

INGENIOUS MUSIC VCT 2

ANNUAL REPORT & ACCOUNTS

For the year ended
31 December 2007



WE ARE **INGENIOUS**

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THE COMPANY AND ITS ADVISERS

Directors	Patrick McKenna (Chairman) Roger Ames Lionel Martin* Peter Reichardt*
Company Secretary	Susan Ford
Registered Office	15 Golden Square London W1F 9JG
Company Number	5564790
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	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Brokers	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH

* Independent director

** Ingenious Ventures is a trading division of Ingenious Asset Management Limited. Ingenious Ventures Limited was the Manager up until 1 March 2008, when the Investment Management and Administration Agreement was novated to Ingenious Asset Management Limited.

CHAIRMAN'S STATEMENT

It is with pleasure that I present to you the Company's third annual report and accounts covering the 12 months to 31 December 2007 (the "reporting period").

Overview of Activities

The Company has continued to source investments during the period, with a further fourteen deals being added to the portfolio, bringing the grand total to eighteen. Investments made throughout the reporting period have added even more diversity to the roster of artists, producing an enhanced array of both established and up and coming talent.

The investments made have left the Company well positioned to have the fund fully committed within its required timescales, following Ingenious Music VCT plc, our sister fund's confirmed full investment during its last reporting period.

The Manager has continued throughout the reporting period to make investments alongside some of the most influential names in the industry. The Company made some exciting new investments in Australian Songstress *Sia* (alongside IE Music who manage Robbie Williams); a new UK band fronted by ex Lighthouse Family songwriter Paul Tucker *The Orange Lights*; a John Lennon/Plastic Ono Band *Classic Albums* DVD; the debut album of new rock band *Medallist*; and a further investment in the UK all female pop/r'n'b band *The Sirens*.

I would particularly like to highlight the arrangement with *Sia* whereby the partners have come together to invest not only in the release of an album, but also to further the artist's live career. This has resulted in an album released through the *Starbucks* distribution system in the US, resulting in the sale of over 70,000 albums in the first few weeks of release, as well as a sold out US tour.

Please refer to the Manager's Review for a more detailed description of the Company's investment activities, following this statement.

Results

The reporting period has been dominated by new investments, with £9.2 million invested and committed to qualifying investments. The Company made a loss on ordinary activities of £1 million in the period to 31 December 2007, which is largely represented by the write down of certain investments where the Manager estimates that only the minimum income levels will be achieved. The Company's net asset value moved in line with the operating loss, from 95.2 pence (2007) to 91.4 pence per share. The directors do not recommend the payment of a dividend in respect of the reporting period.

Outlook

The Company has some very exciting album releases due in the current reporting period, from artists such as *The Prodigy*, *UB40* and *Peter Gabriel*, as well as a number of albums through the Real World label system.

I would like to take this opportunity to thank all shareholders for their continued support of the Company and I look forward to seeing those of you that are able to attend the AGM, scheduled for 15 May 2008.



Patrick McKenna
Chairman
14 April 2008

MANAGER'S REVIEW

Investment Objective

The investment objective of the Company is to provide shareholders with an attractive return from investments in a portfolio of music companies that will be engaged in the creation, development and exploitation of IP rights.

The reporting period has seen strong deal flow throughout, leaving the fund on track to be fully committed by the end of the current reporting period. We have focused our efforts throughout the reporting period on identifying projects that we believe support the development of exciting acts, with the potential to deliver strong returns for our investors.

Investments made post June 2007

The Company joined forces with its sister fund Ingenious Music VCT plc in two of its qualifying investments for the period, which saw deals close successfully for *The Sirens* and Peter Gabriel's *Real World Recordings*, in the form of investment across a portfolio of artists. The Manager then closed another four qualifying investments in the period independently of its sister fund.

The Sirens

The Company agreed with *Kitchenware Records Limited* on the 17 August 2007 to form a new joint venture company *H.I.T Trade Limited* to release the second album of 3 piece girl band *The Sirens*, investing £269,875, as its ninth qualifying investment for the reporting period. The investment went towards the funding of recording and artists fees, marketing and promotion, band advances, and other associated costs.

About The Sirens

The Sirens were first formed in the late 1990s and were signed by *Kitchenware* in 2002. Their first single, *Things Are Getting Better* became a big club hit and they released the album *Control Freaks*, which saw the girls enjoy success in the UK, Europe and Japan. Their second album, *La La Land*, sees the band moving into the mainstream, writing and recording in Los Angeles with producers Wayne Rodrigues (Natasha Bedingfield), Justin Trugman (*Eminem*, *Janet Jackson*) and DeeKay (*Lemar*, *Misteeq*). Their new album will be mixed by Dave Pensado, noted for his hits with *Christina Aguilera* and the *Black Eyed Peas*.

The Orange Lights

The Company made its tenth qualifying investment for the reporting period by investing £824,000 in the joint venture company *Blackbird Records 2 Limited*, set up in conjunction with *Blackbird Records Limited*, to fund the release of *The Orange Lights* first album. The investment will be used to support the marketing and promotion, recording costs and artist fees and tour support.

About The Orange Lights

Originally from Newcastle, *The Orange Lights* have already achieved critical acclaim for a sound described as 'a collision between soul and indie'. The group combines the talents of vocalist Jason Hart, who toured extensively as a guitarist with *Spiritualized*, and keyboard player *Paul Tucker* who achieved in excess of 11 million record sales and six UK top 20 singles with *The Lighthouse Family*.

The album will be distributed by ADA through Warners. Marketing will be headed by Ben Turner of Graphite Media (manager of *Bestival* & BBC Radio 1's *Rob da Bank*), who runs the label and manages the band. The promotions team features Dylan White of Anglo Plugging (*U2* and *Oasis*), Sarah Pearson from Wasted Youth (*Keane*) as well as US marketing representation through Sat Bisla, who helped break *Keane* and a host of others in the US.

Real World Recordings – Label Deal

The Company, as its eleventh qualifying investment for the reporting period, invested £487,000 and committed to invest a further £750,000 in *Real World Recordings Limited*. The Company joined forces with Real World Productions to form the new joint venture company. The funds were used to support production and marketing related costs.

About Real World Productions

Real World Productions was launched by Peter Gabriel and WOMAD in 1989 to provide talented artists from around the world with state-of-the-art recording facilities and audiences beyond their geographic region. Artists include: *The Blind Boys of Alabama*, *Nusrat Fateh Ali Khan*, *Afro Celt Sound System* and *Sheila Chandra*. Since then, the company has achieved considerable success with sales of nearly six million albums, with 15 of the albums breaking the 100,000 units barrier.

Sia

In November, The Company made its twelfth qualifying investment for the reporting period of £1 million in the joint venture company *Monkey Puzzle Records*, formed in conjunction with *IE Three Limited*, to fund the release of Australian Songstress *Sia's* third album. The investment will go towards the funding of recording, producing, marketing and promotion and tour contribution costs.

