

INGENIOUS ENTERTAINMENT VCT 2

ANNUAL REPORT & ACCOUNTS
For the period ending
31 December 2008



WE ARE **INGENIOUS**

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INGENIOUS ENTERTAINMENT VCT 2

CORPORATE INFORMATION

Directors	Bob Storer* (Chairman) Patrick McKenna Denise O'Donoghue*
Company Secretary	Sarah Cruickshank
Registered Office	15 Golden Square London W1F 9JG
Company Number	6395025
Investment Manager & Administrator	Ingenious Ventures 15 Golden Square London W1F 9JG
Auditors	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
Taxation Advisers	PricewaterhouseCoopers LLP (PwC) 1 Embankment Place London WC2N 6RH
Registrar	SLC Registrars Thames House Portsmouth Road Esher Surrey KT10 9AD Tel: 01372 467 308
Sponsor	Howard Kennedy 19 Cavendish Square London W1A 2AW

* Independent director

CHAIRMAN'S STATEMENT

I am delighted to present the Company's first annual report covering the period to 31 December 2008 (the "Reporting Period").

Overview of activities

The Reporting Period saw fundraising for the Ingenious Entertainment VCTs close at the end of July, raising in excess of £20 million split equally between the VCT twin structure which encompasses Ingenious Entertainment VCT 1 plc and Ingenious Entertainment VCT 2 plc.

During the Reporting Period, the Company made its first investment in the *80s Rewind Festival*, a 2 day music festival to be held in Henley-upon-Thames. Since then, the Company has continued to actively source and review investment opportunities. In January 2009, the Company made its second investment to back a new television format, *Let's Dance*, which was commissioned by the BBC for Comic Relief and was a great success gaining over 8 million viewers for its final episode.

Results

The Reporting Period has been dominated by fundraising and sourcing new investments, with £273,000 invested and committed to qualifying investments. The Company made a loss on ordinary activities of £5,000 in the period to 31 December 2008. The Company's net asset value is 95.3 pence. The Directors do not recommend the payment of a dividend in respect of the Reporting Period.

Outlook

The unprecedented economic environment has led the Manager to consider the potential for increasing the minimum revenue arrangements to cover in excess of 75% of the Company's investment in certain instances, whilst still potentially maintaining a strong equity share in each project.

The Manager continues to see a good flow of high-quality investment opportunities and looks forward to announcing our next investments in the near future.

I would like to take this opportunity to thank all shareholders for their support of the Company and I look forward to seeing those of you that are able to attend the AGM, scheduled for 14 May 2009.



Bob Storer
Chairman
1 April 2009

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MANAGER'S REVIEW

Investment Objective

Our objective is to invest in a portfolio of companies engaged in the production of live events and premium entertainment content which will provide shareholders with an attractive return. This will be achieved by maximising the opportunities for making tax-free dividends to shareholders from both the income received and capital profits on the sale of the Investee Companies or their assets.

The Reporting Period has seen the Company make its first investment, with another one following in January 2009. We anticipate that a number of investment opportunities already in the pipeline will lead to new deals being made in the next financial year. We continue to focus our efforts on identifying projects with the potential to deliver premium returns for our investors.

The Rival Organisation – 80s Rewind Festival

In December 2008, the Company made an investment of £272,598 (£1,090,390 across both the Ingenious Live VCTs and the Ingenious Entertainment VCTs) to co-promote the *80s Rewind Festival* in conjunction with The Rival Organisation. The *80s Rewind Festival* is a 2 day music festival to be held in August 2009 in Henley-upon-Thames.

The event expects to attract over 20,000 people with a line up including Kim Wilde, Rick Astley, Bananarama, Billy Ocean, Belinda Carlisle, Kid Creole, Heaven 17, Dr & The Medics, Cutting Crew, Toyah, The Real Thing, Gloria Gaynor, Sister Sledge, ABC, Paul Young, Go West, Midge Ure, Howard Jones, Nik Kershaw, T'Pau, The Christians, The Blockheads with Phill Jupitus and Chas 'n' Dave.

This is the second time the Manager has worked with The Rival Organisation, the first being the Ingenious Live VCTs' investment in the 3 day 2008 Powderham Castle music concert. Over 10,000 tickets were sold for The Greatest 80s Party which proved to be particularly popular.

In addition to extending our strong relationship with The Rival Organisation, this was the first co-investment between the Ingenious Live and Ingenious Entertainment VCTs.

Let's Dance

The second co-investment between the Ingenious Live and Entertainment VCTs, saw the Company invest £500,000 (£2 million across both the Ingenious Live VCTs and the Ingenious Entertainment VCTs) in January 2009 to back an exciting new entertainment format, *Let's Dance*, which was commissioned by the BBC for Comic Relief.

The programme, hosted by Claudia Winkleman and Steve Jones, saw some of the nation's favourite celebrities paying homage to iconic dance routines. Over its four week run on Saturday evenings on BBC One in February and March the show's ratings increased week on week peaking at 8.6 million viewers for the final. This marked an impressive 35% share of people watching television on Saturday evening, substantially more than *ITV's Ant and Dec's Saturday Night Takeaway*. This is a terrific result for a new series and discussions are already underway about rolling out the show internationally. The format is being represented by Fremantle Media who produce programming in numerous territories around the world.

Outlook

Lifestyle changes, de-regulation and technological advances in the digital arena have created investment opportunities for knowledgeable investors.

While the expansion of the digital media sector creates new markets for content creators, the UK has also experienced tremendous growth in the popularity of the live events sector. A great deal of new entertainment and media content is now created with the view to exploitation across multiple platforms.

Nonetheless, the volatile economic environment presents challenges for the Company as consumers become more cautious about their discretionary spending on entertainment. We remain confident however,

that our ability to invest in a diverse portfolio of sectors coupled with our proactive measures to further mitigate risk will stand us, and our investors, in good stead.

Contact

If you have any questions on this review or would like to speak with a member of the management team, please do not hesitate to contact us on 0207 319 4000.

Ingenious Ventures
1 April 2009

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BOARD OF DIRECTORS

Bob Storer (Chairman), 61

Bob became a Partner in the media and entertainment firm of solicitors Harbottle & Lewis in 1974. For many years he was the Head of the Film, Television and Theatre Department and for 8 years combined the role with that of Senior Partner of the firm. He became a Consultant to Harbottle & Lewis in August 2007. Bob has represented many of the leading players in film and television production and financing mainly in the UK but also internationally.

Patrick McKenna, 52

Patrick is one of the leading figures in the creative industries and is the founder and Chief Executive of Ingenious Media. He started his career in the accountancy profession and was appointed as a partner of Deloitte and Touche in 1985 aged 28 and subsequently ran their media group. Patrick was Chairman and Chief Executive of The Really Useful Group, leading the company's £77 million de-listing in 1991 and subsequently selling 30% to PolyGram.

Among his various media directorships, Patrick is currently Chairman of the Young Vic Theatre, Hat Trick Productions and Stage Three Music and is a board member of NESTA. He is also a member of the Film Business Academy Board, part of the Cass Business School, which offers executive MBA programmes and business courses specialising in film. He is actively engaged with the evaluation and selection of media projects proposed for funding by the investment vehicles operated by the Ingenious Group.

Denise O'Donoghue, 52

Denise co-founded Hat Trick Productions and was the company's first managing director, overseeing its commercial and creative development during which time the company became one of the country's most respected and garlanded independent production companies. Denise has received a BAFTA for Outstanding Creative Contribution to Television.

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the Reporting Period from 10 October 2007 to 31 December 2008.

1. Principal Activity, VCT & Investment Company Status

The principal activity of the Company is to invest in a portfolio of companies established to create and bring to market live events and premium entertainment content. A review of the Company's business during the Reporting Period and an indication of likely future developments are contained in the Chairman's Statement, Manager's Review and the Business Review.

The Directors have managed the affairs of the Company with the intention of maintaining its status as an approved VCT for the purposes of section 274 of the ITA. The Company was not at any time up to the date of this report a "close company" within the meaning of section 414 of the ICTA. The Company is an investment company as defined in section 833 of the Companies Act 2006.

