8	–
Fulcrum Pharma	Pharmaceuticals & biotechnology	574	259	1.1	4.5	9.6
Assetco	Support services	353	245	1.0	0.4	–
Kiotech International	Pharmaceuticals & biotechnology	425	244	1.0	1.9	–
Colliers CRE	Real estate	870	234	0.9	0.8	–
Armour Group	Leisure goods	504	219	0.9	2.3	–
Legion Group	Support services	250	219	0.9	1.9	–
Netcall	Software & computer services	100	200	0.8	2.1	7.1
Jelf Group	General financial	534	196	0.8	1.0	–
Formjet	Software & computer services	728	195	0.8	12.4	–
Optare	Industrial engineering	470	190	0.8	0.0	–
Transense Technology	Automobiles & parts	1,188	179	0.7	2.2	6.2
Tangent Communications	Support services	400	177	0.7	1.8	–
Win	Mobile telecommunications	382	168	0.7	2.1	–
CybIT Holdings	Industrial transport	550	136	0.6	1.3	–
Croma Group	Aerospace & defence	450	120	0.5	4.3	–
AorTech International	Healthcare equipment services	229	110	0.4	1.5	18.5
Huveaux	Media	450	109	0.4	1.0	–
CBG Group	Non life insurance	268	103	0.4	1.3	–
Amino Technologies	Information technology hardware	199	101	0.4	0.8	–
Mount Engineering	Industrial engineering	100	73	0.3	0.6	–
Resources in Insurance	Support services	271	63	0.3	13.3	–
Software Radio Technology	Information technology hardware	194	61	0.2	0.7	–
Westminster Group	Support services	100	47	0.2	1.0	–
Real Good Food	Food producers & processors	541	34	0.1	1.1	–
Vertu Motors	General retailers	50	31	0.1	0.0	–
Telephonetics	Software & computer services	100	30	0.1	0.5	–
Altitude Group	Media	124	27	0.1	1.1	–
PHSC	Support services	80	26	0.1	1.4	–
1st Dental Laboratories	Healthcare equipment services	258	25	0.1	2.4	–
Western & Oriental	Travel & leisure	75	23	0.1	0.3	–
Coolabi	Media	70	16	0.1	0.5	–
Image Scan Holdings	Electronic & electrical equipment	117	5	0.0	0.5	–
Discover Leisure	General retailers	100	5	0.0	0.5	2.7
Total AiM		**25,435**	**17,164**	**69.7**		
PLUS Market						
Sprue Aegis	Support services	350	350	1.4	5.0	–
Datum International	Software & computer services	440	294	1.2	17.8	–
Total PLUS Market		**790**	**644**	**2.6**		
FTSE Small Cap						
Vectura	Pharmaceuticals & biotechnology	1,678	2,554	10.4	1.1	0.4
Total FTSE Small Cap		**1,678**	**2,554**	**10.4**		

Investment Portfolio

Company	Sector	Book Cost £'000	Valuation £'000	% of Net Assets £'000	% of Equity held by Bluehone AiM VCT 2 £'000	% held by Others
Unquoted						
Cambridge Sensors	Healthcare equipment services	1,175	1,175	4.8		
Infrared Integrated Systems	Electronic & electrical equipment	500	400	1.6		
Secure Electrans	Electronic & electrical equipment	70	350	1.4		
Convivial London Pubs	Travel & leisure	400	312	1.3		
Tissuemed	Healthcare equipment services	71	71	0.3		
Vicorp*	Software & computer services	350	3	0.0		
Clearspeed Technology*	Information technology hardware	68	2	0.0		
Top Ten Holdings*	Travel & leisure	350	–	–		
Total Unquoted		**2,984**	**2,313**	**9.4**		
UK Government Securities						
UK Treasury 5.75% 07/12/09		1,290	1,238	5.0		
Total UK Government Securities		**1,290**	**1,238**	**5.0**		
Total investments		**32,177**	**23,913**	**97.1**		
Net current assets			**719**	**2.9**		
Net assets			**24,632**	**100.0**		

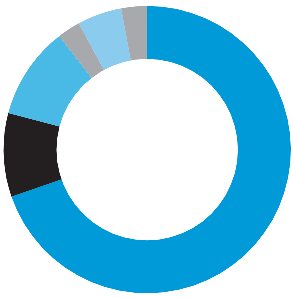
The market value of the portfolio purchased as part of the merger with Bluehone AiM VCT is treated as book cost in the Company's portfolio.

*The share price of these holdings were suspended during the year; therefore transferred from AiM to unquoted.

Portfolio by Sector . . .

	2009	2008
Healthcare	**25.0**	24.0
Industrials	**24.5**	25.5
Technology	**17.8**	19.0
Oil & Gas	**14.7**	8.8
UK Government securities	**5.0**	7.0
Consumer services	**3.7**	5.7
Financials	**2.2**	3.7
Consumer goods	**1.8**	0.7
Utilities	**1.7**	0.0
Telecommunications	**0.7**	0.9
Basic materials	**0.0**	0.1
Net current assets	**2.9**	4.6

. . . and by Asset Classification



	2009	2008
AiM	**69.7**	62.4
Unquoted	**9.4**	15.1
FTSE Small Cap	**10.4**	9.2
PLUS Market	**2.6**	1.7
UK Government securities	**5.0**	7.0
Net current assets	**2.9**	4.6

Board of Directors

at 30 November 2009

Gordon Brough (Chairman)

appointed on 30 October 2000, was a founding partner of the City Law Partnership which specialised in corporate work with particular emphasis on the fund management and life insurance sectors. The City Law Partnership merged with Maclay Murray & Spens where Gordon was a senior equity partner. On 9 February 2009 Gordon became global head of legal at Aberdeen Asset Management PLC.

Jamie Matheson
appointed on 30 October 2000, has around 35 years' experience in stockbroking. He is the Chairman of Brewin Dolphin Holdings plc. He was previously responsible for the institutional and corporate broking activities of Brewin Dolphin. He is also a non-executive director of STV plc.

Steven Mitchell
appointed on 30 October 2000, is Managing Director of the financial services division of the Oval Group.

Gordon Humphries
appointed on 7 February 2006, is an Investment Director, Head of Investment Companies at Standard Life Investments. He has over 20 years' experience in financial services, particularly with regard to investment trusts. He joined Ivory & Sime plc in 1988 after qualifying as a chartered accountant with Pricewaterhouse-Coopers. He is Chairman of the Audit Committee and is a director of Foresight VCT plc.

Gordon Harvey
appointed on 23 July 2008, was until recently a divisional director of Gerrard and has been responsible for managing private client funds for over 43 years. He has been a member of the London Stock Exchange since 1966. He is chairman of Margetts Holdings Limited and a non-executive director of Bluehone Holdings PLC. He is also an Investment Consultant at the Birmingham Office of Williams de Broë. He was previously the chairman of Bluehone AiM VCT plc.

All Directors are non-executive and all, except Mr Harvey, are considered to be independent of the Investment Managers.
Mr G Brough is Chairman of the Nomination Committee.
Mr G Humphries is Chairman of the Audit Committee.
Steven Mitchell is the Senior Independent Director and is Chairman of the Management Engagement and Remuneration Committee.

Report of the Directors

Results and Dividends

The Directors submit the Ninth Report and Accounts of the Company for the year ended 30 November 2009.

The results for the year are set out in the Income Statement on page 27.

	Ordinary shares £'000
Profit on Ordinary activities after taxation	**5,344**
Interim capital dividend of 0.5p per Ordinary share	**(277)**
Transferred to profit and loss account	**5,067**

The Board propose to pay a final dividend of 1.0 pence per Ordinary share on 30 April 2010 to shareholders on the register on 9 April 2010.

Company Number 4084875.

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 2006. Its shares are quoted on the London Stock Exchange. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 274 of the Income Taxes Act 2007 and has received approval as a venture capital trust from HM Revenue & Customs for the year to 30 November 2008. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain approval as a venture capital trust.

The Company is required to comply with company law, the rules of the UK Listing Authority, UK Financial Reporting Standards, and its Articles of Association.

The Company is a member of the Association of Investment Companies (the 'AIC').

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance, and risk management.

Biographical details of the Directors, all of whom are non-executive, can be found on page 16. The Company has no executive Directors or employees.

Investment Objective

The Company's investment objective is to provide shareholders with a tax efficient means of gaining long term capital growth and an attractive dividend stream.

Investment Policy

The Company aims to achieve its objective through an investment policy of primarily investing in a diversified portfolio of AiM or PLUS market traded companies and unquoted companies which anticipate a stock market quotation.