About Sia

Having previously released two major label solo albums, Sia has enjoyed worldwide success and recognition both as a solo artist and as a featured artist on *Zero 7's* last three albums. She co-wrote and performed on their Mercury-nominated album *Simple Things* and their Grammy-nominated album *The Garden*, gaining a cult following in Europe and the USA. Her MySpace page has become an online phenomenon, with over eight million track plays to date and her song *Breathe Me* was famously featured over the closing credits of the TV series *Six Feet Under*.

Sia's latest album, an eclectic mix of soulful pop, was produced by Jimmy Hogarth who has worked with leading artists including *James Blunt*, *Amy Winehouse* and *KT Tunstall*. The album was released on 14th January 2008 to coincide with her European and American tours. Sia is managed by leading music industry professionals, Tim Clark and David Enthoven of IE Music, who also manage *Robbie Williams* and *Craig Armstrong* amongst other artists.

Eagle Rock/John Lennon Plastic Ono Band

The Company made its thirteenth qualifying investment for the reporting period by investing £439,125 in the joint venture company *Ground Level Recordings Limited*, formed in conjunction with Eagle Rock, to fund the release of one of its *Classic Albums* DVDs based upon the album entitled *John Lennon/Plastic Ono Band* produced by John Lennon, Phil Spector and Yoko Ono in 1970.

About Eagle Rock/John Lennon Plastic Ono Band

This was Lennon's first solo album after leaving The Beatles and features the iconic track *Working Class Hero*. The album reached the top 10 in both the UK and USA. The DVD will feature rare archive footage and exclusive interviews with Yoko Ono, Ringo Starr and Klaus Voormann.

Eagle Rock has previously released over thirty programmes in the *Classic Albums* series which have been sold on DVD and broadcast on TV worldwide. The *Classic Albums* series, co-produced by Isis Productions, has achieved great commercial and critical success. Future programmes planned in the series include albums by *Black Sabbath*, *Duran Duran* and *Roxy Music*.

Gut Records/Medallist

The Company made its fourteenth qualifying investment for the reporting period on 17 December 2007 by investing £1 million in the joint venture company *Gut MDL Recordings Ltd* formed in conjunction with *Gut*

INGENIØUS MUSIC VCT 2

Records, to fund the release of the debut album of the band *Medallist*. The investment will support the marketing and promotion, artist advances, creative and production costs.

About Medallist

Medallist emerged from the thriving Bristol scene at an exciting time for the electro rock genre.

Their label, Gut Records, was formed in 1995, and is one of the UK's most successful independent record outfits. Hits include multi-million selling albums from *Tom Jones*, *Right Said Fred*, *Space*, *Aswad*, *Tears for Fears*, *Polyphonic Spree* and *Fightstar*. Based in North-West London, Gut Records is chaired by former Island Records Head of Promotions, Guy Holmes.

Howling Bells – Investment Update

The Company had previously invested in *Independiente Music Ventures – Embrace Ltd*. Due to technical difficulties, *Embrace* were not able to finish their recording commitment. The Manager instead reached an agreement on 12 January 2008 to form a joint venture company *Independiente Music Ventures – Howling Bells Limited* to release the second studio album by Australian Band *The Howling Bells*, who have toured with *The Killers*, *The Editors* and *Placebo*.

PORTFOLIO UPDATES

The portfolio investments existing at the beginning of the reporting period are in various stages of production and release.

Travis

The album *The Boy With No Name* was released in May 2007 and has sold in excess of 140,000 units and reached number 4 in the charts. Three singles have been released to date, and the band also completed their UK tour at the end of 2007.

Passenger

IE Music are releasing a third single in March, with the band already having received Radio 2 C-list status well ahead of schedule. Passenger played the popular *South by South West* festival on 14 March 2008.

Peter Gabriel

Peter Gabriel is in the middle of recording his album, with a release date to be determined.

David Ford

David toured America in his lead up to the *South by South West* festival, which he played on 13 March 2008. David will continue to tour America right through to 30 April 2008, and has his new single due for release in April 2008.

The Prodigy

The Prodigy continues to record their album which is due for release in 2008. The band has also been confirmed as the headlining act for *Gatecrasher* festival in May, as well as *T-in-the-Park* festival in July.

Blackbud

Blackbud are currently recording their album which has an expected release date of September 2008.

UB40

UB40's next album is being recorded and has a planned release for May 2008. You may recall reading that lead singer *Ali Campbell* has announced his departure from the band. It is therefore likely that this will be UB40's last album featuring Ali Campbell vocals.

Outlook

It has been reported that spending on recorded music will rise at a 2.3 percent compound annual rate to USD40 billion in 2011, from USD36 billion in 2006. There is an expectation of declines in the physical sales of CD's during the next five years, where estimates have been published that physical unit sales will fall at a 7.2 percent compound annual rate to 700 million in 2011 from more than 1 billion in 2006.

Globally, digital distribution will become the largest distribution stream in 2010. As digital distribution expands, it will contribute more to overall growth, while a declining physical distribution market will have less of an impact.

The Ingenious Music VCT 2 plc has ensured that investee companies will benefit from this shift to digital distribution by participating in such revenue streams. While recent years have seen a fall in recorded music income, artists have benefitted from an increase in revenues from live performances, sponsorship, song-writing and merchandising. The Manager has insisted with later investments that investee companies participate more often in such revenues.

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 call us on 020 7319 4000.

Ingenious Ventures
14 April 2008

BOARD OF DIRECTORS

Patrick McKenna (Chairman) (51)

Patrick founded Ingenious in 1998 and was the chief executive until 2002 when he became chairman. Prior to Ingenious, Patrick was chairman and chief executive of The Really Useful Group. Patrick started his career in the accountancy profession and was appointed partner and head of the media group at Deloitte & Touche in 1985. Patrick holds non-executive positions on the boards of companies in Ingenious Ventures LP's investment portfolio and is the chairman of The Young Vic.

Patrick is actively engaged with the evaluation and selection of media projects proposed for funding by the investment vehicles operated by the Ingenious Group.

Roger Ames (58)

Roger began his career in the music industry with EMI UK in 1975. In 1979, he joined PolyGram UK in the A&R department of the Phonogram label and, in 1983, moved to PolyGram's re-launched London Records as general manager, subsequently becoming managing director. In 1993, he was appointed chairman and CEO of PolyGram UK. Roger was named executive vice president of PolyGram and president of the PolyGram Music Group in 1996 and was appointed chairman and CEO of Warner Music Group in August 1999. Four months later he was appointed president of Warner Music International. Roger returned to the UK following the sale of the Warner Music division to private investors.

