

INGENIOUS MUSIC VCT 2

HALF-YEARLY FINANCIAL REPORT
For the six months ending
30 June 2008



WE ARE **INGENIOUS**

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INGENIOUS MUSIC VCT 2

THE COMPANY AND ITS ADVISERS

The Company	Ingenious Music VCT 2 plc
Directors	Patrick McKenna (Chairman) Roger Ames Lionel Martin* Peter Reichardt*
Company Secretary	Sarah Cruickshank
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 1 Embankment Place London WC2N 6RH
Registrar	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Sponsor and Stock Broker	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.

INTERIM MANAGEMENT REPORT

I am delighted to present the Company’s half-yearly financial statements covering the six months to 30 June 2008 (the Reporting Period).

Overview of Activities

The Company has continued to actively source and review investment propositions during the Reporting Period. It has identified further exciting opportunities, some of which are in the later stages of negotiation, as we look to commit all the remaining funds in VCT qualifying investments before the three year anniversary.

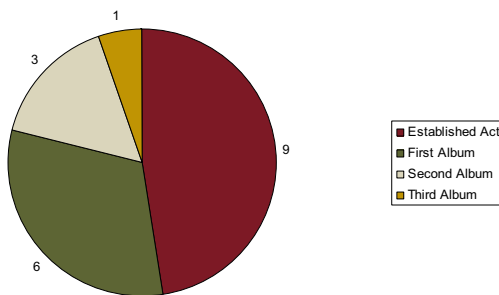
In the Reporting Period the Company made one new investment in Welsh rock band *Funeral For A Friend* in May 2008, investing £418,750 in a deal with Join US Records Limited to record and release their fourth album. The band has already gained worldwide success through its previous albums and has a strong fan base, both in the UK and overseas.

A number of albums have been released during the Reporting Period. *Sia*’s album, entitled “Some people have real problems”, was released in January 2008 to coincide with European and American tours. An eclectic mix of soulful pop, the album was produced by Jimmy Hogarth who has worked with leading artists including *James Blunt*, *Amy Winehouse* and *KT Tunstall*. Sales have been positive with more than 100,000 copies sold in North America alone. With a busy summer festival calendar, *Sia* is currently performing at a number of the key UK and European Festivals.

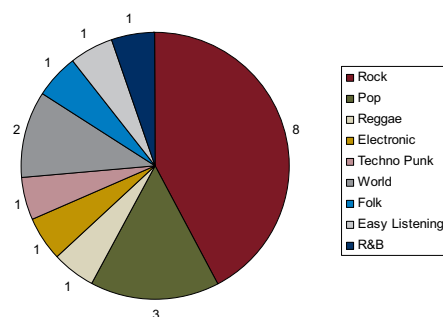
UB40 released its new album entitled “Twentyfourseven” in June 2008. A successful UK launch party took place in June 2008 in conjunction with the Mail on Sunday and the band is touring the US in August 2008. Other releases from artists include the DVD compilation of *John Lennon*’s first solo album after leaving *The Beatles* which features the iconic track “Working Class Hero”, and Newcastle three-piece band *Sirens*’ release of “La La Land” in June.

Our portfolio of investments now totals nineteen and includes an exciting range of diverse musical artists. The charts below show that we have not only invested in artists across the musical genres, but also in artists at varying stages in their careers, giving a balanced mixture of investments to the portfolio.

CAREER STAGE OF ARTIST



GENRE



Results

The Company made a loss on ordinary activities of £0.25 million in the period to 30 June 2008. The Company’s net asset value, however, remained relatively constant during the period at 90.4 pence per share down from 91.4 at the beginning of period.

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Outlook

The outlook for the next six months remains positive with a number of deals already in the legal process, and we look forward to updating you on these in the near future. There are also a number of album releases to look forward to from artists including *The Prodigy* and *Peter Gabriel* as well as the roll out of the Real World label deal (10 to 15 individual artists) amongst others.