The Company invests in a range of securities including, but not limited to ordinary and preference shares, loan stocks, convertible securities and fixed interest securities, as well as cash. Unquoted investments are usually a combination of ordinary shares and loan stocks, while AiM investments are primarily held in ordinary shares. Pending investment in securities, cash is primarily held in UK gilts.

Investments are primarily made in companies which are substantially based in the UK, although many of these investments will trade overseas. The companies in which investments are made will have no more than £15 million of gross assets at the time of investment (or £7 million if the funds being invested were raised after 5 April 2006) to be classed as a VCT qualifying holding.

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by the HMRC. Amongst other conditions, the Company may not invest more than 15 per cent of its investments in a single company at acquisition and must have at least 70 per cent by value of its investments throughout the period in shares or securities comprised in qualifying holdings, of which 30 per cent by value must be ordinary shares. From 5 April 2010, 70 per cent by value of its investments must be in Ordinary shares.

The Company will be at least 70 per cent invested in broadly spread AiM securities or securities which qualify for VCT relief. Investment will be considered in all VCT qualifying business sectors provided that the investee company can demonstrate the ability to achieve profits growth. The Company can invest in new shares issued as companies come to AiM for the first time and in secondary issues by existing AiM companies. The Manager can also consider investment in unquoted (non AiM) companies using the resources and expertise at their disposal.

Risk is spread by investing in a number of different businesses within different industry sectors using a mixture of securities. The maximum amount invested in any one company is limited to £1 million in a fiscal year and generally this amount will not be exceeded in the same company. The value of an individual company is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale.

The Manager will ensure that investment opportunities are apportioned fairly and equitably among the Company and other clients of Bluehone. Allocations of AiM investments will generally be made *pro rata* up to an agreed normal investment unit for each client, subject to the availability of funds to make the investment and other portfolio exposures such as sector exposure. In addition, the Manager will also take into account the requirement to maintain a minimum of 70 per cent in qualifying holdings in allocating investment opportunities between the Company and other clients managed by Bluehone from time to time.

The Company's articles permit borrowings up to the value of 15 per cent of the gross assets of the Company, following Board approval. The Company's policy is to use borrowings for short term liquidity purposes only.

No material change may be made to the Company's investment policy set out above without the prior approval of shareholders by the passing of an ordinary resolution.

Strategy

Bluehone AiM VCT2 plc is a tax efficient company listed on The London Stock Exchange.

The Board has delegated the management of the investment portfolio to Bluehone Investors LLP (the Manager). F&C Asset Management plc (F&C) also provides or procures the provision of company secretarial, administrative and custodian services to the Company.

The Manager's investment process seeks to identify the key risks associated with an investment in a company. Once this assessment has taken place, an investment will only be made if the potential upside in the investment, as reflected by earnings growth and share price potential, adequately compensates for the investment risk identified. Diversification is also achieved by spreading investments across different asset classes.

The Manager's Review on pages 6 to 10 provides a review of the investment portfolio during the year.

Principal risks, risk management and regulatory environment

The Board believes that the principal risks faced by the Company are:

– Loss of approval as a Venture Capital Trust – the Company must comply with Section 274 of the Income Taxes Act 2008 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, with qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from tax on capital gains.

– Investment and strategic – inappropriate strategy, poor asset allocation or consistent weak stock selection might lead to under performance and poor returns to shareholders.

– Regulatory – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these regulatory rules might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

– Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.

– Operational – failure of the administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

– Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

– Market Risk – Investment in AiM-traded, PLUS-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies traded on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

– Liquidity Risk – The Company's investments may be difficult to realise. The fact that a share is traded on AiM does not guarantee its liquidity.

The Board seeks to mitigate and manage these risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies the principles detailed in the internal control guidance issued by the Financial Reporting Council. Details of the Company's internal controls are contained in the Internal Control section on page 21.

Performance and key performance indicators (KPIs)

The Board expects the Manager to deliver a performance which meets the objective of achieving long term capital growth and an attractive dividend stream.

Performance, measured by dividends paid to shareholders and the change in NAV per share, is also measured against the FTSE AiM Total Return Index. This index, as the measure of UK AiM quoted

Report of the Directors

equities, has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of other AiM venture capital trusts. A review of the Company's performance during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's statement on pages 3 and 4.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted above.

Issue and Buy-Back of Shares

During the year, the C Shares converted into Ordinary shares.

In accordance with the terms set out in the C share prospectus and the Company's Articles of Association, the conversion ratio of C shares into Ordinary shares was 1.298969 and this was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 23 November 2009 (54.54 pence per share) and dividing it by the net asset value of the assets of the existing Ordinary shareholders at 23 November 2009 (41.99 pence per share).

On 27 November 2009, the conversion of the C shares resulted in 3,832,066 Ordinary shares being issued.

During the year the Company issued 23,008 Ordinary 10p Shares as part of the Dividend Reinvestment Scheme ('DRIS'). The Company did not buyback any shares during the year.

Share Premium Cancellation

On 22 July 2009, the Company received court approval for the cancellation of the share premium account of the Ordinary shares and the C shares, (then standing at £14,018,903 and £1,427,144 respectively) and the transfer of this amount to the profit and loss as a distributable reserve.

Directors

Biographies of the Directors are shown on page 16.

As explained in more detail under Corporate Governance, the Board has agreed that Directors who have served on the Board for more than nine years will retire annually. Accordingly, Mr G Brough, Mr J Matheson and Mr S Mitchell who have held office for a period of more than nine years will retire at the Annual General Meeting of the Company and, being eligible, offer themselves for re-election. Mr G Harvey, as a non-independent Director, is subject to annual re-election and accordingly will retire at the Annual General Meeting of the Company and, being eligible, offers himself for re-election.

The Board confirms that following performance evaluations, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role, and believes that it is therefore in the best interests of shareholders that these Directors are re-elected.

The Directors, who held office during the year, and their interests shares of the Company, were:

	30 November 2009 Ordinary shares	30 November 2008 Ordinary shares	30 November 2008 C shares
Gordon Brough			
Beneficial and family	**23,379***	10,000	10,300
Jamie Matheson			
Beneficial and family	**10,000**	10,000	–
Steven Mitchell			
Beneficial and family	**40,696***	27,707	10,000
Gordon Humphries			
Beneficial and family	**9,280**	9,280	–
Gordon Harvey			
Beneficial and family	**77,244**	27,244	–

*Increase in holding of Ordinary shares due to C share conversion.

There have been no changes in the holdings of the Directors between 30 November 2009 and 2 March 2010.

No Director has a service contract with the Company.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and that 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.

Corporate Governance

Arrangements in respect of corporate governance, appropriate to a venture capital trust, have been made by the Board. The Company complied throughout the year with the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code') available at website www.frc.org.uk. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance **('AIC Code')** issued in May 2007 (and subsequently revised in March 2009) by reference to the AIC Corporate Governance Guide for Investment Companies **(AIC Guide)**. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the

Report of the Directors

Code, as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code) will provide better information to shareholders than if it adopted the Combined Code.

Except as disclosed below, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the Combined Code.

Since all the Directors are non-executive, the provisions of the Combined Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the Combined Code relating to Directors' remuneration are not relevant, except in so far as they relate specifically to non-executive Directors. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the Company, being an externally managed venture capital trust. The Company has therefore not reported further in respect of these provisions.

The Board consists solely of non-executive Directors of which Mr G Brough is Chairman and Steven Mitchell is the Senior Independent Director. In November 2009, Mr Harvey became a non-executive Director of Bluehone Holdings plc. Accordingly Mr Harvey was no longer considered to be an independent Director of the Company. With the exception of Mr Harvey, all Directors are considered by the Board to be independent of the Company's Manager. New Directors receive an induction from the Manager on joining the Board, and all Directors receive other relevant training as necessary.

The Board does not consider that a Director's tenure reduces his ability to act independently. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and tenure. It also believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Company has no executive Directors or employees.

A management agreement between the Company and its Manager, Bluehone Investors LLP, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

Throughout the year a number of committees have been in operation. The committees are the Audit Committee, the Management Engagement and Remuneration Committee and the Nomination Committee.

The Audit Committee, chaired by Mr G Humphries, operates within clearly defined terms of reference and comprises all of the Directors. The duties of the Audit Committee include reviewing the Annual and Interim Accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non-audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice yearly. The Committee reviews the scope and results of the audit, its cost effectiveness and independence and objectivity of the auditors, with particular regard to non-audit fees. Such fees amounted to £5,000 for the year ended 30 November 2009 (2008: £5,000) and related principally to the provision of taxation services. Notwithstanding such services the Audit Committee considers KPMG LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit. A description of the main features of the Company's internal control and risk management systems is contained on this page.