Lionel Martin (57)

Lionel is a chartered accountant and consultant to Martin Green Ravden LLP, an accounting and business consultancy firm, which specialises in the media, entertainment and sports industries. Lionel founded the leading accountancy firm in 1980 advising on all areas of business and taxation for artists and corporates in the music and theatre industries. Clients have included Tears For Fears, the Sex Pistols, G4, The Thomson Twins, Emmanuel Petit and Thierry Henry among many others.

Peter Reichardt (58)

Peter has over 30 years of experience in the music publishing business. Most recently, Peter was the UK chairman and chief executive officer of EMI Music Publishing UK, leaving in May 2005 after 16 years with EMI.

Peter started his music career as a 'plugger' with Elektra Records in 1973 before joining Warner Bros Music in 1976, progressing to managing director and then taking the same position when Warner merged with Chappell Music. He joined EMI Music Publishing in 1989, leading it to a Queen's Award for Export six years later.

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the year from 1 January 2007 to 31 December 2007.

1. Principal Activity, VCT & Investment Company Status

The principal activity of the Company is to invest in value-added creation, development and exploitation of music-related intellectual property rights. A review of the Company's business during the year 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 266 of the Companies Act 1985.

2. Directors and Directors' Interests

The Directors and their respective biographies are set out on page 7. All directors served throughout the year.

As at 31 December 2007, the interests of the Directors in the issued ordinary share capital of the Company were as follows:

Name	Number of Shares on appointment	Number of Shares as at 31 December 2007	% of issued ordinary share capital
Patrick McKenna*	1	100,121	0.38
Roger Ames	1	1	0.00
Lionel Martin	Nil	Nil	Nil
Peter Reichardt	Nil	Nil	Nil
Total	2	100,122	0.38

* Includes 100,120 Shares held by Patrick McKenna's wife, Margaret McKenna

Except for one subscriber share acquired by each of Patrick McKenna and Roger Ames on 15 September 2005, 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 2007 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 shareholder had an interest of 3% or more of the issued share capital of the Company.

Shareholder	Number of ordinary shares	% of issued share capital
HSBC Global Custody Nominee (UK) Limited	635,897	4.2

4. Capital

Details of the Company's capital are provided in note 13 to the financial statements. All shares carry equal voting rights.

5. VCT Status Monitoring

The Company has appointed PwC to advise it on compliance with relevant VCT legislation. PwC advises on each proposed investment as required and regularly reviews the Company's investment portfolio. PwC works closely with the Manager 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 6 of the Notice).

7. Indemnities

Pursuant to the Articles, and to the extent permitted by the Companies Act 1985, 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 he may incur in the execution of his 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 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 2007, calculated in accordance with the requirements of the Companies Act 1985, were 6 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 16 to the financial statements.

10. Management Agreement

The Management Agreement is dated 22 November 2005, and allows for the Manager to assume responsibility for the continuous management of the VCT's portfolio of investments and provide administrative services. In return for its services the Manager is paid an annual portfolio management fee of 2 percent of the Company's Net Asset Value plus VAT, a performance-related incentive fee (details of which can be found in the Prospectus), and an annual administration fee of £35,000 plus VAT.

The Management Agreement runs for a minimum period of three years, terminable by either party at any time thereafter if both parties agree in writing or by one year's prior written notice. In the event that the Management Agreement is terminated (unless by reason of the Manager's default), a one-off fee will be payable by the Company to the Manager equivalent to 2.5 percent of the Company's Net Asset Value at the date of termination.

The Board have reviewed the performance of the Manager and are 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 page 39. Additional information relating to the AGM and the resolutions to be considered by shareholders can be found on pages 41-42.

12. Business Review

The Directors have included their business review on pages 11 to 12.

13. Directors' Responsibility

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:

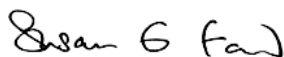
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 the financial statements comply with the Companies Acts. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors 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 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.

After due and careful consideration, the Directors believe that the Company has adequate resources for the foreseeable future and that it is appropriate to apply the going concern basis in the preparation of the Company's financial statements.

By order of the Board



Susan Ford
Company Secretary
14 April 2008

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

The investment policy of the Company is to invest in a portfolio of music companies that will be engaged in the value-added creation, development and exploitation of music-related intellectual property rights.

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 the Manager under the terms of the Investment Management and Administration agreement.

The Manager's review on pages 3 to 6 provides a review of the investment portfolio and the market outlook.

2. Investment Policy

The Company uses the Manager's extensive network of record companies, artist management companies, independent record producers and music publishers to locate emerging and established bands and artists who will be assisted in developing their careers by investment in value added creation, development and exploitation of their intellectual property rights. The principal intellectual property rights owned by investee companies include some or all of the recording, publishing, distribution, synchronisation, touring and merchandising rights attaching to an Artist. The Company co-invests alongside a number of parties which may include, amongst others, a record company (but only once that record company has agreed to promote and distribute the Artist's recording), music publishers, the Artist's management and/or the Artist.

In order to mitigate risk, the Company has and will invest in an Investee Company where the Investee Company has been successful in negotiating a distribution license (or other contract arrangements) that provides for minimum royalty payments equivalent to at least 70 per cent of the Company's investment.

Although the existence of a distribution license with a record company does not, in itself, guarantee overall financial success, it is an indicator of potentially strong consumer appeal and evidences the overall quality and upside potential of the Artists that will be in the Company's investment portfolio.

The initial capital required by an Investee Company is provided by the Company. The majority of this initial capital is 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 non-qualifying investments which the Directors believe should provide a significant degree of downside protection whilst preserving the considerable upside potential and marketability of successful rights exploitation within the portfolio.

At 31 December 2007 the Company had made investments in 18 qualifying companies, with contractual arrangements that provides for the Investee Company to receive minimum royalty payments equivalent to at least 70 per cent of the Company's investment, and that have 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 the recorded music sector is tied to a certain degree to the fortunes of that industry generally. In particular, there is a risk that the Company will not identify opportunities where the Artists' success is sufficient to earn royalties over and above minimum contractual income negotiated.
- **Loss of approval 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 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 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 are 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).

The Board seeks to mitigate the internal risks by setting clear policies, including establishing a funding structure which provides for minimum royalty payments equivalent to at least 70 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 19 to 22.

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 year end and the outlook for the coming year is contained within the Chairman's Statement and Manager's Review on pages 2 to 6.