2. Directors and Directors' Interests

The Directors and their respective biographies are set out on page 5. Patrick McKenna served throughout the period. Bob Storer and Denise O'Donoghue were appointed to the Board on 13 November 2007.

As at 31 December 2008, the interests of the Directors in the issued ordinary share capital of the Company were as follows:

Name	Number of Shares as at 31 December 2008	% of issued ordinary share capital
Bob Storer	10,250	0.1
Patrick McKenna*	202,500	2.0
Denise O'Donoghue	51,250	0.5
Total	264,000	2.6

* Includes 100,000 shares held by Patrick McKenna's wife, Margaret McKenna

The Directors and, where relevant, their spouses subscribed for the above interests during the period of Offer and on the terms set out in the Prospectus. There have been no changes to the above interests between 31 December 2008 and the date of this report. All interests are beneficial.

3. Major Interests in Shares

As at the date of this report, the Company is aware that the following shareholders had an interest of 3% or more of the issued share capital of the Company.

Shareholder	Number of ordinary shares	% of issued share capital
Ingenious Media Limited	500,000	4.9
Cazenove Capital Management Limited	1,867,300	19.2

4. Capital

Details of the Company's capital are provided in note 12 to the financial statements. All shares carry equal voting rights.

In September 2008, the Company launched a 'C' Share fundraising. No Shares were issued before the 31 December 2008 year end.

Redeemable preference shares have been redeemed during the period, details can be found in note 12.

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5. VCT Status Monitoring

The Company has appointed PwC to advise it on compliance with relevant VCT legislation. PwC advises on proposed investments as required and regularly reviews the Company's investment portfolio. PwC works closely with Ingenious Ventures in monitoring the Company's VCT status but reports directly to the Board.

6. Re-Appointment of Auditors

A resolution to re-appoint Grant Thornton UK LLP as auditors to the Company will be put to the Shareholders at the AGM (see resolution 8 of the Notice).

7. Indemnities

Pursuant to the Articles, and to the extent permitted by the Companies Act 2006, every Director or other officer and auditor of the Company is entitled to be indemnified out of the assets of the Company against all liabilities which they may incur in the execution of their office.

In certain circumstances, Directors or other officers and auditors of the Company are also entitled to be indemnified out of the assets of the Company against liabilities incurred by them in defending proceedings brought against them.

The above indemnities have been in force throughout the period under review and all Directors are covered by Directors & Officers liability insurance and this will continue to remain in force.

8. Policy and Practice on the Payment of Creditors

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms thereof. Trade creditor days of the Company as at 31 December 2008, calculated in accordance with the requirements of the Companies Act 1985, were 5 days. This represents the ratio, expressed in days, between the amounts invoiced to the Company in the period by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

9. Financial Risk Management

Details of the Company's financial instruments and risk management policies and objectives are provided in note 15 to the financial statements.

10. Management Agreement

The Management Agreement is dated 19 November 2007, and allows for the Manager to assume responsibility for the continuous management of the Company's portfolio of investments and provide administrative services. In return for its services the Manager is paid an annual portfolio management fee of 1.75 per cent of the Company's Net Asset Value, a performance-related incentive fee (details of which can be found in the Prospectus), and an annual administration fee of £17,500 (adjusted annually in line with inflation).

The HM Revenue & Customs (HMRC) Brief 35/08 introduced legislation meaning management fees payable by VCTs are now exempt from VAT. Consequently, the Management Agreement was amended on 1 April 2009 to enable the Manager to charge irrecoverable input VAT associated with the performance of its services, and the Manager has reclaimed from HMRC VAT charged retrospectively.

The Management Agreement runs for a basic period of six years from 10 October 2007, the date of the first allotment of shares.

The Board has reviewed the performance of the Manager and is satisfied that the continued appointment of the Manager on the terms agreed is in the best interests of the Shareholders and the Company.

11. The AGM

The notice convening the AGM can be found on pages 32. Additional information relating to the AGM and the resolutions to be considered by Shareholders can be found on page 34.

12. Business Review

The Directors have included their business review on page 10.

13. Environmental, Employee, Social and Community Matters

The Company has no employees and all of its Directors are non-executive, the Company's day to day activities being carried out by Ingenious Ventures. There are therefore no disclosures to be made in respect of employees.

The Manager is part of the Ingenious Group which actively seeks to reduce its impact on the environment. Wherever possible, investor communications are distributed electronically in order to reduce the utilisation of natural resources.

For many years the Ingenious Group has been a strong supporter of The Young Vic Company (a registered charity). The Young Vic is an independent not-for profit theatre company.

14. 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 the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; 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 the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

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To the best of my 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 undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



Bob Storer
Chairman
1 April 2009

BUSINESS REVIEW

The purpose of this review is to provide Shareholders with a summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators (KPIs) used to measure performance.

1. Strategy for Achieving Objectives

Ingenious Entertainment VCT 2 plc is a tax efficient company listed on The London Stock Exchange.

The investment objective is to achieve a combination of a high degree of downside protection in an otherwise potentially high risk proposition and long-term capital growth, maximising distributions in order to take advantage of tax-free dividends.

The Board has delegated day-to-day investment management and administration of the Company to Ingenious Ventures under the terms of a management deed.

The Manager's review on page 3 provides a review of the investment portfolio and the market outlook.

2. Investment Policy

The Company's investment policy is to invest in Investee Companies producing live events or creating branded entertainment content, whose revenues will be underpinned by warranties or other similar contractual arrangements. The Ingenious Entertainment VCTs will invest in Investee Companies which are expected to participate in the revenues and in the capital value of the content once the market is established. The investments could include the production and promotion of a theatrical show or the launch of a music festival, the development and exploitation of new formats or the creation of online or mobile games.

The Company will only invest in an Investee Company:

- where the Event has been approved by the Manager through its selection process; and
- where the Investee Company has obtained performance warranties or similar contractual arrangements that will provide for the Investee Company to receive minimum revenues equivalent to at least 75 per cent of the Company's investment.

The initial capital required by an Investee Company will be provided by the Company. The majority of this initial capital will be provided through loan finance which should provide additional capital protection. The Company can invest, under current venture capital trust legislation, up to £1 million per tax year in any one Investee Company.

The Company has the flexibility to retain up to 30 percent of its assets in cash and cash equivalent instruments which the Directors believe should provide a significant degree of downside protection whilst preserving the upside potential of the events and branded entertainment content within the portfolio.

The Company is in its early stage of investing. During the Reporting Period the Company made its first investment in a qualifying company. The amount invested was less than £1million, with contractual arrangements that provide for the Investee Company to receive minimum revenues equivalent to at least 75 per cent of the Company's investment, and has been approved by the Manager's Investment Committee.

3. Principal Risks, Risk Management and Regulatory Environment

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

- **Investment and strategic** – an investment in an Event is tied to a certain degree to the fortunes of the industry generally. In particular, there is a risk that the Company will not identify opportunities where the commercial success of the live event or created branded content is sufficient to earn revenues over and above the minimum contractual income negotiated.

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- **Loss of approved status as a Venture Capital Trust** – the Company must comply with section 274 of the ITA which allows it to be exempted from capital gains tax on investment gains realised by Shareholders. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period would have to repay the income tax relief they obtained and future dividends paid by the Company would become subject to tax. The Company would also lose its exemption from corporation tax on capital gains.
- **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.
- **Financial** – inadequate internal controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.
- **External inherent risks** – the Company's investments will be in unquoted companies which by their nature involve a higher degree of risk than investment in the main market due to the fact there is no liquid market and may, therefore, be difficult to realise. Furthermore, there may be further constraints imposed on realisations because of the requirement to satisfy certain conditions necessary for the Company to maintain its VCT status (such as the obligation to have at least 70 per cent by value of its investments in qualifying holdings by the beginning of the accounting period commencing three years after provisional VCT approval).