A handwritten signature in black ink that reads "P. McKenna." The signature is written in a cursive, flowing style.

Patrick McKenna
Chairman
19 August 2008

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm to the best of their knowledge that:

- the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Reports';
- and the half-yearly management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the FSA's Disclosure and Transparency Rules.

The half yearly financial report was approved by the Board on 19 August 2008 and the above responsibility statement was signed on its behalf by

A handwritten signature in black ink, appearing to read 'P. McKenna', is written on a light-colored background.

Patrick McKenna

Chairman

19 August 2008

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INVESTMENT PORTFOLIO SUMMARY

as at 30 June 2008

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:	£1,000,000
Valuation:	£1,000,000
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:	£1,056,817
Valuation:	£1,056,817
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%

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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:	£269,876
Valuation:	£188,913
Valuation basis:	Fair value - Latest Available Information
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:	£1,072,353
Valuation:	£1,072,353
Valuation basis:	Fair value - Latest Available Information
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 - Latest Available Information
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%

Join Us Copyrights Limited*

Artist:	Funeral For A Friend
Date of investment:	May-08
Total invested:	£418,750
Valuation:	£418,750
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	49.90%

TOTAL INVESTMENTS

Total invested:	£12,315,337
Valuation:	£11,126,990

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

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INCOME STATEMENT (UNAUDITED)

for the six months ended 30 June 2008

	Note	Six months ended 30 June 2008		
		Revenue £'000	Capital £'000	Total £'000
Gains on disposal of investments		-	37	37
Increase/(decrease) in fair value of investments held		-	51	51
Investment income		4	65	69
Investment management fees		(141)	(141)	(282)
Other expenses		(129)	-	(129)
(Loss)/profit on ordinary activities before taxation		(266)	12	(254)
Tax on ordinary activities		-	-	-
(Loss)/profit attributable to equity shareholders		(266)	12	(254)
Basic and diluted return per share (pence)	2	(1.0)	0.0	(1.0)

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (UNAUDITED)

for the six months ended 30 June 2008

	30 June 2008 £'000	30 June 2007 £'000	31 December 2007 £'000
Opening shareholders' funds	24,196	25,213	25,213
Loss attributable to equity shareholders' for the period	(254)	(234)	(1,017)
Closing shareholders' funds	23,942	24,979	24,196

INCOME STATEMENT (UNAUDITED) continued

Six months ended 30 June 2007			Year ended 31 December 2007		
Revenue	Capital	Total	Revenue	Capital	Total
£'000	£'000	£'000	£'000	£'000	£'000
-	168	168	-	226	226
-	(122)	(122)	-	(658)	(658)
6	112	118	31	229	260
(149)	(149)	(298)	(295)	(295)	(590)
(100)	-	(100)	(219)	(36)	(255)
(243)	9	(234)	(483)	(534)	(1,017)
-	-	-	-	-	-
(243)	9	(234)	(483)	(534)	(1,017)
(0.9)	0.0	(0.9)	(1.8)	(2.0)	(3.8)

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BALANCE SHEET (UNAUDITED)

as at 30 June 2008

		30 June 2008	30 June 2007	31 December 2007
	Note	£'000	£'000	£'000
Fixed assets				
Qualifying investments		11,127	6,699	10,416
Current assets				
Debtors		17	15	6
Non-Qualifying investments	3	12,814	17,928	13,940
Cash at bank and in hand		178	515	32
Creditors: amounts falling due within one year		(194)	(178)	(198)
Net current assets		12,815	18,280	13,780
Net assets		23,942	24,979	24,196
Capital and reserves				
Called-up share capital		265	265	265
Share premium account	4	12,561	12,561	12,561
Other reserves	4	12,561	12,561	12,561
Capital reserves				
realised	4	(38)	8	1
unrealised	4	(244)	241	(295)
Revenue reserve	4	(1,163)	(657)	(897)
Shareholders' funds		23,942	24,979	24,196
Net asset value (pence per share)	5	90.4	94.3	91.4