The Management Engagement and Remuneration Committee comprises the full Board with the exception of Mr Harvey, and reviews the appropriateness of the Manager's appointment together with the terms and conditions thereof on a regular basis.

The Nomination Committee, chaired by Mr G Brough, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

The performance of the Board, committees and individual Directors was evaluated through an assessment process, led by

Report of the Directors

the Chairman. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director.

The following table sets out the number of Board and Committee meetings held for the year ended 30 November 2009 and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement and Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gordon Brough (Chairman)	6	6	2	2	1	1	1	1
Gordon Humphries	6	6	2	2	1	1	1	1
Jamie Matheson	6	5	2	2	1	1	1	1
Steven Mitchell	6	6	2	2	1	1	1	1
Gordon Harvey	6	6	2	2	1	1	1	1

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

Going Concern

After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council. The process relies principally on the Manager's existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of internal control reports issued by the Manager and other service providers.

Such review procedures have been in place throughout the financial year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate the risk of failure to meet business objectives and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to the benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Manager adheres to the published investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines, although no material change may be made to the Company's published investment policy, as set out on pages 17 and 18, without the prior approval of shareholders by passing an Ordinary resolution.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Manager, including the internal audit function within F&C Asset Management plc and the review of its AAF 01/06 Report by a firm of external auditors, provide sufficient assurance that a sound system of internal control, to safeguard the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. Financial reports are sent to shareholders twice a year and the Manager issues newsletters giving details about investment progress and performance. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 1 April 2010 can be found in the Notice of Meeting on pages 42 to 46.

Dividend Reinvestment Scheme

Given the small number of shareholders participating in the Dividend Reinvestment Scheme ('DRIS') it was not found to be cost effective and therefore the Board has taken the decision to withdraw it, effective immediately.

Report of the Directors

Directors' Authority to Allot Shares and Disapply Pre-emption Rights on the Allotment of Shares

The purpose of resolution 9 is to renew the Directors' authority to allot shares. The authority will allow the Directors to allot shares or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £3,500,000 which is equivalent to approximately 59 per cent of the issued share capital of the Company as at 2 March 2010.

In light of the potential opportunities and advantageous time in market cycles for investing, the Board has decided to make available a limited number of new shares in the Company by way of a top-up offer ("Top-Up Offer") to provide shareholders and investors the opportunity to invest further in the Company. The price of the new shares under the Top-Up Offer will be the most recently published NAV divided by 0.95 (to take into account offer costs of 5 per cent). The Top-Up Offer will, if fully subscribed, raise up to a maximum of approximately £2.175 million. Details of the Top-Up Offer including an application form has been sent to shareholders.

This authority under resolution 9 shall expire on the fifth anniversary of that date the resolution is passed unless renewed, varied or revoked by the Company in general meeting.

This authority under resolution 9 enables the Directors to offer existing shareholders the opportunity in addition to the Top-Up Offer to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally and will not dilute their existing interest. Any such issues would only be made at a price greater than the net asset value per share and therefore would increase the assets underlying each share. The issue proceeds would be available to pay expenses of the Company, or for investment in line with the Company's investment policy and may be used, in part, to purchase Ordinary shares in the market.

Resolution No.10 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution, or if earlier, the conclusion of the next Annual General Meeting of the Company, to issue shares for cash without pre-emption rights applying by way of offer to existing shareholders in proportion to their existing shareholdings (including the allotment of shares from the Top-Up Offer) up to a maximum of 5,922,600 Ordinary shares of 10p each (representing approximately 10 per cent of the Company's Ordinary issued share capital as at 2 March 2010). This power will be exercised only if, in the opinion of Directors, it would be in the best interests of shareholders, as a whole.

Directors' Authority to Purchase Shares

The current general authority of the Company to make market purchases of up to 8,300,112 Ordinary shares expires at the end of the Annual General Meeting and Resolution No. 11 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The price paid for shares will not be less than their nominal value nor more than the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force at the date of purchase. These powers will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in treasury for future re-sale in appropriate market conditions.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow companies (such as the Company) to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Such shares may be subsequently cancelled or sold for cash. This would give the Company the ability to re-issue treasury shares quickly and cost efficiently, and would provide the Company with additional flexibility in the management of its capital base. The Company does not currently hold any shares in treasury and does not presently intend to hold any shares in treasury.

Amendments to the Articles of Association

It is proposed in Resolution 12 to adopt new articles of association of the Company (the "New Articles") in order to update the Company's current articles of association (the "Current Articles") primarily to take account of changes in English company law brought about by the Companies Act 2006, as amended by the Shareholders' Rights Regulations which came into force in August 2009.

The principal changes introduced in the New Articles are contained in the Notice of the Meeting. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or conform certain language in the New Articles where used in the Model Articles for public companies have not been noted in the Appendix. The New Articles showing all the changes to the Current Articles are available for inspection, as stated in the notes to the Notice of Annual General Meeting.

Management

Bluehone Investors LLP manages the investments for the Company. F&C Asset Management plc provides or procures the provision of secretarial and administration services to the Company. Further details are provided in Note 3 to the accounts. Annual running costs are capped at 3.25 per cent of the average net assets per annum of the Company. Any excess being refunded by the Manager by way of an adjustment to the management fee.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers (PwC) to advise it on compliance with VCT requirements. PwC reviews proposed new investment opportunities for VCT status, as appropriate, and reviews regularly the investment portfolio of the Company. PwC works closely with the Manager and reports directly to the Board.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

KPMG also provide non-audit services and take appropriate measures to ensure that objectivity and independence are safeguarded. The Audit Committee also reviews the provision of these services.

Substantial Interests

At 2 March 2010 the only persons known to the Company who, directly or indirectly were interested in 3.0 per cent or more of the Company's issued share capital were as follows:

	Number of Ordinary shares held	Percentage held
Turcan Connell	3,899,206	6.6

Recommendation

The Directors, consider that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and shareholders as a whole. The Directors unanimously recommend shareholders to vote in favour of the Resolutions to be proposed at the Annual General Meeting. The Directors intend to vote in favour of the resolutions in respect of their own beneficial holdings of shares in the Company (amounting, in aggregate, to 160,599 shares representing 0.3 per cent of the issued share capital of the Company, as at 2 March 2010 (being the latest practicable date prior to the publication of this document).

By Order of the Board,

Scott Macrae

for F&C Asset Management plc
Secretary

80 George Street
Edinburgh EH2 3BU

2 March 2010

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of the Companies Act 2006. An Ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in the 'Independent Auditors' Report' on page 26.

Directors' Fees

The Board has a majority of independent non-executive Directors and considers at least annually the level of the Board's fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 November 2010 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £79,682 (as varied by the UK Retail Prices Index from year to year) and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

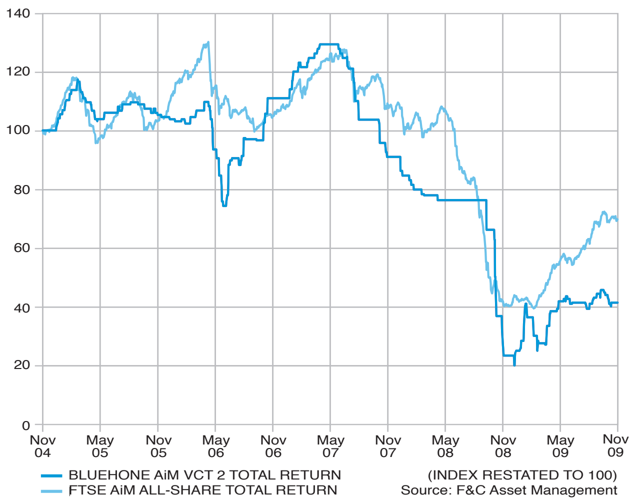
Director	Date of Original Appointment	Due date for re-election
G Brough	30/10/2000	AGM 2010
G Humphries	07/02/2006	AGM 2012
J Matheson	30/10/2000	AGM 2010
S Mitchell	30/10/2000	AGM 2010
G Harvey	23/07/2008	AGM 2010

The terms of Directors' appointments now provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years. Any Director who has served on the Board for more than nine years will offer himself for re-election annually. There is no notice period and no provision for compensation upon early termination of appointment. Mr Harvey, as a non-independent Director, retires on an annual basis.