The Board seeks to mitigate the internal risks by setting clear policies, including establishing a funding structure which provides for minimum revenues equivalent to at least 75 per cent of the investment, regular reviews of performance, monitoring progress and compliance. Details of the Company's internal controls are contained in the Corporate Governance Report set out on pages 14 to 16.

4. Key Performance Indicators (KPIs)

The primary key performance indicator on which the Board assesses the performance of the Manager in meeting the Company's objective is the change in Net Asset Value per share.

A review of the Company's performance during the period, the position of the Company at the period end and the outlook for the coming year is contained within the Chairman's Statement and Manager's Review on pages 2 to 4.

DIRECTORS' REMUNERATION REPORT

This report has been prepared by the Directors in accordance with the requirements of Schedule 7A to the Companies Act 1985. A resolution to approve the report will be proposed at the AGM. The law requires the Company's auditors to audit certain information included in this report. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 17.

1. Directors' Remuneration Policy

Pursuant to the Articles, the aggregate fees of the Directors are capped at £100,000 per annum. The fees payable to non-executive Directors reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration, market equivalents are considered in comparison to the overall activities and size of the Company. Subject to the Articles, the Directors intend to continue to operate this remuneration policy for the forthcoming financial year and thereafter.

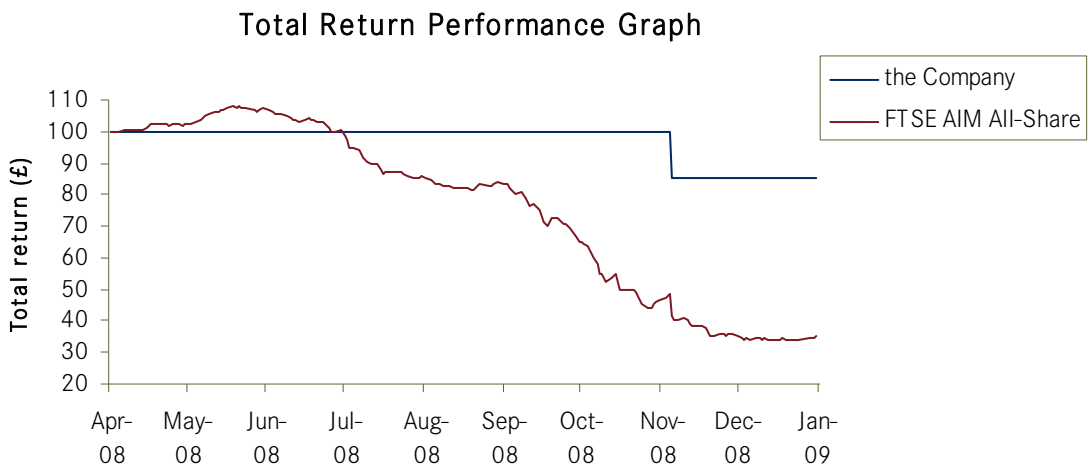
2. Appointment Letters

Each Director has executed an appointment letter which provides that he is to receive an annual fee, which is £15,000 per annum for Bob Storer and Denise O'Donoghue and £7,500 for Patrick McKenna, and for each Director to be reimbursed for any reasonable out-of-pocket expenses. These appointment letters state that a Director shall remain in office unless he: resigns as a director; is removed from his office by the Board or the members of the Company; or becomes prohibited by law from being a director.

The appointment letters do not provide for compensation upon early termination of appointment. There are no set minimum notice periods in the Directors' appointment letters but all Directors are subject to retirement by rotation. None of the Directors has a service contract.

3. Performance

The following line graph compares the total return on an investment of £100 in the ordinary shares of the Company, assuming any dividends are reinvested, with the total shareholder return on a notional investment of £100 made up of shares of the same kinds and number as those by reference to which the FTSE AIM All-Share Index is calculated. This index was chosen for comparison purposes as it is the most relevant to the Company's investment portfolio.



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4. Directors' Remuneration

The following table shows a breakdown of the remuneration of individual Directors (exclusive of National Insurance Contributions):

	Period ended 31 December 2008
Director	Fees
	£'000
Patrick McKenna	9
Bob Storer	17
Denise O'Donoghue	17
	<hr/>
	43

No expenses were paid to any Director in the period. The Company does not grant share options, long-term incentive schemes or retirement benefits to any Director. No contributions are made on behalf of the Directors to any pension scheme. No Director has received any bonuses, taxable expenses, compensation for loss of office or non-cash benefits for the period ended 31 December 2008. In respect of this period, the Company has purchased (and continues to maintain) liability insurance covering the Directors and officers of the Company.

This sub-paragraph 4 has been audited by Grant Thornton UK LLP.

5. Shareholder Approval

This Directors' Remuneration Report will be put to the Shareholders for their approval at the AGM.

By order of the Board



Sarah Cruickshank
Company Secretary
1 April 2009

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining the highest standards of corporate governance. The Directors seek to comply with the Combined Code to the extent that it is proportionate and relevant to: (i) the size and nature of the Company and its operations; and (ii) the Company's particular board and management structure as a VCT. On this basis, the Directors believe that, during the period under review, the Company has complied with the provisions of the 2006 Combined Code except as explained below.

1. Board Composition

The Board is comprised of three Directors of which Bob Storer and Denise O'Donoghue are considered to be independent.

Patrick McKenna is also the Chairman of Ingenious Asset Management Limited, a wholly owned subsidiary of Ingenious Media Ltd that is controlled by Patrick McKenna. Patrick is also Chairman of the Ingenious Live VCTs, Ingenious Music VCT 2 plc, and a Director of the Ingenious Entertainment VCT 1 plc and is not, therefore, considered to be independent.

However, the Board believes that the directorships of Patrick McKenna allow for enhanced communication between the Company and the Manager as well as closer supervision of the Manager's performance. The Directors therefore believe that these directorships are advantageous to, and do not affect the well balanced nature of, the Board.

Biographical details of each of the Directors can be found on page 5.

2. Board Appointments

Patrick McKenna, Bob Storer and Denise O'Donoghue were appointed to the Board as set out in the Prospectus and paragraph 2 of the Directors' Report.

Due to the specialised nature of the Company's investment policy, it was not felt necessary to engage the services of an external search consultancy firm or to advertise during the appointment process.

As the Company does not have any major shareholders there were no specific arrangements made by the Chairman to introduce the new non-executive director to major shareholders.

Directors are not appointed for specified terms. The Board believes that, in the circumstances of the Company, the contribution of a non-executive director is enhanced by longer, continuous service. However, in accordance with the Combined Code, all of the Directors will retire from office and seek re-appointment at the first AGM of the Company.

The Directors' terms of appointment may be inspected by Shareholders at the Company's registered office during normal business hours and at the first AGM of the Company.

To date, no formal performance evaluation of the Directors or the Board has been undertaken. Specific performance issues will be dealt with as and when they arise. No performance issues arose during the period under review and the Board considers that the individual performance of each of the Directors continues to be effective and to demonstrate their commitment to the role. The Board therefore recommends that the Directors be re-appointed and, accordingly, that shareholders vote in favour of resolutions 3 to 5 (inclusive) as set out in the Notice.

No senior independent director has been appointed due to the relatively small size of the Board. However, this will be reviewed again during the next financial year and appropriate action taken if this is deemed appropriate.

3. Board Proceedings

The following table sets out the number of Board meetings held during the period and the number of meetings attended by each Director:

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	Attended	Possible
Patrick McKenna	6	8
Bob Storer	5	7
Denise O'Donoghue	6	7

The Manager provides the Board with appropriate information in a timely manner prior to all Board proceedings and at such other times as may be required by the Directors.

All of the Directors have access to the advice and services of Sarah Cruickshank, the Company Secretary, and the Manager's investment team. The Directors may also take independent professional advice at the Company's expense where necessary in the furtherance of their duties and responsibilities.

4. Board Responsibilities

The Board has delegated day-to-day investment management and administration of the Company to Ingenious Ventures under the terms of a management agreement. The Board retains overall responsibility for the Company's affairs, including the determination of its investment policy.