INVESTMENT PORTFOLIO

Independiente Music Ventures - Travis Limited

Artist:	Travis
Date of investment:	Jul-06
Total invested:	£1,500,000
Valuation:	£1,050,000
Valuation basis:	Fair value - Latest Available Information
Percentage of equity held:	24.95%

GR8 Pop Trading Limited

Artist:	Indiana Gregg
Date of investment:	Nov-06
Total invested:	£417,000
Valuation:	£291,900
Valuation basis:	Fair value - Latest Available Information
Percentage of equity held:	24.95%

Funwood Music Limited

Artist:	Apartment
Date of investment:	Nov-06
Total invested:	£227,647
Valuation:	£159,353
Valuation basis:	Fair value - Latest Available Information
Percentage of equity held:	24.95%

Genius Music Limited

Artist:	Passenger (formally known as Mike Rosenberg Band)
Date of investment:	Nov-06
Total invested:	£660,725
Valuation:	£462,507
Valuation basis:	Fair value - Latest Available Information
Percentage of equity held:	24.95%

High Level Recording Limited

Artist:	Peter Gabriel
Date of investment:	Jan-07
Total invested:	£1,000,000
Valuation:	£1,000,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.95%

Independiente Music Ventures – David Ford Limited*

Artist:	David Ford
Date of investment:	Jan-07
Total invested:	£387,500
Valuation:	£271,250
Valuation basis:	Fair value - Latest Available Information
Percentage of equity held:	24.95%

Independiente Music Ventures – Howling Bells Limited*

Artist:	Howling Bells
Date of investment:	Jan-07
Total invested:	£700,000
Valuation:	£700,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.95%

Cooking Vinyl Ventures Prodigy Limited*

Artist:	Prodigy
Date of investment:	Jan-07
Total invested:	£1,056,500
Valuation:	£1,056,500
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.95%

Jolly Rodger Recordings Limited

Artist:	Vatican DC
Date of investment:	Feb-07
Total invested:	£276,530
Valuation:	£193,571
Valuation basis:	Fair value - Latest Available Information
Percentage of equity held:	24.95%

Independiente Music Ventures – Ulrich Schnauss Limited

Artist:	Ulrich Schnauss
Date of investment:	Mar-07
Total invested:	£221,875
Valuation:	£155,312
Valuation basis:	Fair value - Latest Available Information
Percentage of equity held:	24.95%

Independiente Music Ventures – Blackbud Limited*

Artist:	Blackbud
Date of investment:	Jun-07
Total invested:	£584,375
Valuation:	£584,375
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.95%

Reflex Licensing Limited*

Artist:	UB40
Date of investment:	Jul-07
Total invested:	£471,765
Valuation:	£471,765
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.95%

H.I.T. Trade Limited

Artist:	Sirens
Date of investment:	Aug-07
Total invested:	£269,875
Valuation:	£269,875
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.95%

Blackbird Records 2 Limited*

Artist:	Orange Lights
Date of investment:	Sep-07
Total invested:	£824,000
Valuation:	£824,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	49.90%

Real World Recordings Limited*

Artist:	Various
Date of investment:	Oct-07
Total invested:	£487,000
Valuation:	£487,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.30%

Monkey Puzzle Records Limited

Artist:	Sia
Date of investment:	Nov-07
Total invested:	£1,000,000
Valuation:	£1,000,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	49.90%

Ground Level Recording Limited

Artist:	John Lennon DVD
Date of investment:	Nov-07
Total invested:	£439,125
Valuation:	£439,125
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	49.90%

GUT MDL Recordings Limited*

Artist:	Medallist
Date of investment:	Dec-07
Total invested:	£1,000,000
Valuation:	£1,000,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	49.90%

TOTAL INVESTMENTS

Total invested:	£11,523,917
Valuation:	£10,416,533

* The company has recently been incorporated and had not yet filed audited accounts.

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 pages 23-24.

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.

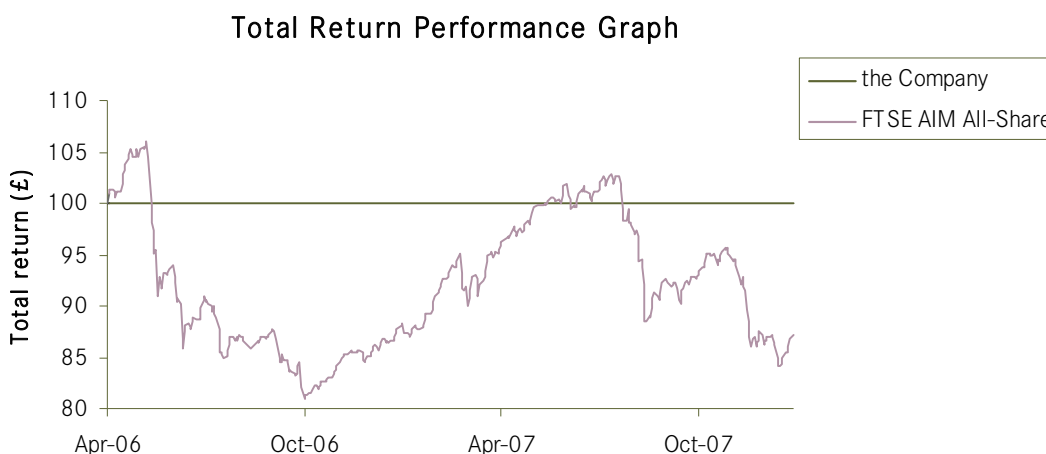
2. Appointment Letters

Each Director has executed an appointment letter which provides that he is to receive an annual fee equal to £15,000 per annum and 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.



4. Directors' Remuneration

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

	Year ended 31 December 2007
Director	Fees £'000
Patrick McKenna	15
Roger Ames	15
Lionel Martin	15
Peter Reichardt	15

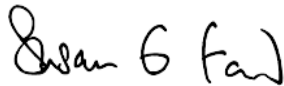
No expenses were paid to any Director in the period. The Company does not grant share options, long-term incentive schemes or retirement benefits to any Director. No contributions are made on behalf of the Directors to any pension scheme. No Director has received any bonuses, taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 December 2007. In respect of the year ended 31 December 2007, 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.

5. Shareholder Approval

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

By order of the Board



Susan Ford
Company Secretary
14 April 2008

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 four directors of which Lionel Martin and Peter Reichardt are considered to be independent.

Patrick McKenna, the Company's Chairman, is also a director of the Manager, which is a wholly owned subsidiary within the Ingenious Group that is controlled by Patrick McKenna. Patrick is also Chairman of Ingenious Music VCT plc, the Ingenious Live VCTs, and a Director of the Ingenious Entertainment VCTs and is not, therefore, considered to be independent.

Roger Ames is a non-executive director of Ingenious Music VCT plc and is also not considered to be independent.

However, the Board believes that these directorships of Patrick McKenna and Roger Ames allow for enhanced communication between the Company and the Manager as well as closer supervision of the Manager's performance and of the allocation of investments between the Company and Ingenious Music VCT plc. 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 7.

2. Board Appointments

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 Company's articles of association and the Combined Code, Patrick McKenna and Roger Ames will retire from office and seek re-appointment at the AGM.