Company performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the 'Report of the Directors'. The graph below compares for the five financial years ending 30 November 2009, the percentage change over each period in the total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE AiM Index is calculated. This index was chosen for comparison purposes, as it represents a comparable broad equity market index. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Share Price Total Return and FTSE AiM Index Total Return Performance Graph



Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2009 £	Fees 2008 £
G Brough	**15,000**	15,000
G Humphries	**11,000**	11,000
J Matheson	**11,000**	11,000
S Mitchell	**11,000**	11,000
G Harvey*	**11,000**	4,000
R Catto†	–	7,000
Total	**59,000**	59,000

*Appointed to the Board on 23/07/08

†Retired from the Board on 23/07/08.

On behalf of the Board,

G Brough
Director
2 March 2010

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. In practice the Directors delegate authority in these areas to the Company's Investment Manager and F&C.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

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

On behalf of the Board

G Brough
Chairman

2 March 2010

Independent Auditor's Report

Independent Auditor's report to the members of Bluehone AiM VCT2 plc

We have audited the financial statements of Bluehone AiM VCT2 plc for the year ended 30 November 2009 set out on pages 27 to 41. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 21, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Gareth Horner
for and on behalf of KPMG Audit Plc,
Senior Statutory Auditor
Chartered Accountants
Edinburgh

2 March 2010

Income Statement

for the year ended 30 November 2009

	Notes	Year ended 30 November Ordinary Shares 2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Loss on realisation of investments	8	–	**(347)**	**(347)**
Changes in fair value of investments	8	–	**6,176**	**6,176**
Income	2	**253**	–	**253**
Investment management fee	3	**(87)**	**(262)**	**(349)**
Expenses of capital restructure		–	**(30)**	**(30)**
Other expenses	4	**(359)**	–	**(359)**
(Loss)/profit on ordinary activities before taxation		**(193)**	**5,537**	**5,344**
Tax on ordinary activities	5	–	–	–
(Loss)/profit on ordinary activities after taxation		**(193)**	**5,537**	**5,344**
Return per share	7	**(0.35p)**	**9.99p**	**9.64p**

Reconciliation of Movement in Shareholders' Funds

for the year ended 30 November 2009

	Notes	Year ended 30 November 2009 Ordinary £'000	2009 C Shares £'000	2009 Total £'000
Opening shareholders' funds		**17,894**	**1,665**	**19,559**
Profit/(loss) for the period	18	**5,413**	**(69)**	**5,344**
Conversion of C shares		**1,596**	**(1,596)**	–
Increase in share capital		**9**	–	**9**
Share issue expenses		**(3)**	–	**(3)**
Dividends paid	6	**(277)**	–	**(277)**
Closing shareholders' funds		**24,632**	–	**24,632**

The total column of the Income Statement is 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.

All the revenue and capital items in the above statement derive for continuing operations. All of the profit/(loss) for the year is attributable to the owners of the Company.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above Income Statement.

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

Income Statement

for the year ended 30 November 2008

	Notes	Year ended 30 November Ordinary Shares 2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	Year ended 30 November C Shares 2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	Year ended 30 November Total 2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Profit on realisation of investments	8	–	451	451	–	36	36	–	487	487
Changes in fair value of investments	8	–	(19,871)	(19,871)	–	(1,171)	(1,171)	–	(21,042)	(21,042)
Income	2	256	116	372	33	1	34	289	117	406
Investment management fee	3	(130)	(392)	(522)	(12)	(38)	(50)	(142)	(430)	(572)
VAT on management fees refund	3	265	795	1,060	5	14	19	270	809	1,079
Other expenses	4	(245)	–	(245)	(27)	–	(27)	(272)	–	(272)
Profit/(loss) on ordinary activities before taxation		146	(18,901)	(18,755)	(1)	(1,158)	(1,159)	145	(20,059)	(19,914)
Tax on ordinary activities	5	–	–	–	–	–	–	–	–	–
Profit/(loss) on ordinary activities after taxation		146	(18,901)	(18,755)	(1)	(1,158)	(1,159)	145	(20,059)	(19,914)
Return per share	7	0.33p	(42.69p)	(42.36p)	(0.03p)	(39.22p)	(39.25p)			

Reconciliation of Movement in Shareholders' Funds

for the year ended 30 November 2008

	Notes	Year ended 30 November 2008 Ordinary £'000	2008 C Shares £'000	2008 Total £'000
Opening shareholders' funds		27,863	2,824	30,687
Loss for the year		(18,755)	(1,159)	(19,914)
Increase in share capital		10,267	–	10,267
Expenses of share issue		(162)	–	(162)
Purchase of shares		(77)	–	(77)
Dividends paid	6	(1,242)	–	(1,242)
Closing shareholders' funds		17,894	1,665	19,559

The total column of the Income Statement is 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.

All the revenue and capital items in the above statement derive for continuing operations. All of the profit/(loss) for the year is attributable to the owners of the Company.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above Income Statement.

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

Balance Sheet

as at 30 November

	Notes	As at 30 November Ordinary 2009 £'000	Ordinary 2008 £'000	As at 30 November C Shares 2008 £'000	Total 2008 £'000
Fixed assets					
Investments	8	**23,913**	17,011	1,647	18,658
Current assets					
Debtors	9	**87**	811	16	827
Cash at bank and on deposit		**958**	207	14	221
		1,045	1,018	30	1,048
Creditors (amounts falling due within one year)	10	**(326)**	(135)	(12)	(147)
Net assets less current liabilities		**719**	883	18	901
Total assets less current liabilities		**24,632**	17,894	1,665	19,559
Capital and reserves					
Called-up share capital	11	**5,922**	5,537	1,475	7,012
Share premium account	12	**4**	13,932	1,328	15,260
Capital redemption reserve	12	**2,117**	1,025	–	1,025
Revaluation reserve	12	**(9,015)**	(22,441)	(1,109)	(23,550)
Profit and loss account	12	**25,604**	19,841	(29)	19,812
Equity shareholders' funds		**24,632**	17,894	1,665	19,559
Net asset value per share	13	**41.59p**	32.32p	56.47p	
Number of shares in issue at Balance Sheet date		**59,226,066**	55,370,992	2,950,085	

The financial statements on pages 27 to 41 were approved by the Board of Directors on 2 March 2010 and were signed on its behalf by:

GORDON H BROUGH (Director)

GORDON HUMPHRIES (Director)

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

Cash Flow Statement

for the year to 30 November

	Notes	Year ended 30 November Ordinary 2009 £'000	Year ended 30 November Ordinary 2008 £'000	C Shares 2008 £'000	Total 2008 £'000
Operating activities					
Investment income received		**245**	145	25	170
Deposit interest received		**2**	37	5	42
Investment management fees		**(336)**	(496)	(54)	(550)
VAT on management fees refund received		**748**	468	19	487
Other cash payments		**(423)**	(289)	(38)	(327)
Net cash inflow/(outflow) from operating activities	15	**236**	(135)	(43)	(178)
Taxation					
Tax received		**–**	–	–	–
Capital expenditure and financial investment					
Purchases of investments		**(3,178)**	(2,109)	(564)	(2,673)
Disposals of investments		**3,950**	3,485	586	4,071
Net cash inflow from capital expenditure and financial investment		**772**	1,376	22	1,398
Equity dividends paid		**(277)**	(1,224)	–	(1,224)
Net cash inflow/(outflow) before financing		**731**	17	(21)	(4)
Financing					
Issue of Ordinary shares following DRIS		**9**	46	–	46
Merger costs		**–**	(109)	–	(109)
Share buybacks		**–**	(77)	–	(77)
Expenses of the share issue		**(3)**	–	–	–
Net cash inflow/(outflow) from financing		**6**	(140)	–	(140)
Increase/(decrease) in cash		**737**	(123)	(21)	(144)
Reconciliation of net cash flow to movement in net cash					
Increase/(decrease) in cash		**737**	(123)	(21)	(144)
Opening cash		**221**	330	35	365
Net cash at 30 November	14	**958**	207	14	221

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

Notes to the Accounts

1. Accounting policies

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP) and on the assumption that the Company maintains VCT status.

The Company is no longer an investment company as defined by Section 833 of the Companies Act 2006, as investment company status was revoked in order to permit the distribution of capital profits.

The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts issued by the Association of Investment Companies (AIC) in January 2003, revised January 2009, is consistent with the requirements of UK GAAP, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significant judgement is the valuation of unlisted investments which is described in note 1(b) below.

Presentation of the Income Statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. The Net loss or Revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 274 of the Taxes Act 2007.

Acquisition of assets from Bluehone AiM VCT plc

On 23 July 2008 the Company acquired Bluehone AiM VCT plc for a consideration comprising the issue of new shares representing 31.1 per cent of the Company's enlarged share capital.