The Board believes that terms of this delegation are clearly defined and provide a healthy balance between: (i) maintaining supervision over the Manager's activities; and (ii) allowing the Manager to effectively source and implement appropriate qualifying investments in fulfilment of the Company's investment policy.

The Board, therefore, does not believe that it is necessary to adopt a specific schedule of reserved matters over and above the terms of the investment management and administration agreements which are currently in force.

5. Board Committees

The Company has an audit committee comprising Bob Storer and Denise O'Donoghue. The committee has defined terms of reference and duties. The audit committee first met on 1 April 2009 with all members being present.

The audit committee is responsible for reviewing the half yearly and annual accounts before they are presented to the Board, the terms of appointment of the Auditors, together with their remuneration, as well as a full review of the effectiveness of the Company's internal control and risk management systems.

The audit committee is satisfied with the performance of the auditors and recommends to Shareholders that they be reappointed as auditors for the forthcoming year.

No remuneration committee has been appointed by the Board on the basis that the Company has no executive directors, employees or share incentive plans. No individual Director is involved in setting his own level of remuneration.

The Directors have not appointed a nominations committee as they consider that this would be disproportionate to the size of the Board. Appointments of any new directors will be determined by the full Board.

6. Relations with Shareholders and the AGM

The Board places great importance on maintaining effective communication with Shareholders. The AGM, which will be held on 14 May 2009, will be an opportunity for shareholders to meet with both the Board and the Manager in order to discuss the Company's progress. Participation at the meeting is therefore encouraged.

7. Internal Controls

The Board is responsible for supervising the Company's system of internal controls operated by Ingenious Ventures and for reviewing its effectiveness. The Board, in conjunction with the Manager, has therefore established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the period under review and up to the date of approval of the Annual Report & Accounts and accords with the Financial Reporting Council's 'Internal Control: Revised Guidance for Directors on the Combined Code' issued in October 2005.

The significant risks facing the Company, along with the internal controls operated by the Manager, have been reviewed by the Board. The particular focus of the review was on ensuring that the internal controls operated by the Manager continued to mitigate these significant risks in a manner which was satisfactory to the Board.

The Board will continue to conduct half-yearly reviews based on "by-exception" reports provided by the Manager.

In summary, the Company's system of internal controls involves the following key elements:

- the Manager prepares management accounts which provide the Board with a regular overview of the progress and performance of the Company and its investment portfolio;
- all investment decisions are approved by the Manager's investment team and communicated to the Board on a quarterly basis;
- the Manager monitors the qualifying status of each qualifying holding in conjunction with PwC who report to the Board twice annually on the Company's VCT status and advise on each investment proposal as appropriate; and
- the Manager continuously monitors the Company's progress and promptly informs the Board of any material developments as and when they occur.

The Board believes that the above procedures represent a sound system of internal control for the safeguarding of the Shareholders' investment and the Company's assets.

It should be noted, however, that this system of internal control is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

8. Internal Audit Function

The Company does not have an internal audit function. The Board believes that such a function would be disproportionate to the size of the Company. However, this will be reviewed again during the next financial year and appropriate action taken if this is deemed appropriate.

9. Going Concern

Under the Combined Code the directors are required to satisfy themselves that it is reasonable to presume the Company is a going concern.

After making enquiries, and on the strength of its balance sheet, the Directors are of the opinion that the Company has adequate resources to continue its operational activities for the foreseeable future. The Board is therefore of the opinion that the going concern basis should be adopted in the preparation of the financial statements.

10. Auditor Independence

The Board considers the scope and effectiveness of the Company's external auditors. The Company's auditors, Grant Thornton UK LLP also provide non-audit advice to the Company. These services relate to corporate tax compliance assistance and do not, in the Board's opinion, compromise the independence of the Grant Thornton audit team.

INGENIOUS ENTERTAINMENT VCT 2

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF INGENIOUS ENTERTAINMENT VCT 2 PLC

We have audited the financial statements (the "financial statements") of Ingenious Entertainment VCT 2 plc for the period ended 31 December 2008 which comprise the income statement, reconciliation of movements in shareholders' funds, the balance sheet, the cashflow statement and notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditor's 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 8.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review, Chairman's Statement and Manager's Review that is cross referred from the 'Principal Activity VCT and Investment Company Status' section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, Manager's Review, the Director's Report, Business Review, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the period then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

London
1 April 2009

Note: The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INGENIOUS ENTERTAINMENT VCT 2

INCOME STATEMENT

for the period 10 October 2007 to 31 December 2008

	Note	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of investments		-	24	24
Increase in fair value of investments held		-	157	157
Investment income	2	44	110	154
Arrangement fees	3	(112)	-	(112)
Investment management fees	4	(61)	(61)	(122)
Other expenses	5	(99)	(7)	(106)
Loss on ordinary activities before taxation		(228)	223	(5)
Tax on ordinary activities	6	-	-	-
Loss on ordinary activities after taxation attributable to equity shareholders		(228)	223	(5)
Basic and diluted return per share (pence)	7	(3.8)	3.7	(0.1)

The Company has no recognised gains and losses other than those disclosed above.

The total column is the profit and loss for the period.

All operations are considered to be continuing.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the period 10 October 2007 to 31 December 2008

	Total £'000
Shareholders' funds at 10 October 2007	-
Capital subscribed	10,181
Issue costs	(448)
Loss for the period	(5)
Shareholders' funds at 31 December 2008	9,728

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

BALANCE SHEET

As at 31 December 2008

	Note	£'000
Fixed assets		
Qualifying investments	8	273
Current assets		
Debtors	9	7
Non-Qualifying investments	10	9,368
Cash at bank and in hand		107
		9,482
Creditors: amounts falling due within one year	11	(27)
Net current assets		9,455
Net assets		9,728
Capital and reserves		
Called-up share capital	12	102
Share premium account	13	4,816
Other reserve account	13	4,815
Capital reserves		
realised	13	66
unrealised	13	157
Revenue reserve	13	(228)
Shareholders' funds		9,728
Net asset value (pence per share)	14	95.3

The financial statements on pages 19 to 30 were approved by the Board of Directors on 1 April 2009.

Signed on behalf of the Board of Directors:



Bob Storer
Chairman

INGENIOUS ENTERTAINMENT VCT 2

CASH FLOW STATEMENT

for the period 10 October 2007 to 31 December 2008

	£'000
Net cash outflow from operating activities	(166)
Capital expenditure	
Purchase of qualifying investments	(273)
Net cash outflow from capital expenditure	(273)
Management of liquid resources	
Purchase of non-qualifying investments	(10,400)
Disposal of non-qualifying investments	1,213
Net cash outflow from liquid resources	(9,187)
Financing	
Issue of redeemable preference shares	50
Repurchase of redeemable preference shares	(50)
Issue of ordinary shares	10,181
Expenses of the issue of ordinary shares	(448)
Net cash inflow from financing	9,733
Increase in cash	107
Reconciliation of Loss Before Taxation to Net Cash Flow from Operating Activities	
	£'000
Loss on ordinary activities before taxation	(5)
Gains on investments	(24)
Increase in fair value of investments held	(157)
Increase in receivables	(7)
Increase in payables	27
Net cash outflow from operating activities	(166)
Reconciliation of Net Cash Flow to Movement in Net Funds	
	£'000
Opening cash balances	-
Net cash inflow	107
Closing cash balances	107

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

NOTES TO THE FINANCIAL STATEMENTS

for the period 10 October 2007 to 31 December 2008

1. Accounting policies

(a) Basis of Accounting

The financial statements for the period ended 31 December 2008 have been prepared in accordance with UK Generally Accepted Accounting Practice, and with the Statement of Recommended Practice (the SORP) entitled "Financial Statements of Investment Trust Companies" which was issued in January 2003 and revised in December 2005.

These financial statements have been prepared on the historical cost basis, except for the measurement at fair value of investments.

(b) Valuation of Investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. As set out in the Prospectus all investments are designated at fair value.