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

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 Patrick McKenna and Roger Ames be re-appointed and, accordingly, that shareholders vote in favour of resolutions 1 to 8 (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 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:

	Attended	Possible
Patrick McKenna	4	4
Roger Ames	2	4
Lionel Martin	4	4
Peter Reichardt	3	4

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 Susan Ford, 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 the Manager under the terms of the Investment Management and Administration 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 Agreement which are currently in force.

5. Board Committees

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.

The Board has not appointed an audit committee as it is currently considered appropriate to refer all audit matters to the full Board for review and approval. The need for an audit committee will be kept under review by the Board particularly as the size of the investment portfolio increases or if required to do so as a result of regulatory requirements.

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.

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 15 May 2008, 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 control operated by the Manager 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 during the next financial year and appropriate action taken if this is deemed appropriate.

9. Going Concern

Under the 2006 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 Grant Thornton's audit team.

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

We have audited the financial statements (the "financial statements") of Ingenious Music VCT 2 Plc for the period ended 31 December 2007 which comprise the income statement, reconciliation of movements in shareholders' funds, the balance sheet, the cash flow 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.

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 that is cross referred to the Business Review 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 Directors' Report, Business Review, Investment Portfolio Schedule and the unaudited part of the Directors' Remuneration 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 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 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 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 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 2007 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
14 April 2008

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.

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INCOME STATEMENT

for the year ended 31 December 2007

		2007	2007	2007	2006	2006	2006
	Note	Revenue	Capital	Total	Revenue	Capital	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Gain on disposal of investments (Decrease)/Increase in fair value of investments held		-	226	226	-	14	14
Investment income	2	31	229	260	278	152	430
Arrangement fees		-	-	-	(265)	-	(265)
Investment management fees	4	(295)	(295)	(590)	(245)	(245)	(490)
Other expenses	5	(219)	(36)	(255)	(182)	(44)	(226)
Loss on ordinary activities		(483)	(534)	(1,017)	(414)	240	(174)
Tax on ordinary activities	6	-	-	-	-	-	-
Loss attributable to equity shareholders		(483)	(534)	(1,017)	(414)	240	(174)
Basic and diluted return per share (pence)	7	(1.8)	(2.0)	(3.8)	(2.6)	1.5	(1.1)

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 year ended 31 December 2007

	2007	2006
	£'000	£'000
Opening shareholders' funds	25,213	-
Capital subscribed	-	26,445
Issue costs	-	(1,058)
Loss attributable to equity shareholders for the period	(1,017)	(174)
Closing shareholders' funds	24,196	25,213

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

BALANCE SHEET

As at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Qualifying investments	8	10,416	2,305
Current assets			
Debtors	10	6	7
Non-Qualifying investments	11	13,940	22,936
Cash at bank and in hand		32	264
Creditors: amounts falling due within one year			
	12	(198)	(299)
Net current assets		13,780	22,908
Net assets		24,196	25,213
Capital and reserves			
Called-up share capital	13	265	265
Share premium account	14	12,561	25,122
Other Reserve Account	14	12,561	-
Capital reserves			
realised	14	1	(123)
unrealised	14	(295)	363
Revenue reserve	14	(897)	(414)
Equity shareholders' funds		24,196	25,213
Net asset value (pence per share)		91.4	95.2

The financial statements on pages 25 to 37 were approved by the Board of Directors on 14 April 2008.

Signed on behalf of the Board of Directors:



Patrick McKenna
Chairman

INGENIØUS MUSIC VCT 2

CASH FLOW STATEMENT

for the year ended 31 December 2007

	2007	2006
	£'000	£'000
Net cash outflow from operating activities	(685)	(259)
Capital expenditure and financial investment		
Purchase of qualifying investments	(9,219)	(2,305)
Purchase of non-qualifying investments	(4,309)	(24,129)
Disposal of non-qualifying investments	13,982	1,570
Net cash inflow/(outflow) from capital expenditure and financial investment	453	(24,864)
Financing		
Issue of redeemable preference shares	-	50
Repurchase of redeemable preference shares	-	(50)
Issue of ordinary shares	-	26,445
Expenses of the issue of ordinary shares	-	(1,058)
Net cash inflow from financing	-	25,387
(Decrease)/Increase in cash	(232)	264
Reconciliation of Loss Before Taxation to Net Cash Flow from Operating Activities		
	£'000	£'000
Loss on ordinary activities before taxation	(1,017)	(174)
Gain on disposal of investments	(226)	(14)
Decrease/(increase) in fair value of investments held	658	(363)
Decrease/(increase) in receivables	1	(7)
(Decrease)/increase in payables	(101)	299
Net cash outflow from operating activities	(685)	(259)
Reconciliation of Net Cash Flow to Movement in Net Funds		
	£'000	£'000
Opening cash balances	264	-
Net cash (outflow)/inflow	(232)	264
Closing cash balances	32	264

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

1. Accounting policies**(a) Basis of Accounting**

The financial statements for the period ended 31 December 2007 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.

The Company's accounting policies are unchanged compared with the prior year, except for the adoption of FRS 29 'Financial Instruments: Disclosures' which came into effect on 1 January 2007.

The comparative figures are for the period from the Company's date of incorporation, 15 September 2005, to 31 December 2006.

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. All investments are designated at fair value, using the basis of valuation set out below.

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 Measurement" (FRS 26). They are designated at fair value through profit and loss in accordance with FRS 26.

Investments that are held as part of the Company's investment portfolio are carried at fair value even though the Company may have significant influence over these investee companies. This treatment is permitted by Financial Reporting Standard 9 "Associates and Joint Ventures" which allows investment trusts to be exempt from preparing consolidated financial statements.

The International Private Equity and Venture Capital Guidelines set out six permissible valuation methodologies, of these the two methodologies most applicable to the VCT 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. In relation to the VCT investments, investments are generally held at cost until the album is either released or at such point at which new information provides more guidance as to the likely fair value of the investment.

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 VCT 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 at the "price of recent investment" (i.e. cost) until album release or further information provides better guidance as to fair value. Subsequently, the portfolio of investments is fair valued on the discounted cash flow/earnings basis using the latest available information following the release of the artists' records/albums.

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If it is not considered likely that an investment will return to the Company an amount in excess of the contractually guaranteed 70 percent of total investment, the fair value of the investment will be written down to 70 percent of the cost of the investment.

The valuation of investments and, in particular, investments in bands and artists is inherently subjective, due to the exercising of critical accounting estimates and judgments. The directors have adopted a valuation policy that they believe most appropriately reflects the fair value of such investments and compliance with the International Private Equity and Venture Capital Guidelines.

Open Ended Investment Companies

The Company's investments in interest bearing money market open ended investment companies (OEIC's) are valued at fair value, which is deemed to be mark-to-market. 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 the capital return within the income statement.

(c) Investment Income

Interest income is included on an accruals basis using the effective interest method.