The Investment Manager is paid an annual fee at a rate of 2 per cent per annum of the Company's net assets. The Investment Manager agreed to reduced fees of 1.5 per cent per annum of the Company's net assets for a 12 month period following the date of the merger. This period was extended to 30 November 2009.

Following the date of the merger, annual running costs, being the Directors' fees, professional fees and the costs incurred by the Company in the ordinary course of business were capped at 3.25 per cent of the Company's net assets (previously 3.5 per cent) with any excess being met by the Investment Manager by way of a reduction of future fees.

(b) Valuation of investments

Purchases or sales are recognised at the date of transaction.

Investments are classified as fair value through the profit or loss. Financial assets designated as at fair value through the profit or loss are measured at subsequent reporting dates at fair value. For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

In respect of unquoted investments, these are fair valued by the Directors in accordance with the following rules, which are consistent with British Venture Capital Association guidelines (BVCA):

1. Investments are to be held at cost for a limited period only and not necessarily for a full 12 month period. The Company values new investments on a price earnings basis when audited financial statements are available within the first 12 months of the investment being made.
2. Investments outwith the initial limited holding period are valued using a price earnings ratio (at a significant discount to an appropriate stock market prospective price earnings ratio) in the absence of overriding factors. Where such factors apply, alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost or a net asset basis.

Where securities are designated upon initial recognition as fair value through profit or loss, gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item. Transaction costs on acquisition are included within the initial recognition and the profit or loss on disposal is calculated net of transaction costs on disposal.

Company	Valuation Basis
Cambridge Sensors	Price earnings basis
Infrared Integrated Systems	Price earning basis
Convivial London Pubs	Net asset value
Tissuemed	Latest funding round
Secure Electrans	Latest funding round

Notes to the Accounts

(c) Income

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex dividend and where no dividend date is quoted, when the Company's right to receive payment is established.

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where the terms of unquoted loan stocks only require interest to be paid on redemption, the interest is recognised as income on receipt. Until such date interest is accrued daily and included within the valuation of the investment.

Income from fixed interest securities and deposit interest is included on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis.

Expenses are allocated to revenue except as follows:

– expenses which are incidental to the acquisition of an investment are included within the cost of the investment

– expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment

– the Company charges 75 per cent of investment management fees to capital, in line with the Board's expected long term return in the form of capital gains and income respectively from the investment portfolio of the Company. For further details refer to note 3.

(e) Revenue/capital

The revenue column of the income statement includes all income and expenses. The capital column accounts for the realised profit and loss on investments and the proportion of management fee charged to capital.

(f) Issue costs

Issue costs are deducted from the share premium account.

(g) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or the right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

(h) Reserves

The share premium reserve was created from the surplus of the net proceeds received from the issuance of new shares over their par value net of any relating issue costs. The balance of this account was subsequently cancelled on 22 July 2009 by the High Court of Justice and transferred to the profit and loss as a distributable reserve.

Notes to the Accounts

2. Income

Ordinary Shares	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Income from investments				
UK franked	**165**	163	12	175
UK unfranked	**86**	17	16	33
	251	180	28	208
Other income				
Deposit interest	**2**	36	5	41
Miscellaneous income	**–**	156	1	157
	2	192	6	198
Total income	**253**	372	34	406
Total income comprises:				
Dividends	**165**	163	12	175
Interest	**88**	53	21	74
Interest on VAT on management fees	**–**	155	1	156
Other	**–**	1	–	1
	253	372	34	406
Income from investments:				
Quoted UK	**251**	180	28	208
	251	180	28	208

3. Investment management fee

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Investment management fee	**349**	522	50	572

The management agreement may be terminated by either party on one year's notice to expire at the end of any calendar month. From 23 July 2008 the management fee was reduced from 2.0 per cent to 1.5 per cent of the net assets of the Company (including the assets attributable to the C shares) per annum until 30 November 2009 and Bluehone LLP also waived all rights to a performance fee. F&C Asset Management plc receives a quarterly secretarial fee, payable in arrears, comprising an annual fee of £37,653 (2008: £36,554) adjusted for movements in the Retail Price Index and a variable fee of 0.125 per cent per annum on net assets over £5 million (see note 4). The secretarial fees are subject to a maximum annual amount of £125,000 excluding VAT.

The annual running costs are capped at 3.25 per cent of the average net assets per annum of the Company; any excess being refunded by the Manager by way of an adjustment to the management fee.

Notes to the Accounts

4. Other expenses

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Directors' fees	**59**	54	5	59
Secretarial fees	**66**	68	3	71
Auditors remuneration for:				
-audit	**17**	14	1	15
-other services to the Company	**5**	4	1	5
Other	**212**	105	17	122
	359	245	27	272

Charges for other services provided by the auditors were in relation to tax compliance work. The Directors consider the auditors were best placed to provide this service. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained. The secretarial fee is stated inclusive of irrecoverable VAT. The secretarial agreement may be terminated by either party on one year's notice to expire at the end of any calendar month.

5a. Tax on ordinary activities

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
UK Corporation tax	**–**	–	–	–
	–	–	–	–

The income statement shows the tax charge allocated between income and capital.

5b. Factors affecting tax charge for the year

The revenue account tax charge for the year differs from the standard company rate of corporation tax in the UK (28 per cent). The differences are explained below:

2009	Total £'000
Net profit before taxation	**5,344**
Tax @ 28%	**1,496**
Effects of:	
Loss on realisation of investments	**97**
Changes in fair value of investments	**(1,729)**
Non-taxable dividend income	**(46)**
Disallowable expenditure	**8**
Increase in excess management expenses	**174**
Current tax charge for the year	**–**

Notes to the Accounts

5b. Factors affecting tax charge for the year (continued)

2008	Ordinary shares Revenue £'000	C shares Revenue £'000	Total Revenue £'000
Net profit/(loss) before taxation	146	(1)	145
Tax @ effective rate of 28.7%	42	–	42
Effects of:			
Non-taxable dividend income	(47)	(3)	(50)
Increase in excess management expenses	5	3	20
Current tax charge for the year	–	–	–

At 30 November 2009 the Company had surplus management expenses of £4,253,137 (2008: £3,601,999) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to maintain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

6. Dividends

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Dividends on equity shares:				
– prior year adjustment	**–**	19	–	19
– Ordinary – final capital 1.75p per share on 38,265,340 shares paid on 10 April 2008	**–**	670	–	670
– Ordinary – interim capital 1.0p per share on 55,332,808 shares paid on 29 August 2008	**–**	553	–	553
– Ordinary – interim capital 0.5p per share on 55,370,992 shares paid on 28 August 2009	**277**	–	–	–
	277	1,242	–	1,242

A final capital dividend of 1.0 pence per Ordinary share has been proposed. Subject to approval at the AGM this dividend will be payable on 30 April 2010 to shareholders on the register on 9 April 2010.

7. Returns per share

Ordinary shares

The 9.64p gain per share (2008: a loss of 42.36p per Ordinary share and a loss of 39.25p per C share) is based on the net gain from Ordinary activities after tax of £5,344,000 (2008: a loss of £18,755,000 from the Ordinary shares and a loss of £1,159,000 from the C shares) and on 55,408,414 Ordinary shares (2008: 44,274,717 Ordinary shares and 2,950,085 C shares), being the weighted average number of shares in issue during the year.

Notes to the Accounts

8. Investments

All investments are designated at fair value through profit or loss, therefore all gains and losses arise on investments designated at fair value through profit or loss. Given the nature of the Company's investments, the fair value gains recognised in those financial statements are not considered to be readily convertible to cash in full at the Balance Sheet date and therefore these fair values are treated as unrealised.