Investee Companies

Unquoted investments including equity and loan investments are stated at fair value in accordance with the International Private Equity and Venture Capital Guidelines and Financial Reporting Standard 26 "Financial Instruments: Recognition and Measurement" (FRS 26). They are designated at fair value through profit and loss in accordance with FRS 26.

The guidelines set out six permissible valuation methodologies, of these the two methodologies most applicable to the Company's investments are:

1 - Price of recent investment.

Where the investment being valued was made recently, its cost will generally provide a good indication of value. It is generally considered that this would only apply for a limited period; in practice a period of up to a year is often applied as the long stop date for such a valuation.

2 - Discounted cash flows/earnings of the underlying business.

Calculating the net present value of expected future cashflows of the Investee Companies. In relation to the Company's investments, anticipating future cashflows in excess of the guaranteed amounts would clearly require highly subjective judgements to be made in the early stage of each investment and therefore would not be an appropriate methodology to apply in the early stage of the investment.

The adopted approach fair values the investments upon initial recognition at the "price of recent investment" (i.e. cost) in their first year of investment. Subsequently, the portfolio of investments is fair valued on the discounted cash flow/earnings basis using the latest available information on the performance of the live event.

Open Ended Investment Companies

The Company's non qualifying investments in interest bearing money market open ended investment companies (OEICs) are valued at fair value, this is bid price. They have been designated as fair value through profit and loss for the purposes of FRS 26.

Gains and losses arising from changes in fair value of qualifying and non-qualifying investments are recognised as part of the capital return within the income statement and allocated to the realised or unrealised capital reserve as appropriate. Transaction costs attributable to the acquisition or disposal of investments are charged to capital within the income statement.

INGENIOUS ENTERTAINMENT VCT 2

(c) Investment Income

Interest income is recognised in the income statement as it accrues.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to the revenue account within the income statement except that:

- expenses which are incidental to the acquisition or disposal of an investment are charged to capital in the income statement as incurred; and
- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated.

(e) 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 a right to pay less, tax in the 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.

2. Investment Income

	10 October 2007 to 31 December 2008 £'000
Bank deposit interest	44
Reinvested interest from OEICs	110
	<hr/> 154

3. Arrangement Fees

	10 October 2007 to 31 December 2008 £'000
Arrangement fees	<hr/> 112

All costs arising out of the Offer, including listing expenses and commissions, were incurred by the Promoter (Ingenious Media Investments Limited) and a fee of 5.5% of the gross proceeds of the Offer was paid in consideration of the service provided. The Directors believe that 80% of these fees relate directly to the raising of capital and have classified this proportion as issue costs. In accordance with the Companies Act 1985, the issue costs have been deducted from the share premium account. The remaining 20% reflected above has been taken to revenue.

4. Investment Management Fee

	Revenue £'000	Capital £'000	Total £'000
Investment management fee	61	61	122

For the purposes of the revenue and capital columns in the income statement, the management fee has been allocated 50% to revenue and 50% to capital, which represents the proportion of the fee attributable to the management of the investments of the Company.

5. Other Expenses

	10 October 2007 to 31 December 2008		
	Revenue £'000	Capital £'000	Total £'000
Directors' remuneration	43	-	43
Social security costs	2	-	2
Auditors' remuneration	14	-	14
Legal & professional fees	-	4	4
Other administration expenses	33	3	36
Irrecoverable VAT	7	-	7
	99	7	106

All figures include irrecoverable VAT, where applicable. The Company is not registered for VAT. Fees payable to the Company's auditor for the audit of the Company's financial statements are £14k excluding VAT. Further details on the Directors' fee disclosures are given in the Directors' Remuneration Report.

6. Tax Charge on Ordinary Activities

	10 October 2007 to 31 December 2008		
	Revenue £'000	Capital £'000	Total £'000
Loss on ordinary activities before tax	(228)	223	(5)
Loss on ordinary activities by tax rate (28.5%)	(65)	64	(1)
Adjustments:			
Non taxable gains on investments	-	(83)	(83)
Disallowed expenses	-	19	19
Unutilised losses for the current period	65	-	65
	-	-	-

As the Company is a VCT its capital gains are not taxable.

At 31 December 2008 the Company had surplus management expenses of £229k. A deferred tax asset has not been recognised in respect of these surplus management expenses as the Company has only been investing for a short period of time, and future taxable income can not be predicted with reasonable certainty. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future the Company does not recognise deferred tax on any capital gains or losses which arise on the revaluation of investments.

INGENIOUS ENTERTAINMENT VCT 2

7. Basic and Diluted Return per Share

	10 October 2007 to 31 December 2008		
	Revenue	Capital	Total
£'000	(228)	223	(5)
Weighted average shares in issue (number)	6,085,827	6,085,827	6,085,827
Loss attributable per share (pence)	(3.8)	3.7	(0.1)

There are no dilutive potential ordinary shares, including convertible instruments, options or contingent share agreements in issue for the Company.

8. Fixed Asset Investments

	31 December 2008
	£'000
Unquoted investments	273
Equity shares	82
Unsecured loan notes	191
	273

	Qualifying Investments
	£'000
Opening valuation	-
Purchases at cost	273
Closing valuation at 31 December 2008	273

9. Debtors

	31 December 2008
	£'000
Prepayments and accrued income	7

10. Current Asset Investments

	31 December 2008
	£'000
Funds held in listed money market instruments	9,368
	Non-Qualifying Investments
	£'000
Purchases at cost	10,400
Disposal proceeds	(1,213)
Realised gains on disposal	24
Unrealised change in value of investment	157
Closing valuation and book cost at 31 December 2008	9,368

INGENIOUS ENTERTAINMENT VCT 2

In order to safeguard the capital available for investment in Qualifying Investments and balance this with the need to provide good returns to investors, available funds from the net proceeds are invested in appropriate securities (money market securities and cash funds) until required for Qualifying Investment purposes.

11. Creditors: Amounts Falling Due Within One Year

	31 December 2008
	£'000
Trade creditors	5
Accruals and deferred income	22
	27

12. Called-Up Share Capital

	31 December 2008
	£'000
Authorised	£'000
35,000,000 ordinary shares 1p each	350
35,000,000 'C' shares 1p each	350
	700
Allotted, called-up and fully paid	
10,205,011 ordinary shares 1p each	102

10,205,011 shares were issued and allotted in accordance with the terms of the Prospectus. The one subscriber share created upon incorporation was issued at par. Share issue costs amounting to £448k have been set off against share premium.

The entire issued ordinary share capital of the Company has been admitted to the official list maintained by the Financial Services Authority and to trading on the London Stock Exchange.

	Number of shares allotted	Aggregate nominal value allotted £'000	Aggregate consideration received net of issue costs £'000
Date of issue and allotment			
10 October 2007	1	-	-
4 April 2008	7,450,559	74	7,099
5 April 2008	2,274,505	23	2,176
19 June 2008	228,467	2	218
31 July 2008	251,479	3	240
	10,205,011	102	9,733

On 10 October 2007, the Company issued and allotted 50,000 redeemable preference shares of £1 each to the Manager (paid-up as at one quarter of their nominal value) in order to enable the Company to obtain a certificate under section 117 of the Companies Act 1985. On 1 May 2008, these redeemable preference shares were redeemed at par by the Company. Pursuant to article 4.3(iv) of the Articles, each redeemable preference share has since been re-designated as, and subdivided into, 100 ordinary shares of 1p each in the authorised but unissued share capital of the Company. The redeemable preference shares carried the right to receive a fixed cumulative preferential dividend from the revenue profits of the Company which are available for distribution and which the Directors determine to distribute by way of dividend in priority to any dividend payable on the ordinary shares, however, as there were no revenue profits during the period prior to redemption no dividends were paid.