(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

	2007	2006
	£'000	£'000
Bank deposit interest	31	278
Reinvested interest from OEICs	229	152
	260	430

3. Arrangement Fees

	2007	2006
	£'000	£'000
Arrangement fees	-	265

All direct and indirect expenses and costs arising out of the Offer were incurred by the Promoter and a fee of 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 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

	2007	2007	2007	2006	2006	2006
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	251	251	502	209	209	418
Irrecoverable VAT	44	44	88	36	36	72
	295	295	590	245	245	490

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

	2007	2007	2007	2006	2006	2006
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Directors' remuneration (including Employers National Insurance)	65	-	65	73	-	73
Auditors' remuneration						
- Fees payable to company's auditors for the audit of the Company's financial statements	19	-	19	16	-	16
- Tax services	1	-	1	-	-	-
- Other services	2	-	2	-	-	-
Legal & professional fees	28	36	64	2	44	46
Other administration expense	104	-	104	91	-	91
	219	36	255	182	44	226

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 £16k excluding VAT. Further details on the Directors' fee disclosures are given in the Directors' Remuneration Report.

6. Tax Charge on Ordinary Activities

	2007	2007	2007	2006	2006	2006
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Loss on ordinary activities before tax	(483)	(534)	(1,017)	(414)	240	(174)
Loss on ordinary activities by tax rate (30%)	(145)	(160)	(305)	(124)	72	(52)
Adjustments:						
Non taxable losses/(gains) on investments	-	148	148	-	(103)	(103)
Non taxable income	-	(87)	(87)	-	(10)	(10)
Disallowed expenses	8	11	19	-	13	13
Unutilised losses for the current period	137	88	225	124	28	152
	-	-	-	-	-	-

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

At 31 December 2007 the Company had surplus management expenses of £1,414,000 which have not been recognised as a deferred tax asset. This is due to the fact that future taxable income cannot 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 provide deferred tax on any capital gains or losses which arise on the revaluation of investments.

7. Basic and Diluted Return per Share

	2007	2007	2007	2006	2006	2006
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
(Loss)/Profit on ordinary activities after taxation (£'000)	(483)	(534)	(1,017)	(414)	240	(174)
Weighted average shares in issue (number)	26,475,379	26,475,379	26,475,379	15,922,602	15,922,602	15,922,602
(Loss)/Profit attributable per share (pence)	(1.8)	(2.0)	(3.8)	(2.6)	1.5	(1.1)

There are no dilutive potential ordinary shares, including convertible instruments, options or contingent share agreements in issue for the Company. The basic return per share is therefore the same as the diluted return per share.

8. Fixed Asset Investments

	2007	2006
	£'000	£'000
Unquoted investments	10,416	2,305
Equity shares	2,350	692
Unsecured loan notes	8,066	1,613
	10,416	2,305
	Qualifying Investments	
	£'000	£'000
Opening valuation	2,305	-
Purchases at cost	9,219	2,305
Fair value adjustment	(1,108)	-
Closing valuation	10,416	2,305

9. Significant Interests

The Company has interests of greater than 20% of the nominal value of the allotted shares of the following investee companies incorporated in the United Kingdom as at 31 December 2007:

Trading Companies	% class and share type	% voting rights
Independiente Music Ventures – Travis Limited	24.95% A Ordinary	24.95%
GR8 Pop Trading Limited	24.95% A Ordinary	24.95%
Funwood Music Limited	24.95% A Ordinary	24.95%
Genius Music Limited	24.95% A Ordinary	24.95%
High Level Recording Limited	24.95% A Ordinary	24.95%
Independiente Music Ventures – David Ford Limited	24.95% A Ordinary	24.95%
Independiente Music Ventures – Howling Bells Limited	24.95% A Ordinary	24.95%
Cooking Vinyl Ventures Prodigy Limited	24.95% A Ordinary	24.95%
H.I.T. Trade Limited	24.95% A Ordinary	24.95%
Independiente Music Ventures – Blackbud Limited	24.95% A Ordinary	24.95%
Independiente Music Ventures – Ulrich Schnauss Limited	24.95% A Ordinary	24.95%
Jolly Roger Recordings Limited	24.95% A Ordinary	24.95%
Real World Recordings Limited	24.30% A Ordinary	24.30%
Reflex Licensing Limited	24.95% A Ordinary	24.95%
Blackbird Records 2 Limited	49.90% A Ordinary	49.90%
Monkey Puzzle Records Limited	49.90% A Ordinary	49.90%
Ground Level Recordings Limited	49.90% A Ordinary	49.90%
GUT MDL Recordings Limited	49.90% A Ordinary	49.90%

INGENIOUS MUSIC VCT 2

Dormant Companies	% class and share type	% voting rights
VCT Trading Company Limited	100% A Ordinary	100%
VCT Sounds Limited	100% A Ordinary	100%
VCT Tunes Limited	100% A Ordinary	100%
VCT Management Limited	100% A Ordinary	100%
H.I.T. Industries Limited	100% A Ordinary	100%
VCT Associates Limited	100% A Ordinary	100%
VCT Developments Limited	100% A Ordinary	100%
Rasionale Limited	100% A Ordinary	100%
Morton Limited	100% A Ordinary	100%

The investments made by the Company are part of its portfolio of investments. As a VCT, the Company value those investments at fair value in accordance with FRS 26.

10. Debtors

	2007 £'000	2006 £'000
Prepayments and accrued income	3	7
Trade debtors	3	-
	6	7

11. Current Asset Investment

	2007 £'000	2006 £'000
Funds held in listed money market instruments	13,940	22,936

	Non-Qualifying Investments	
	£'000	£'000
Opening valuation	22,936	-
Purchases at cost	4,310	24,129
Disposal proceeds	(13,982)	(1,570)
Realised gains on disposal	226	14
Unrealised change in value of investment	450	363
Closing valuation and book cost	13,940	22,936

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.

Included within the total amount for Non-Qualifying Investments, £3.2m has been invested in the Ingenious Enhanced Cash Fund managed by Ingenious Asset Management.

12. Creditors: Amounts Falling Due Within One Year

	2007	2006
	£'000	£'000
Trade creditors	13	257
Accruals and deferred income	185	42
	198	299

13. Called-Up Share Capital

	2007	2006
	£'000	£'000
Authorised		
40,000,000 ordinary shares 1p each	400	400
Allotted, called-up and fully paid		
26,475,381 ordinary shares 1p each	265	265

In the year ended 31 December 2006, 26,475,379 shares were issued and allotted in accordance with the terms of the Prospectus. The two subscriber shares created upon incorporation were issued at par. Share issue costs amounting to £1,058,000 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.