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Investments quoted on the Alternative Investment Market (AiM)	**17,164**	11,002	1,209	12,211
Investments quoted on PLUS Market	**644**	340	–	340
Listed investments	**2,554**	1,788	–	1,788
UK Government securities	**1,238**	976	387	1,363
Unquoted investments	**2,313**	2,905	51	2,956
	23,913	17,011	1,647	18,658

	£'000	£'000	£'000	£'000
Equity shares	**22,675**	15,685	1,215	16,900
Preference shares	**–**	350	45	395
Fixed income securities	**1,238**	976	387	1,363
	23,913	17,011	1,647	18,658

	Quoted on AiM £'000	**Quoted on PLUS £'000**	**Listed £'000**	**UK Govt Securities £'000**	**Unquoted £'000**	**Total £'000**
Opening book cost – Ordinary shares	29,720	1,253	1,866	971	4,812	38,622
Opening fair value adjustment – Ordinary shares	(18,718)	(913)	(78)	5	(1,907)	(21,611)
Opening book cost – C shares	2,350	–	–	385	100	2,835
Opening fair value adjustment – C shares	(1,141)	–	–	2	(49)	(1,188)
Opening valuation	12,211	340	1,788	1,363	2,956	18,658
Movements in the year:						
Purchases at cost	1,871	87	–	1,420	–	3,378
Sales proceeds	(2,478)	–	–	(1,474)	–	(3,952)
Realised gains/(losses) on sales	686	(71)	(114)	(20)	(828)	(347)
Transfer of book cost	(768)	–	–	–	768	–
Transfer unrealised (losses)/gains realised during the year	(5,946)	(479)	(74)	8	(1,868)	(8,359)
Changes in fair value	11,588	767	954	(59)	1,285	14,535
Fair value as at 30 November 2009	**17,164**	**644**	**2,554**	**1,238**	**2,313**	**23,913**
Closing book cost	25,435	790	1,678	1,290	2,984	32,177
Closing fair value adjustment	(8,271)	(146)	876	(52)	(671)	(8,264)
	17,164	**644**	**2,554**	**1,238**	**2,313**	**23,913**

Notes to the Accounts

9. Debtors

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Accrued income	**69**	56	7	63
Prepayments and other debtors	**16**	755	9	764
Amounts due from brokers	**2**	–	–	–
	87	811	16	827

Other debtors in 2008 for the Ordinary shares included £592,000 due from HMRC in respect of VAT on management fees and £156,000 due in respect of interest due on the VAT on management fees refunds. This was all received during 2009.

10. Creditors

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Fees due to the Manager	**33**	18	2	20
Amounts due to brokers	**200**	–	–	–
Other creditors	**93**	117	10	127
	326	135	12	147

11. Called-up share capital

	£'000
Authorised:	
80,000,000 Ordinary shares of 10p each	8,000
210,249,575 C shares redesignated as Ordinary shares	21,025
14,750,425 C shares converted into Ordinary shares	1,475
305,000,000 Ordinary shares of 10p each at 30 November 2009	30,500
Allotted, called-up and fully-paid:	
Ordinary shares	
55,370,992 Ordinary shares of 10p each at 30 November 2008	5,537
23,008 Ordinary shares of 10p each issued during the year	2
3,832,066 Ordinary shares of 10p issued on conversion of C shares	383
59,226,066 Ordinary shares of 10p each at 30 November 2009	5,922
C shares	
2,950,085 C shares of 50p each in issue at 30 November 2008	1,475
(2,950,085) C shares of 50p converted into Ordinary shares on 27 November 2009	(1,475)
Nil shares of 50p each issued and listed at 30 November 2009	–

During the year, the C shares converted into Ordinary shares.

In accordance with the terms set out in the C share prospectus and the Company's Articles of Association, the conversion ratio of C shares into Ordinary shares was 1.298969 and this was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 23 November 2009 (54.54 pence per share) and dividing it by the net asset value of the assets of the existing Ordinary shareholders at 23 November 2009 (41.99 pence per share).

On 27 November 2009, the conversion of the C shares resulted in 3,832,066 Ordinary shares being issued.

Notes to the Accounts

12. Reserves

	Share premium account* £'000	Capital redemption reserve* £'000	Revaluation reserve* £'000	Profit and loss account £'000
At 30 November 2008 – Ordinary shares	13,932	1,025	(22,441)	19,841
At 30 November 2008 – C shares	1,328	–	(1,109)	(29)
	15,260	1,025	(23,550)	19,812
Conversion of share premium account	(15,260)	–	–	15,260
Conversion of C shares	–	1,092	–	–
Issue of shares	7	–	–	–
Expenses of share issue	(3)	–	–	–
Transfer of prior years' revaluation to the profit and loss account	–	–	8,359	(8,359)
Dividends paid	–	–	–	(277)
Net increase in value of investments	–	–	6,176	(6,176)
Retained profit for the year	–	–	–	5,344
	4	2,117	(9,015)	25,604

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the revaluation reserve. When an investment is sold any balance held on the revaluation reserve is transferred to the profit and loss account as a movement in reserves.

During the year the Company received court approval for the cancellation of the share premium account of the Ordinary shares and the C shares and the transfer of this amount to the profit and loss account as a distributable reserve.

*These reserves are non-distributable.

13. Net asset value per share

The net asset value per share and the net asset value attributable to both the Ordinary shares and C shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Number of shares		Attributable net asset value per share		Attributable net asset value	
	2009 number	2008 number	**2009 pence**	2008 pence	**2009 £'000**	2008 £'000
Ordinary shares	**59,226,066**	55,370,992	**41.59**	32.32	**24,632**	17,894
C shares	**n/a**	2,950,085	**n/a**	56.47	**n/a**	1,665

Basic net asset value per Ordinary share is based on £24,632,000 net assets (2008: £17,894,000), and on 59,226,066 (2008: 55,370,992) Ordinary shares, being the number of Ordinary shares in issue at the year end.

14. Analysis of changes in cash

	£'000
Beginning of year	**221**
Net cash inflow	**737**
As at 30 November 2009	**958**

Notes to the Accounts

15. Reconciliation of net profit/(loss) before taxation to net cash inflow/(outflow) from operating activities

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Profit/(loss) on ordinary activities before taxation	**5,344**	(18,755)	(1,159)	(19,914)
Loss/(profit) on realisation of investments	**347**	(451)	(36)	(487)
Changes in fair value of investments	**(6,176)**	19,871	1,171	21,042
Decrease/(increase) in debtors	**742**	(768)	(10)	(778)
Decrease in creditors	**(21)**	(32)	(9)	(41)
Net cash inflow/(outflow) from operating activities	**236**	(135)	(43)	(178)

16. Contingencies, guarantees and financial commitments

As at 30 November 2009 there were no contingencies, guarantees or financial commitments of the Company.

17. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets to invest in accordance with its investment policy, in UK companies raising new share capital predominantly on AiM.

Fixed asset investments held (see note 8) are valued at bid market prices or Directors' valuation which equate to their fair values. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13.

The main risks that the Company faces arising from its financial instruments are:

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;

(ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;

(iii) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and

(iv) liquidity risk, being the risk that the Company may not be able to liquidate its investments quickly enough to meet its ongoing financial commitments.

The Company held the following categories of financial instruments as at 30 November:

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Financial assets				
Investment portfolio	**23,913**	17,011	1,647	18,658
Cash at bank and on deposit	**958**	207	14	221
Accrued income	**69**	56	7	63
Other debtors	**18**	755	9	764
Financial liabilities				
Fees due to the manager	**33**	18	2	20
Other creditors	**293**	117	10	127

Notes to the Accounts

17. Financial instruments (continued)

Market price risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined in the business review on pages 17 to 19. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed in accordance with the policies and procedures described in the corporate governance statement on pages 19 to 21, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in unquoted companies, by their nature usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is monitored by the Board on a quarterly basis.

Details of the Company's investment portfolio at the Balance Sheet date are set out on page 29.

82.7 per cent (2008: 73.3 per cent) by value of the Company's net assets comprise equity securities listed on the London Stock Exchange or quoted on AiM. A 20 per cent increase in the bid price of these securities as at 30 November 2009 would have increased net assets and the total return for the year by £4.1 million (2008: £2.9 million); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

9.4 per cent (2008: 15.1 per cent) by value of the Company's net assets comprise investments in unquoted companies held at fair value. The valuation methods used by the Company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 20 per cent overall increase in the valuation of the unquoted investments at 30 November 2009 would have increased net assets and the total return for the year by £0.5 million (2008: £0.6 million) an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount.

Interest rate risk

Floating rate

When the Company retains cash balances the majority of the cash is held in deposit accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate for the relevant currency for each deposit.

If the bank base rate had increased by 1.0 per cent, the impact on the profit or loss would have been a positive £9,580 (2008: positive £2,210). If the bank base rate had decreased by 1.0 per cent, the impact on the profit or loss would have had an equal and opposite effect. The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole.

Fixed rate

The Company holds fixed interest investments.

Ordinary Shares	**2009 £'000**	**2009 Weighted average interest rate***	**2009 Weighted average period until maturity**	2008 £'000	2008 Weighted average interest rate*	2008 Weighted average period until maturity
Fixed interest investments	**1,238**	**5.75%**	**0.02 years**	976	4.84%	0.63 years
Preference shares	**–**	**–**	**–**	350	–	–
C Shares						
Fixed interest investments	**n/a**	**n/a**	**n/a**	387	4.00%	0.27 years
Preference shares	**n/a**	**n/a**	**n/a**	45	–	–

*The 'weighted average interest rate' is based on the current yield of each asset, weighted by their market value.