INGENIOUS ENTERTAINMENT VCT 2

13. Reserves

	Share premium	Other reserve	Capital realised	Capital unrealised	Revenue reserve	Total reserves
	£'000	£'000	£'000	£'000	£'000	£'000
At 10 October 2007	-	-	-	-	-	-
Issue of equity	10,079	-	-	-	-	10,079
Reduction of share premium account	(4,815)	4,815	-	-	-	-
Gain on disposal of investments	-	-	24	-	-	24
Increase in fair value of investments held	-	-	-	157	-	157
Investment income	-	-	110	-	44	154
Arrangement fees	(448)	-	-	-	(112)	(560)
Investment management fees	-	-	(61)	-	(61)	(122)
Other expenses	-	-	(7)	-	(99)	(106)
At 31 December 2008	4,816	4,815	66	157	(228)	9,626

On 12 December 2008, the Company registered the court order dated 10 December 2008, with the Registrar of Companies confirming the reduction of the Company's share premium account by £4,815k. The purpose of the reduction is to enable the Company to create a distributable reserve for the purpose of purchasing shares in the market.

14. Net Asset Value Per Share

31 December 2008

Net assets attributable to shareholders (£'000)	9,728
Shares in issue (number)	10,205,011
Net asset value per share (pence)	95.3

15. Financial Instruments and Risk Management

The Company's financial instruments comprise equity and floating rate debt investments in unquoted companies, cash balances and listed money market instruments. The Company holds financial assets in accordance with its investment policy.

Fixed asset investments (see note 8) are valued at fair value. For quoted securities included in current asset non qualifying investments, this is bid price. In respect of unquoted investments, these are fair valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value on the Balance Sheet.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are:

- Market risk;
- Interest rate risk;
- Credit risk; and
- Liquidity risk

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below:

a) Market risk

Market risk embodies the potential for both losses and gains and includes interest rate risk and price risk.

The Company's strategy on the management of investment risk is driven by the Company's investment objective. Investments in unquoted companies, by their nature, involve a higher degree of risk than investments in larger "blue chip" companies.

The risk of loss in value is managed through careful selection in accordance with a formalised investment decision process, with each investment proposal evaluated by the investment committee as part of the due diligence stage. The Company's investment policy can be found in the Business Review. The risk is also managed through continuous monitoring of the performance of investments and changes in their risk profile.

b) Interest rate risk

Some of the Company's financial assets are interest bearing, all of which are at floating rates. As a result, the Company is subject to exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rate.

When the Company retains cash balances, the majority of cash is held within an interest bearing money market open ended investment company (OEIC). This is the Non-Qualifying Investments amount on the Balance Sheet of £9,368k. The benchmark rate which determines the interest payments received on interest bearing cash balances and debt investments in unquoted companies is the bank base rate which was 2 per cent as at 31 December 2008.

The following table illustrates the sensitivity of the loss on ordinary activities for the year before taxation and total equity to a change in interest rates of 100 basis points, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Company's Non-qualifying investments held at each balance date. All other variables are held constant.

	31 December 2008 £ '000 +/- 100 basis points
Profit on ordinary activities for the year before taxation	
Total Equity	94

c) 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.

Whilst the Company is exposed to credit risk due to its unsecured loan note instruments (£191k), this risk is mitigated by the Company requiring that minimum royalty arrangements are in place prior to the investment as set out in the Company's investment policy. In addition, and in accordance with the Company's monitoring procedure, the Manager, closely monitors progress (including financial expenditure) against the Investee Companies' agreed business plans.

The £191k unsecured loan note is the contractually agreed 70% of initial investments.

d) Liquidity risk

The Company's financial instruments include equity and debt investments in unquoted companies, which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investment in these instruments at an amount close to fair value.

INGENIOUS ENTERTAINMENT VCT 2

The Company maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements at all times. No numerical disclosures have been provided in respect of liquidity risk as this is not considered to be material.

16. Contingencies, Guarantees and Financial Commitments

There is currently interest income accruing on the unsecured loan note instruments at a rate of 3 per cent, being 1 per cent over the bank base rate which was 2 per cent as at 31 December 2008, totalling £125. The repayment of this interest is contingent on future profits being derived by the Investee Companies, which currently can not be determined with any certainty, therefore the Directors have not recognised it in the financial statements.

17. Related Party Transactions

The Company has appointed Ingenious Media Investments Limited, a company of which Patrick McKenna is a director, to be their promoter. Ingenious Media Investments Limited is a wholly owned subsidiary of Ingenious Media Ltd which is controlled by Patrick McKenna.

The Company has appointed Ingenious Ventures to provide investment management services. Ingenious Ventures Limited was the Manager up until 1 March 2008, when the Investment management agreement was novated to Ingenious Asset Management Limited, and Ingenious Ventures became a trading division of Ingenious Asset Management Limited. Patrick McKenna is a director of Ingenious Ventures Limited and Ingenious Asset Management Limited, which are both wholly owned subsidiaries within the Ingenious Group, which is controlled by Patrick McKenna.

During the Reporting Period the Company has carried out a number of transactions with the above-mentioned related parties in the normal course of the business and on an arm's length basis:

Entity	Expenditure paid £'000	Amounts due £'000
Ingenious Asset Management Limited		
- Investment management fee	128	-
- Administration fee	14	-
Ingenious Media Investments Limited		
- Arrangement fee	560	-
		Amounts receivable £'000
Ingenious Asset Management Limited		
- VAT reclaimed on Management and Administration fee	-	7

The funds invested in OEICs, are managed by Ingenious Asset Management Limited, a company of which Patrick McKenna is a director. Ingenious Asset Management is a wholly owned subsidiary of Ingenious Media Ltd which is controlled by Patrick McKenna.

Patrick McKenna is a director of The Young Vic Company (a registered charity) which holds 0.2% of the equity in each of the Investee Companies.

18. Events After the Balance Sheet Date

The Company invested £500k in Dance Floor Limited on 14 January 2009. The newly formed company has provided funding for a new television format called Let's Dance, which was commissioned by the BBC for Comic Relief. Whizz Kid Dance Limited who hold 49.9% of the equity of Dance Floor Limited is a subsidiary of Whizz Kid Entertainment Limited which is a subsidiary of Ingenious Media Active Capital Limited (IMAC), a company of which Patrick McKenna is a director and Ingenious Media Ltd is also a shareholder of IMAC.

19. Capital Management

The capital management objectives of the Company are:

- To safeguard its ability to continue as a going concern so that it can continue to provide returns to Shareholders.
- To ensure sufficient liquid resources are available to meet the funding requirements of its investments and to fund new investments where identified.

The Company has no external debt; consequently all capital is represented by the value of share capital, distributable and other reserves. Total Shareholder equity at 31 December 2008 was £9,728k.

In order to maintain or adjust its capital structure the Group may adjust the amount of dividends paid to the Shareholders, return capital to Shareholders, issue new shares or sell assets.

The group is subject to the following externally imposed capital requirements:

- As a public company Ingenious Entertainment VCT 2 plc must have a minimum of £50k of share capital.

The level of dividends may be influenced by the need to comply with the VCT legislation which states that no more than 15% of income from shares and securities may be retained.

INGENIOUS ENTERTAINMENT VCT 2

SHAREHOLDER INFORMATION

1. Share Price

All of the Shares have been admitted to trading on the LSE.

2. Share Trading

Shares can be bought and sold in the same way as any other quoted company on the LSE via a stockbroker. The primary market maker for the Shares is Howard Kennedy.

Selling your shares may have tax consequences. You should contact your financial adviser if you are in any doubt as to such potential consequences.

3. Share Buy-Backs

The Company's share buy-back policy for the next financial year is set out on pages 32 and 33 but is subject to resolutions 6 and 7 as set out in the Notice being adopted at the AGM.

The Company is unable to buy-back Shares directly from a Shareholder. Share buy-backs must therefore be conducted through a Shareholder's stockbroker. The Manager is able to provide details of periods when the Company is prohibited from buying-back shares from Shareholders under the Listing Rules.

4. Change of Shareholder Address

Communications with Shareholders are sent to the registered address held on the register of members. In the event of a change of address or any other relevant amendments, please notify the Company's registrar, SLC, under the signature of the registered holder of the shares in question.