Date of issue and allotment	Number of shares allotted	Aggregate nominal value allotted £'000	Aggregate consideration received net of issue costs £'000
15 September 2005	2	-	-
9 February 2006	5,603,620	56	5,351
29 March 2006	6,551,268	66	6,289
3 April 2006	7,414,679	74	7,118
4 April 2006	705,790	7	657
5 April 2006	6,221,538	62	5,972
13 December 2006	(21,516)	-	-
	26,475,381	265	25,387

14. Reserves

	Share premium £'000	Other reserve £'000	Capital realised £'000	Capital unrealised £'000	Revenue reserve £'000	Total reserves £'000
At 1 January 2007	25,122	-	(123)	363	(414)	24,948
Reduction of share premium account	(12,561)	12,561	-	-	-	-
Gain on disposal of investments	-	-	226	-	-	226
Decrease in fair value of investments held	-	-	-	(658)	-	(658)
Investment income	-	-	229	-	31	260
Investment management fees	-	-	(295)	-	(295)	(590)
Other expenses	-	-	(36)	-	(219)	(255)
At 31 December 2007	12,561	12,561	1	(295)	(897)	23,931

On 06 June 2007, the Company registered the court order dated 01 May 2007 with the Registrar of Companies confirming the reduction of the Company's share premium account by £12,561,000. The purpose of the reduction was to enable the company to create a distributable reserve for the purpose of purchasing shares in the market.

15. Net Asset Value Per Share

	31 December 2007	31 December 2006
Net assets attributable to shareholders (£'000)	24,196	25,213
Shares in issue (number)	26,475,381	26,475,381
Net asset value per share (pence)	91.4	95.2

16. 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), being the £13,940k Non-Qualifying Investments amount on the Balance Sheet (2006: £22,936k). 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 5.5 per cent as at 31 December 2007 (31 December 2006: 5 per cent).

The following table illustrates the sensitivity of the profit on ordinary activities for the year before taxation and total equity to a change in interest rates of 50 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 2007	31 December 2006
	£ '000	£ '000
	+/- 50 basis points	+/- 50 basis points
Profit on ordinary activities for the year before taxation		
Total Equity	70	116

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 £8,066k unsecured loan note instruments (2006: £1,613k), 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.

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.

The Company maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements at all times

17. Contingencies, Guarantees and Financial Commitments

There is currently interest income accruing on the unsecured loan note instruments at a rate of 6.5 per cent, being 1 per cent over the bank base rate which was 5.5 per cent as at 31 December 2007, totalling £357,594 (2006: 25,666). 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 provided for it in the financial statements.

The Company has entered into a shareholder agreement with Real World Recordings Limited, whereby the Company has committed to acquire a further 18,719 A Ordinary shares for a total subscription price of £225,000 and to enter into a further unsecured loan note instrument for the principal sum of £750,000. This commitment will be made on or about the 30 April 2008.

The Company has entered into a shareholder agreement with Monkey Puzzle Records Limited, whereby the Company has committed to acquire a further 33 A Ordinary shares for a total subscription price of £21,706 and to enter into a further unsecured loan note instrument for the principal sum of £50,647. This commitment will be made on or about the 15 May 2008.

The Company has entered into a shareholder agreement with GUT MDL Recordings Limited, whereby the Company has committed to acquire a further 4,313 A Ordinary shares for a total subscription price of £51,891 and to enter into a further unsecured loan note instrument for the principal sum of £121,079. This commitment will be made on or about the 30 June 2008.

18. Related Party Transactions

The Company has appointed Ingenious Ventures Limited, a company in which Patrick McKenna is a director, to provide investment management and administrative services. Ingenious Ventures is a wholly owned subsidiary within the Ingenious Group which is controlled by Patrick McKenna.

During the 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	2008 Expenditure paid £'000	2008 Amounts due £'000	2007 Expenditure paid £'000	2007 Amounts due £'000
Ingenious Ventures Limited				
- Investment management fee	443	147	490	200
- Administration fee	32	11	37	10
Ingenious Media Investments				
- Arrangement fee	-	-	1,323	-

Ingenious Media Consulting Limited, a company in which Patrick McKenna is a director, has entered into consultancy agreements with each of the investee companies to provide management services. For the provision of such services, consulting fees totalling £703,228 including VAT (2006: £396,960) have been invoiced in the year, none of which remains outstanding as at 31 December 2007.

The funds invested in OEICs, are managed by Ingenious Asset Management Limited, a company in which Patrick McKenna is a director. Ingenious Asset Management is a wholly owned subsidiary within the Ingenious Group which is controlled by Patrick McKenna. Patrick McKenna is a director of The Young Vic (a registered charity) which holds 0.2% of the equity in each of the investee companies.

19. Events after the Balance Sheet date

On 1 March 2008 the Investment Management and Administration agreement between the Company and Ingenious Ventures Limited was novated to Ingenious Asset Management Limited.

The Company invested a further £300k in Independiente Music Ventures - Howling Bells Limited on 14 February 2008.

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 KBC Peel Hunt Ltd.

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 page 39 but is subject to Resolution 5 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, Capita Registrars, 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.

Andrew Kenny

Tel.: +44 (0) 207 319 4004

Fax: +44 (0) 207 319 4001

Email: andrew.kenny@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
INGENIØUS MUSIC VCT 2 PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 5564790)

NOTICE IS HEREBY GIVEN THAT the second Annual General Meeting of Ingenious Music VCT 2 plc (the **Company**) will be held at 4.00 pm on Thursday 15 May 2008 at 15 Golden Square, London W1F 9JG for the following purposes:

To consider and, if thought fit, pass resolutions 1 to 4 and 6 to 8 as ordinary resolutions and resolution 5 as a special resolution.

Annual Report and Accounts

1. To receive and consider the Company's Annual Report and Accounts for the year ended 31 December 2007.

Directors' Remuneration Report

2. THAT the Directors' Remuneration Report for the year ended 31 December 2007 be and is hereby approved.

Re-Election of Directors

3. THAT Patrick McKenna, who retires by rotation in accordance with the Company's articles of association, be and is hereby re-appointed as a non-executive director.
4. THAT Roger Ames, who retires by rotation in accordance with the Company's articles of association, be and is hereby re-appointed as a non-executive director.

Share Buy-Backs

5. 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(3) of the Act) of ordinary shares of 1p each in the capital of the Company (the **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 Shares authorised to be purchased pursuant to this resolution shall not exceed 14.99 per cent. of the issued ordinary share capital of the Company;
 - (c) the minimum price which may be paid shall not be less than 5p per Share, and the maximum price shall not be more than 5 per cent. above the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such Shares are contracted to be purchased;
 - (d) the maximum and minimum prices shall be exclusive of any expenses (including stamp duty);
 - (e) this authority, unless renewed or revoked prior to such time, shall expire on the earlier of 15 months from the passing of this resolution or the close of the Company's next Annual General Meeting; and

- (f) the Company may, before the expiry of such authority, conclude contracts to purchase Shares which will or may be executed wholly or partly after the expiry of such authority and may make purchases of Shares in pursuance of any such contracts as if the authority hereby conferred had not expired.