Non-interest bearing investments

The Company's non-interest bearing investments are its equity investments which had a value of £22.7 million as at 30 November 2009 (2008: £16.9 million).

Notes to the Accounts

17. Financial instruments (continued)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represents the maximum credit risk exposure at the Balance Sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2009 Ordinary shares £'000	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Cash and cash equivalents	**958**	207	14	221
Interest, dividends and other receivables	**87**	811	16	827
	1,045	1,018	30	1,048

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the diversity of counterparties used.

All the assets of the Company are held by JPMorgan Chase Bank, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Report of the Directors on page 21. The Managers have in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis.

The credit risk on liquid funds is controlled because the counterparties are banks with high credit ratings, rated AA or higher, assigned by international credit rating agencies. Bankruptcy or insolvency of such financial institutions may cause the Company's ability to access cash placed on deposit to be delayed, limited or lost.

As at 30 November 2009 the Company had cash on deposit of £890,000 split between two counterparties. There were no other material concentrations of credit risk to counterparties at 30 November 2009 or 30 November 2008.

Liquidity risk

The Company's liquidity risk is managed on an ongoing basis by the Managers.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and expenses.

Contractual maturity analysis for financial liabilities

	One month £'000	One and three months £'000	Three and twelve months £'000	Between one and five years £'000	After five years £'000	Total £'000
Current liabilities:						
Fees due to the Manager	33	–	–	–	–	33
Amounts due to brokers	200	–	–	–	–	200
Other creditors	17	76	–	–	–	93

18. On 23 November 2009, the 2,950,000 C shares in issue were converted to Ordinary shares at a ratio of 1.298969. Included in the Income Statement on page 27 are the following items relating to the C share pool:

	£'000
Loss on realisation of investments	**(40)**
Changes in fair value of investments	**25**
Income	**45**
Investment management fee	**(29)**
Other expenses	**(57)**
Expenses of conversion	**(13)**
Loss on ordinary activities before tax	**(69)**
Tax on ordinary activities	**–**
Loss on ordinary activities after tax	**(69)**

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Bluehone AiM VCT2 plc will be held at F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY on 1 April 2010 at 10 am for the following purposes:

To consider and, if thought fit, pass the following Resolutions:

Ordinary Business

1. That the Report and Accounts for the year to 30 November 2009 be received.
2. To approve payment of a final dividend of 1.0 pence per Ordinary share.
3. That the Directors' Remuneration Report for the year to 30 November 2009 be approved.
4. That Gordon Brough, who retires annually, be re-elected as a Director.
5. That Gordon Harvey, who retires annually, be re-elected as a Director.
6. That Jamie Matheson, who retires annually, be re-elected as a Director.
7. That Steven Mitchell, who retires annually, be re-elected as a Director.
8. That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Ordinary Resolution

9. That, in accordance with section 551 of the Companies Act 2006 (''the Act''), the Directors be generally and unconditionally authorised to allot shares in the Company and grant rights to subscribe for or to convert any security into shares in the Company (''Rights'') up to an aggregate nominal amount of £3,500,000 provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the fifth anniversary of the date of passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted and the Directors may allot shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all previous authorities conferred on the Directors in accordance with section 80 of the Companies Act 1985 or section 551 of the Act.

Special Resolutions

10. That:
    (a) the Directors of the Company (the 'Directors') be and are hereby empowered to allot equity securities (as defined in section 560 of the Companies Act 2006 (the 'Act')) for cash pursuant to the authority granted by Resolution 9 above or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:
        (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of Ordinary shares of 10p each in the Company and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);
        (ii) (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate amount of £592,260 where the proceeds may in whole or part be used to purchase shares;

    and shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry.

    (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

Notice of Annual General Meeting

11. That the Company is hereby generally and unconditionally authorised pursuant to and in accordance with section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10p each in the Company ('Ordinary Shares') (either for cancellation or for the retention as treasury shares for future re-issue or transfer) on such terms and in such manner as the Directors may determine, provided that:
    (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 8,877,978;
    (b) the minimum price which may be paid for each Ordinary Share is the nominal value thereof;
    (c) the maximum amount which may be paid for an Ordinary Share shall not exceed the higher of the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force at the date of purchase and the amount stipulated by article 5(1) of the Buy Back and Stabilisation Regulation 2003;
    (d) the authority hereby conferred shall (unless previously renewed or revoked) expire at the conclusion of the next annual general meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution; and
    (e) the Company may make a contract to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority and may make a purchase pursuant to such contract.

12. That:
    (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
    (b) the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By Order of the Board

Scott Macrae

for F&C Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU
2 March 2010

Appendix to the Notice of Annual General Meeting

Notes

1. A member entitled to attend, speak and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him. A proxy need not be a member of the Company.

2. A form of proxy is enclosed for use at the above meeting. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. To be effective, the form of proxy, duly executed, must be lodged at the address shown on the form of proxy (i) by 10 am on 30 March 2010 or, (ii) in respect of an adjourned meeting, no later than 48 hours before the holding of that adjourned meeting (or, in the case of a poll taken subsequent to the date of the meeting or an adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll).

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those holders of Ordinary Shares entered on the Register of Members of the Company as at 6.00 pm on 30 March 2010 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend, speak or vote at the meeting in respect of the number of Ordinary shares registered in their names at that time. Changes to the entries on the Register of Members after 6.00 pm on 30 March 2010 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.

4. Any person holding 3 per cent of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

5. The members of the Company may require the Company to publish, on its website (without payment), a statement (which is also passed to the Company's auditors) setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to F&C Asset Management Ltd., Exchange House, Primrose Street, London EC2A 2NY

6. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from www.bluehoneaimvct2.co.uk.

7. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:

   (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

   (b) the answer has already been given on a website in the form of an answer to a question; or

   (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a ''CREST Proxy Instruction'') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID RA10) no later 48 hours before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a ''Nominated Person'') may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

13. The statement of the rights of members in relation to the appointment of proxies in paragraphs 1 to 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.

14. A copy of the Articles of Association of the Company as proposed to be adopted with effect from the passing of resolution 12 will be available for inspection at the registered office of the Company from the date of this notice until the conclusion of the Annual General Meeting and on the date of the Annual General Meeting 15 minutes prior to the start until the conclusion of the meeting.

15. No Director has a contract of service with the Company. The Directors' letters of appointment will be available for 15 minutes prior to, and during the Annual General Meeting.

16. As at 5 pm on 2 March 2010 (being the latest applicable date prior to the publication of this notice), the Company's issued share capital comprised 59,226,066 Ordinary shares of 10p each. Every Member holding Ordinary shares shall have one vote for every Ordinary share held by them and therefore the total number of voting rights in the Company at 5 pm on 2 March 2010 was 59,226,066.

17. Members who have general queries about the Annual General Meeting should not use any electronic address to communicate with the Company but should call the Company's registrars on 0871 664 0300. Calls to this number are charged at 10p per minute plus network extras from a BT landline. Other telephony provider costs may vary.

Appendix to the Notice of Annual General Meeting

Summary of the Proposed Material Changes to the Articles of Association of the Company

The principal changes which will arise from the adoption of the New Articles are set out below:

The Company's Memorandum of Association

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake.

The 2006 Act significantly reduces the constitutional significance of a company's memorandum. The 2006 Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in a company. Under the 2006 Act, the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles but a company can remove these provisions by special resolution.

In addition, the 2006 Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. The Company is therefore proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, are otherwise treated as forming part of the Articles as of 1 October 2009.

The limited liability of members will be preserved in the new Articles.

Change of Name

Previously, a company could only change its name by special resolution. Under the 2006 Act, a company will be able to change its name by other means provided for by its articles of association. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

Authorised Share Capital and Unissued Shares

The 2006 Act abolishes the requirement for a company to have an authorised share capital. The Company is proposing changes to its Articles to reflect this. The Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act.

Issue of Redeemable Shares

The New Articles will explicitly confer authority on the Board to determine the terms, conditions and manner of redemption of any issued redeemable shares in accordance with the 2006 Act, although this amendment would only have practical effect if the Company issues redeemable shares in the future.

Chairman's Casting Vote

Provisions in the current Articles giving the Chairman a casting vote at shareholders' meetings became ineffective from 1 October 2007, but companies with a casting vote provision in their articles on that date were, broadly, allowed to keep it. However, the EU Shareholders' Rights Directive requires that all shareholders be treated equally and therefore The Companies (Shareholders' Rights) Regulations 2009 remove this saving provisions for UK traded companies such that the casting vote provision in the Company's Articles became redundant on 3 August 2009.