5. Investor Relations Team

The Company and the Manager are committed to maintaining excellent investor relations. Therefore, if you have any questions about the Company's progress please contact the Investor Relations Team below or your usual Ingenious contact.

Anouschka Elliott

Tel.: +44 (0) 207 319 4004

Fax: +44 (0) 207 319 4001

Email: anouschka.elliott@ingeniousmedia.co.uk

Please note that neither the Investor Relations Team nor your usual Ingenious contact can provide you with any investment, tax, legal or other advice in relation to your shares.

NOTICE OF ANNUAL GENERAL MEETING

INGENIOUS ENTERTAINMENT VCT 2 PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 6395011)

NOTICE IS HEREBY GIVEN THAT the first Annual General Meeting of the ordinary shareholders of Ingenious Entertainment VCT 2 plc (the **Company**) will be held at 4.00 pm on Thursday 14 May 2009 at 15 Golden Square, London W1F 9JG for the following purposes:

To consider and, if thought fit, pass resolutions 1 to 5 and 8 to 9 as ordinary resolutions and resolutions 6 to 7 as special resolutions.

Annual Report and Accounts

1. To receive and consider the Company's Annual Report and Accounts for the period ended 31 December 2008.

Directors' Remuneration Report

2. THAT the Directors' Remuneration Report for the period ended 31 December 2008 be and is hereby approved.

Election of Directors

3. THAT Patrick McKenna, who was appointed on incorporation of the Company, and retires in accordance with the Company's articles of association and in accordance with listing rule 15.2.13A, be re-appointed as a non-executive director.
4. THAT Bob Storer, who was appointed by the Board on 13 November 2007, and retires in accordance with the Company's articles of association, be re-appointed as a non-executive director.
5. THAT Denise O'Donoghue, who was appointed by the Board on 13 November 2007, and retires in accordance with the Company's articles of association, be re-appointed as a non-executive director.

Share Buy-Backs

6. THAT the Company be and is hereby generally and unconditionally authorised pursuant to section 166 of the Companies Act 1985 (the **Act**) to make one or more market purchases (as defined in section 163 of the Act) of ordinary shares of 1p each in the capital of the Company (the **Ordinary Shares**) on such terms and in such manner as the Directors may determine *provided that*:
 - (a) such market purchases shall comply with UK Listing Authority and HM Inland Revenue & Customs requirements;
 - (b) the aggregate maximum number of Ordinary Shares authorised to be purchased pursuant to this resolution shall not exceed 14.99% of the issued ordinary share capital of the Company;
 - (c) the price paid shall not be:
 - (i) less than 1p per Ordinary Share;
 - (ii) more than 5% above the average of the middle market prices shown in the quotations for an Ordinary Share in the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase of the Ordinary Share the net asset value per Ordinary Share;
 - (ii) the maximum and minimum prices being exclusive of expenses (including stamp duty); and
 - (d) this authority, unless renewed or revoked prior to such time shall expire on the earlier of 15 months from the passing of this resolution and the conclusion of the Company's next Annual General Meeting. The Company may, before the expiry of such authority, conclude contracts to purchase Ordinary Shares which will or may be completed wholly or partly after the expiry of such authority and may make purchases of Ordinary Shares in pursuance of any such contracts as if the authority hereby conferred had not expired.

INGENIOUS ENTERTAINMENT VCT 2

7. THAT the Company be and is hereby generally and unconditionally authorised pursuant to section 166 of the Act to make one or more market purchases (as defined in section 163 of the Act) of 'C' ordinary shares of 1p each in the capital of the Company (the '**C' Ordinary Shares**) on such terms and in such manner as the Directors may determine *provided that*:
- (a) such market purchases shall comply with UK Listing Authority and HM Inland Revenue & Customs requirements;
 - (b) the aggregate maximum number of 'C' Ordinary Shares authorised to be purchased pursuant to this resolution shall not exceed 14.99% of the issued 'C' ordinary share capital of the Company;
 - (c) the price paid shall not be:
 - (i) less than 1p per 'C' Ordinary Share;
 - (ii) more than 5% above the average of the middle market prices shown in the quotations for a 'C' Ordinary Share in the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase of the 'C' Ordinary Share the net asset value per 'C' Ordinary Share;
 - (ii) the maximum and minimum prices being exclusive of expenses (including stamp duty); and
 - (d) this authority, unless renewed or revoked prior to such time shall expire on the earlier of 15 months from the passing of this resolution and the conclusion of the Company's next Annual General Meeting. The Company may, before the expiry of such authority, conclude contracts to purchase 'C' Ordinary Shares which will or may be completed wholly or partly after the expiry of such authority and may make purchases of 'C' Ordinary Shares in pursuance of any such contracts as if the authority hereby conferred had not expired.

Auditors

8. THAT Grant Thornton UK LLP be and are hereby re-appointed as auditors to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid.
9. THAT the Directors be and are hereby authorised to agree the remuneration of Grant Thornton UK LLP as auditors to the Company.

Dated: 1 April 2009

Registered Office:
15 Golden Square
London W1F 9JG

By order of the Board
Sarah Cruickshank
Company Secretary

NOTES

- (a) Explanations relating to the above resolutions can be found overleaf.
- (b) Shareholders entitled to attend and vote at the above meeting are entitled to appoint one or more proxies to attend, speak and vote in their place. A proxy need not be a shareholder of the Company.**
- (c) To be valid, the Proxy Form must be completed in accordance with the instructions printed on it and must be deposited (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power or authority) by no later than 48 hours before the time appointed for holding the meeting with the Company's registrars, SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey. KT10 9AD
- (d) Completion of a Proxy Form will not prevent you from attending and voting at the meeting in person.
- (e) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those ordinary shareholders entered on the relevant register of members (the "**Register**") for certificated or uncertificated shares of the Company (as the case may be) at 4pm on 12 May 2009 (the "**Specified Time**") will be entitled to attend or vote at the AGM in respect of the number of shares registered in their name at the time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at the AGM. Should the AGM be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned AGM. Should the AGM be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned AGM or, if the Company gives notice of the adjourned AGM, at the time specified in the notice.
- (f) The terms and conditions of appointment of non-executive directors of the Company are available for inspection by any person at the Registered Office of the Company on each business day during normal business hours and will be available on the day of the AGM, at the place of the AGM, from at least 15 minutes prior to the AGM until its conclusion.

ADDITIONAL INFORMATION RELATING TO THE AGM

In compliance with the Combined Code, a separate resolution on each substantially separate issue will be considered by the Shareholders at the AGM. All proxy votes will be counted and, except where a poll is called, the Chairman of the AGM will indicate the level of proxies lodged on each resolution, the balance for and against the resolution in question and the number of votes withheld after the resolution has been dealt with on a show of hands. The following resolutions will be considered by the Shareholders:

Resolution 1 – Annual Report & Accounts

The Shareholders will be asked in this resolution to resolve to receive the Annual Report & Accounts for the period ended 31 December 2008.

Resolution 2 – Directors’ Remuneration Report

In accordance with the Director’s Remuneration Report Regulations 2002, the Shareholders will be asked in this resolution to approve the Directors’ Remuneration Report for the period ended 31 December 2008 which can be found on pages 12 to 13.

Resolutions 3 to 5 – Election of Directors

Pursuant to the Combined Code and the Company’s articles of association, all of the Directors will retire from office and seek election at the AGM (this being the Company’s first annual general meeting). Patrick McKenna is also standing for re-election pursuant to listing rule 15.2.13A which requires that director of the Manager to stand for annual re-election by shareholders. The Directors’ biographical details can be found on page 5.

Resolutions 6 and 7 – Share Buy-Backs

Pursuant to the Company’s articles of association the Company is authorised to make market purchases of an amount up to 14.99% of the issued ordinary and ‘C’ ordinary share capital of the Company subject to (amongst other things) the price paid being neither:

- less than 1p per Ordinary Share or ‘C’ Ordinary Share;
- more than the net asset value per Ordinary Share or ‘C’ Ordinary Share; nor
- 5% above the average of the market value of the Ordinary Shares or ‘C’ Ordinary Shares for the five business days immediately preceding the date of purchase.