Auditors

6. 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.
7. THAT the Directors be and are hereby authorised to agree the remuneration of Grant Thornton UK LLP as auditors to the Company.

Electronic Communications

8. THAT the Company is generally and unconditionally authorised to use electronic means to convey information to its shareholders, including, but not limited to, sending and supplying documents or information to its shareholders by making them available on a website.

Dated: 14 April 2008

Registered Office:
15 Golden Square
London W1F 9JG

By order of the Board
Susan Ford
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, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
- (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 shareholders entered on the relevant register of members (the "**Register**") for certificated or uncertificated shares of the Company (as the case may be) at close of business on 13 May 2008 (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 year ended 31 December 2007.

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 to 31 December 2007 which can be found on pages 17 to 18.

Resolutions 3 and 4 – Re-appointment of non-executive Directors

Pursuant to the Company’s articles of association and the Combined Code, Patrick McKenna and Roger Ames, being one third of the directors of the Company will retire from office by rotation and are seeking to be re-appointed at the AGM. Biographical details of all the directors can be found on page 7.

Resolution 5 – Share Buy-Backs

Pursuant to the Company’s articles of association the Company is authorised to make market purchases of an amount up to (but not including) 15 per cent. of the issued ordinary share capital of the Company subject to (amongst other things) the price paid being neither:

- less than 5p per Share; nor
- more than five per cent. above the average of the market value of the Shares for the five business days immediately preceding the date of purchase.

This authority will expire at the conclusion of the Company’s next AGM. Although the Company has not made any market purchases during the period under review, the Shareholders will be asked to consider this special resolution in order to extend the authority. Subject to this resolution and resolution 7 being passed, the Directors will continue to consider making market purchases of 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 Shares should be able to do so, Shareholders should be aware that this may not always be possible.

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

Resolutions 6 and 7 – 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.

Resolution 8 – Electronic Communications

This is an ordinary resolution to permit the Company to make use of a new regime relating to electronic communications with its shareholders. The new regime came into effect in January 2007 as a result of the implementation of certain provisions of the Companies Act 2006 and by amendments to the Disclosure and Transparency Rules of the Financial Services Authority. If this resolution is approved, the Company intends to write to its shareholders later this year as to whether they wish to receive documents or other information from the Company in hard copy or electronically.

Such consultation will require shareholders to elect either to receive future documents or information in hard copy or to receive them by electronic means. If a shareholder does not respond to the consultation within 28 days, such shareholder will be deemed to have elected to receive future documents and information from the Company by electronic means. However, shareholders who have made an election or a deemed election to receive documents or information from the Company by electronic means will still be able to notify the Company at any time that they wish to receive documents or information in hard copy. Shareholders who elect or who are deemed to have elected to receive future documents or information by electronic means, and who have registered their e-mail address with the Company's registrars, will then receive an e-mail notification as and when relevant documents or information are available on the Company's website. If no e-mail address is registered, or a registered email address is incorrect, a letter will be sent to the applicable shareholder at their registered postal address, informing them that the relevant document or information is available on the Company's website.

INGENIØUS MUSIC VCT 2 PLC

PROXY FORM

ANNUAL GENERAL MEETING 15 MAY 2008

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

	Notes
Name: (full) <input style="width:95%;" type="text"/>	
Address: (full) <input style="width:95%;" type="text"/>	
<input style="width:95%;" type="text"/>	
Postcode: <input style="width:75%;" type="text"/>	
<p>I/we the abovementioned shareholder(s) of Ingenious Music VCT 2 plc, hereby appoint the Chairman of the Annual General Meeting <i>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):</i></p>	
Name: (full) <input style="width:95%;" type="text"/>	1
Address: (full) <input style="width:95%;" type="text"/>	
<input style="width:95%;" type="text"/>	
Postcode: <input style="width:75%;" type="text"/>	
<p>as my/our proxy to vote in my/our name(s) and on my/our behalf at the Annual General Meeting of Ingenious Music VCT 2 plc to be held on 4.00 pm on 15 May 2008 at 15 Golden Square London W1F 9JG and at any adjournment thereof.</p>	

	For	Against	Withheld	2
1. To receive and consider the Company's Annual Report and Accounts for the year ended 31 December 2007 (<i>ordinary resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. THAT the Directors' Remuneration Report for the year ended 31 December 2007 be and is hereby approved (<i>ordinary resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. THAT Patrick McKenna, who retires by rotation, be and is hereby re-appointed as a non-executive director (<i>ordinary resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. THAT Roger Ames, who retires by rotation, be and is hereby re-appointed as a non-executive director (<i>ordinary resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. To approve the Company's authority to make market purchases of Shares (<i>special resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. THAT Grant Thornton UK LLP be and are hereby re-appointed as auditors to the Company (<i>ordinary resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. THAT the Directors be and are hereby authorised to agree the remuneration of Grant Thornton UK LLP (<i>ordinary resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. To authorise the Company to deliver documents to shareholders electronically (<i>ordinary resolution</i>)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Shareholder signature: <input style="width:95%;" type="text"/>	3
Date: <input style="width:75%;" type="text"/>	

NOTES

- 1 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one 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.
- 2 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 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.
- 3 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, Capita Registrars, using the reply paid envelope enclosed with this Annual Report & Accounts. This Proxy Form must be received by Capita 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 Shares from attending and voting at the meeting if he/she (they) so wish/wishes and is (are) so entitled.

DEFINITIONS

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

A&R

Artist and repertoire.

AGM

The annual general meeting of the Company which is to be held on 15 May 2008 as convened by the Notice.

Annual Report & Accounts

These annual report & accounts of the Company for the period ending 31 December 2007.

Articles

The Company's articles of association.

Board

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

BPI

The British Phonographic Industry (the British record industry's trade association).

Combined Code

Combined Code on Corporate Governance 2006.

Companies Act

Companies Act 1985 and Companies Act 2006.

Company

Ingenious Music VCT 2 plc

Directors

Directors of the Company from time to time.

FRS

Financial Reporting Standard.

FSA

Financial Services Authority.

Grant Thornton

Grant Thornton UK LLP.

ICTA

Income & Corporation Taxes Act 1988.

ITA

Income Tax Act 2007.

Indies

Small to medium-sized companies comprising the independent music sector.

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.

Majors

Sony BMG, EMI Music, Warner Music and Universal Music.

Manager

Ingenious Ventures Limited up until 1 March 2008 when the Investment Management and Administration Agreement was novated to Ingenious Asset Management Limited.

Notice

The notice convening the AGM and which can be found on page 39.

Offer

The Company's offer to the public to subscribe for up to 30 million Shares at an issue price of 100p per Share launched on 22 November 2005.

Prospectus

The prospectus published by the Company on 22 November 2005 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 28.

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.