Electronic and Web Communication

Provisions of the Companies Act 2006 (the '2006 Act') enable companies to communicate with members by electronic means and/or website communications. The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems, including websites, for communications with shareholders.

The New Articles give the Directors the discretion to use electronic communication to distribute notices of meetings, annual reports, accounts and summary financial statements. Before the Company can communicate with a member by electronic communication and/or by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to the member electronically or by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when documents or information are placed on the website and a member can always request a hard copy of the document or information.

Ordinary Business

The definition of ordinary business has been extended in the New Articles to include the renewal of the share buy-back authority as ordinary business when it is transacted at an Annual General Meeting of the Company.

Proxies

Under the 2006 Act, proxies now have the right to vote on a show of hands and the New Articles reflect this.

The time limits for the receipt of the appointment of proxies have also been altered by the 2006 Act and a company may now exclude weekends and bank holidays from the period prior to the relevant general meeting by which forms of proxy must be received in order to be valid. The New Articles reflect these changes.

Corporate Representatives

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. The New Articles reflect these provisions of the 2006 Act.

Age of Directors on Appointment

The existing Articles contain a provision limiting the age at which a Director can be appointed. Such a provision could now infringe the Employment Equality (Age) Regulations 2006 and has not been included in the New Articles.

Indemnification of Directors and Officers

The New Articles incorporate the 2006 Act provisions on indemnification by the Company of its Directors and officers to the extent applicable to the Company and reflect the current market standard provisions which have evolved since the existing indemnity provisions were adopted.

CREST and the Uncertificated Securities Regulations

The New Articles contain a number of provisions designed to maximise the ability of the Company's Shareholders to utilise CREST.

Convening extraordinary and annual general meetings

The New Articles remove provisions in the Current Articles dealing with notice of general meetings on the basis that this is dealt with in the Companies Act 2006. Annual general meetings must be held on 21 clear days' notice. The Shareholders' Rights Regulations amend the Companies Act 2006 to require the company to give 21 clear days' notice of general meetings (other than annual general meetings) unless the company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed.

Authority to purchase own shares etc

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves. The Current Articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

Suspension of registration of share transfers

The Current Articles permit the Directors to suspend the registration of transfers. Under the Companies Act 2006, share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement and therefore is being removed.

Adjournments for lack of quorum

Under the Companies Act 2006, as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The Current Articles have been changed to reflect this requirement.

Amendments to resolutions

Proposed amendments to ordinary resolutions to be considered at a general meeting will, under the New Articles, need to be submitted to the Company at least 48 hours before the meeting, ignoring any part of a day which is not a working day.

Voting record date

Under the Companies Act 2006, as amended by the Shareholders' Rights Regulations, the company may determine the right of members to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, not taking account of days which are not working days. The Current Articles have been amended to reflect this requirement.

Execution of deeds

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, a deed may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

Dividends

The provisions of the Current Articles dealing with payment of dividends, scrip dividends and bonus issues of shares are being updated in line with modern practice.

Service of notices

The New Articles will provide, in line with market practice, that notices and other documents sent to members by post will be deemed to have arrived on the working day after the day of posting, or the second working day in the case of second class post. Notices and other documents left at a member's address will be deemed to have arrived when left, unless that is not a working day when it will be deemed to have arrived at the same time but on the next working day.

Bluehone AiM VCT2 plc

PROXY

I/We ____
(BLOCK LETTERS PLEASE)

of ____

being a member of Bluehone AiM VCT2 plc, hereby appoint the Chairman of the meeting, or*

____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held at F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY on 1 April 2010 at 10 am, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

Please indicate with an 'X' here if you are appointing more than one proxy* ☐

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

Ordinary Resolutions	For	Against	Abstain
1. To receive the Report and Accounts for the year to 30 November 2009.			
2. To approve payment of a final dividend of 1.0 pence per Ordinary share.			
3. To approve the Directors' Remuneration Report for the year to 30 November 2009.			
4. To re-elect Gordon Brough as a Director.			
5. To re-elect Gordon Harvey as a Director.			
6. To re-elect Jamie Matheson as a Director.			
7. To re-elect Steven Mitchell as a Director.			
8. To re-appoint KPMG Audit Plc as Auditors, and to authorise the Directors to determine their remuneration.			
9. To authorise the Directors to allot Ordinary shares.			
Special Resolutions			
10. To renew the authority to disapply statutory pre-emption rights.			
11. To renew the Directors' authority to buy-back Ordinary shares.			
12. To adopt the Articles of Association.			

Signature ____

Dated this ______________________ day of ______________________ 2010

Notes

*You may appoint one or more proxies of your choice to attend and vote at the meeting and any adjournment thereof, instead of you, provided each proxy is appointed to exercise rights in respect of different shares. To appoint more than one proxy, please photocopy this page indicating on each copy the name of the proxy you wish to appoint and the number of shares in respect of which the proxy is appointed. You should send all pages to Capita Registrars.

In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer.

In order to have effect, the proxy must be deposited at the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU at least 48 hours before the time of the meeting or any adjournment thereof together where appropriate with the power of attorney under which it is signed or a notarially certified copy of such power.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.

The "Abstain" option is provided to enable you to abstain on the resolution. However it should be noted that a vote abstained is not a vote in law and will not be counted in the calculation for the proportion of the votes "For" and "Against" the resolution. If a proxy form is returned without any indication as to how the proxy must vote, or if further matters are raised at the meeting the proxy will exercise his discretion to vote and if so how.

Any alterations made in this proxy should be initialled.

Completion of a proxy shall not prevent a shareholder from attending the Annual General Meeting and voting in person should you decide to do so.

Shareholder Information

Dividends

Provided revenue or capital returns permit payment, an interim dividend is paid to shareholders in August. The final dividend is paid in April. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained from the Company's registrar, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.

Share Price

The Company's shares are listed on the London Stock Exchange. Prices are given daily in the *Financial Times* for the Ordinary shares under ''Investment Companies''. Share price information can also be obtained from many financial websites.

Notification of Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Capita Registrars, under the signature of the registered holder, or updated online at www.capitaregistrars.com.

Financial Calendar

March 2010	Newsletter to 28 February 2010
April 2010	Annual General Meeting
April 2010	Final dividend on Ordinary shares
July 2010	Posting of interim report for the six months ended 31 May 2010
August 2010	Interim dividend on Ordinary shares if proposed
September 2010	Newsletter to 31 August 2010
March 2011	Announcement of Annual Results
March 2011	Posting of Annual Report for the year ended 30 November 2010

Shareholder Enquiries

Contact Broker Support Team on 08457 992299

Capita Registrars 0871 664 0300* or www.capitaregistrars.com

Ordinary Shares

There were 59,226,066 holders of Ordinary shares as at 30 November 2009. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares	Percentage of ordinary shares
Over 100,000	43	2.7	12,972,390	21.9
50,001–100,000	134	37.5	10,187,125	17.2
25,001–50,000	302	24.3	11,008,179	18.6
10,001–25,000	787	22.0	13,402,481	22.6
5,001–10,000	867	8.5	6,740,470	11.4
2,001–5,000	1,339	3.8	4,818,893	8.1
1–2,000	97	1.2	96,528	0.2
Total	3,569	100.0	59,226,066	100.0

*Calls cost 10 pence per minute plus network extras, lines are open 8.30 am to 5.30 pm Monday to Friday.

Corporate Information

Directors
Gordon Brough
Gordon Harvey
Gordon Humphries †
Jamie Matheson
Steven Mitchell

Secretary
Scott Macrae
F&C Asset Management plc
80 George Street
Edinburgh
EH2 3BU
Telephone: 0207 628 8000

Registered Office
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Primrose Street
London
EC2A 2NY

Investment Managers
Robert Mitchell
Bluehone Investors LLP
48/54 Moorgate
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Telephone: 020 7496 8929
www.bluehone.com

VCT Status Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

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Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
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Tel Overseas: +44 208 639 3399
www.capitaregistrars.com

Auditors
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Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Solicitors
Martineau
No 1 Colmore Square
Birmingham
B4 6AA

Brokers
Matrix Corporate Capital LLP
1 Vine Street
London
W1J 0AH
Telephone: 020 3206 7000

Shareholder enquiries
Broker Support Team 08457 992299

Registered number
04084875

Website address
www.bluehoneaimvct2.com

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† Chairman of the audit committee.

MLG Edinburgh 4348