This authority will expire at the conclusion of the Company’s first AGM. Although the Company has not made any market purchases during the period under review, the Shareholders will be asked to consider these special resolutions in order to extend the authority. Subject to this resolution and resolution 9 being passed, the Directors will continue to consider making market purchases of Ordinary Shares and ‘C’ Ordinary Shares during the next financial year.

Nevertheless, the Directors will only implement such purchases if they are satisfied, after careful consideration, that these are in the best interests of the Shareholders as a whole and would result in an increase in expected earnings per share. Account will also be taken of the overall financial implications for the Company. Any market purchases will therefore be conducted entirely at the Directors’ discretion. Market purchases will also be subject to the requirements of the Companies Act, the rules of the UK Listing Authority and the rules of HM Revenue & Customs.

Although the Directors’ intention is that Shareholders who wish to sell their Ordinary Shares or ‘C’ Ordinary Shares should be able to do so, Shareholders should be aware that this may not always be possible.

The Directors intend to cancel any Ordinary Shares or ‘C’ Ordinary Shares purchased by the Company in the next financial period, so reducing the total number of shares in issue.

Resolutions 8 and 9 – Re-Appointment of Grant Thornton UK LLP and Audit Fees

In these resolutions, the Shareholders will be asked to approve the re-appointment of Grant Thornton UK LLP as auditors to the Company and to authorise the Directors to agree their remuneration for audit services. Further background to these resolutions can be found in paragraph 6 of the Directors’ Report.

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PROXY FORM

ANNUAL GENERAL MEETING 14 MAY 2009 – ORDINARY SHAREHOLDERS

Please print clearly in **BLACK INK** and in **BLOCK CAPITALS**. Please read the **NOTES** below before completing this Proxy Form.

Name: (full)	<input type="text"/>	Notes
Address: (full)	<input type="text"/>	
Postcode:	<input type="text"/>	
I/we the abovementioned ordinary shareholder(s) of Ingenious Entertainment VCT 2 plc, hereby appoint the Chairman of the Annual General Meeting If you wish to appoint someone other than the Chairman of the Annual General Meeting as your proxy, then please cross-out the words the Chairman of the Annual General Meeting and insert the full name(s) of the person(s) that you wish to appoint as your proxy below (note that a proxy need not be a member of the Company, but must attend the meeting in person):		
Name: (full)	<input type="text"/>	1
Address: (full)	<input type="text"/>	
Postcode:	<input type="text"/>	
as my/our proxy to vote in my/our name(s) and on my/our behalf at the Annual General Meeting of Ingenious Entertainment VCT 2 plc to be held on 4pm on 14 May 2009 at 15 Golden Square London W1F 9JG and at any adjournment thereof.		

	For	Against	Withheld	2
1. To receive and consider the Company's Annual Report and Accounts for the period ended 31 December 2008 (<i>ordinary resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
2. To approve the Directors' Remuneration Report as set out in the 2008 Annual Report & Accounts (<i>ordinary resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
3. To re-appoint Patrick McKenna as a non-executive Director (<i>ordinary resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
4. To re-appoint Bob Storer as a non-executive Director (<i>ordinary resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
5. To re-appoint Denise O'Donoghue as a non-executive Director (<i>ordinary resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
6. To approve the Company's authority to make market purchases of Ordinary Shares (<i>special resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
7. To approve the Company's authority to make market purchases of 'C' Ordinary Shares (<i>special resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
8. To approve the re-appointment of Grant Thornton UK LLP as auditors to the Company (<i>ordinary resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	
9. To approve the Directors authority to agree the remuneration of Grant Thornton UK LLP (<i>ordinary resolution</i>)	<input type="text"/>	<input type="text"/>	<input type="text"/>	

Shareholder signature:	<input type="text"/>	3
Date:	<input type="text"/>	

NOTES

- You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different ordinary shares. You may not appoint more than one proxy to exercise rights attached to any one ordinary share. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by photocopying this form or contacting the Company Secretary of the Manager on 0207 319 4000. Please indicate next to the proxy holder's name the number of securities in relation to which they are authorised to act as your proxy. All multiple forms must be signed and returned in the same envelope.
- Please indicate above how you wish your votes to be cast in respect of each resolution by placing an "X" (or entering the number of ordinary shares which you are entitled to vote) in the appropriate box. If you sign this Form of Proxy and return it without an indication of as to how your proxy will vote on any particular matter, your proxy will exercise his or her discretion as to whether, and if so how, he/she votes and he/she may also vote on any other business (including any amendments to the resolutions) which may be properly conducted at the Annual General Meeting. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for and against each resolution.
This Proxy Form will only be used in the event of a poll being directed or demanded.
- In the case of joint holders, the signature of one holder will be accepted but the names of all joint holders should be given. In the case of a corporation, this proxy should be either given under the corporation's common seal or signed for and on its behalf by a duly authorised officer or attorney of the corporation.

Upon completing this Proxy Form, please sign and return it to the Company's registrars, SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey. KT10 9AD This Proxy Form must be received by SLC Registrars by no later than 48 hours before the time appointed for holding the meeting together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power or authority. The completion and return of this Proxy Form will not, however, preclude (a) holder(s) of ordinary shares from attending and voting at the meeting if he/she (they) so wish/wishes and is (are) so entitled.

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DEFINITIONS

The following definitions apply throughout these Annual Report & Accounts unless the context otherwise requires:

AGM

The annual general meeting of the Company which is to be held on 14 May 2009 as convened by the Notice.

Annual Report & Accounts

These annual report & accounts of the Company for the period ending 31 December 2008.

Articles

The Company's articles of association.

Board

The Company's board of directors from time to time.

Combined Code

Combined Code on Corporate Governance 2003.

Companies Act

Companies Act 1985 and Companies Act 2006.

Company

Ingenious Entertainment VCT 2 plc.

Directors

Directors of the Company from time to time.

Event

Live or Interactive events for consumers or businesses, of which examples are given in paragraph 1 of Part 5 of the Prospectus.

FSA

Financial Services Authority.

FRS

Financial Reporting Standard.

Grant Thornton

Grant Thornton UK LLP.

ICTA

Income & Corporation Taxes Act 1998.

ITA

Income Tax Act 2007.

Ingenious or Ingenious Group.

Ingenious Media Limited and its parent company and subsidiaries from time to time.

Ingenious Consulting

Ingenious Media Consulting Limited.

Ingenious Entertainment VCTs

Ingenious Entertainment VCT 1 plc and Ingenious Entertainment VCT 2 plc.

Ingenious Investments

Ingenious Media Investments Limited.

Ingenious Live VCTs

Ingenious Live VCT 1 plc and Ingenious Live VCT 2 plc.

Ingenious Music VCTs

Ingenious Music VCT plc and Ingenious Music VCT 2 plc.

Ingenious Ventures

Ingenious Ventures Limited.

Investee Company or Investee Companies

The company in which the VCT will invest.

Manager

Ingenious Ventures.

Notice

The notice convening the AGM and which can be found on page 32.

Offer

The Company's offer to the public to subscribe for up to 35 million Shares at an issue price of 100p per Share launched on 22 November 2007.

Prospectus

The prospectus published by the Company on 21 November 2007 in connection with the Offer.

PwC

PricewaterhouseCoopers LLP.

Qualifying Company

An unquoted company carrying on a trade wholly or mainly in the United Kingdom which satisfies certain other conditions as defined in schedule 28B of the ICTA and which meets the criteria to be a qualifying holding for the purpose of that schedule.

Qualifying Investment

An investment by a VCT in a Qualifying Company.

Shares

Ordinary shares of 1p each in the share capital of the Company.

Shareholder

Holders of Shares.

SORP

Has the meaning given to it on page 22.

VCT

A company approved by HM Revenue & Customs as a venture capital trust under section 274 of the ITA.

In these Annual Report & Accounts (and unless the context otherwise requires), a reference to a time of day is to the time of day in London and a reference to a page is to a page of these Annual Report & Accounts.