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CASH FLOW STATEMENT (UNAUDITED)

for the six months ended 30 June 2008

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Net cash outflow from operating activities	(357)	(409)	(685)
Capital expenditure and financial investment			
Purchase of qualifying investments	(791)	(4,670)	(9,219)
Purchase of non-qualifying investments	(705)	(4,190)	(4,309)
Disposal of non-qualifying investments	1,999	9,520	13,982
Net cash inflow from capital expenditure and financial investment	503	660	453
Increase/(decrease) in cash	146	251	(232)
Reconciliation of Loss Before Taxation to Net Cash Flow from Operating Activities			
	£'000	£'000	£'000
Loss on ordinary activities before tax	(254)	(234)	(1,017)
Gains on disposal of investments	(37)	(168)	(226)
(Increase)/decrease in fair value of investments held	(51)	122	658
(Increase)/decrease in debtors	(11)	(8)	1
Decrease in creditors	(4)	(121)	(101)
Net cash outflow from operating activities	(357)	(409)	(685)
Reconciliation of Net Cash Flow to Movement in Net Funds			
	£'000	£'000	£'000
Opening cash balances	32	264	264
Net cash inflow/(outflow)	146	251	(232)
Closing cash balances	178	515	32

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

for the six months ending 30 June 2008

1. Accounting Policies

(a) Basis of Accounting

The financial statements for the half year ended 30 June 2008 have been prepared in compliance with the UK Generally Accepted Accounting Practice, and with the Statement of Recommended Practice (the SORP) entitled "Financial Statements of Investment Trust Companies" which was issued in January 2003 and revised in December 2005.

These financial statements have been drawn up adopting the accounting policies set out in the statutory accounts for the year ended 31 December 2007.

(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: Recognition and 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".

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.

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 (OEICs) 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.

2. Basic and Diluted Return per Share

The calculation of basic return per share is based on the return on ordinary activities after tax for the period and on a weighted average of 26,475,381 ordinary shares in issue for the six months ended 30 June 2008 (31 December 2007: 26,475,381; 30 June 2007: 26,475,381).

There are no dilutive elements and hence the basic return per share is the same as the diluted return per share.

3. Non-qualifying investments

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.

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4. Reserves

	Share premium	Other reserve	Capital realised	Capital unrealised	Revenue reserve	Total reserves
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	12,561	12,561	1	(295)	(897)	23,931
Gain on disposal of investments	-	-	37	-	-	37
Increase in fair value of investments held	-	-	-	51	-	51
Investment income	-	-	65	-	4	69
Investment management fees	-	-	(141)	-	(141)	(282)
Other expenses	-	-	-	-	(129)	(129)
At 30 June 2008	12,561	12,561	(38)	(244)	(1,163)	23,677

5. Net Asset Value per Share

The net asset value per share has been calculated based on 26,475,381 ordinary shares being the number of ordinary shares in issue as at 30 June 2008 (31 December 2007: 26,475,381; 30 June 2007: 26,475,381).

6. Contingent Asset

The Company had a contingent asset subsequent to the balance sheet date relating to VAT recoverable. The contingent asset has arisen as a result of an announcement by HM Revenue & Customs in Brief 35/08 that it accepts that VCT management should have fallen within the VAT exemption for fund management introduced on 1 January 1990, and now invites claims for VAT charged retrospectively.

The amount of VAT recoverable is yet to be finalised.

7. Related Party Transactions

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

The funds invested in OEICs, are also managed by Ingenious Asset Management Limited.

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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	30 June 2008	30 June 2007	31 December 2007	30 June 2008	30 June 2007	31 December 2007
	Expenditure paid £'000	Expenditure paid £'000	Expenditure paid £'000	Amounts due £'000	Amounts due £'000	Amounts due £'000
Ingenious Ventures						
Investment						
management fee	141	149	443	141	149	147
Administration fee	11	11	32	11	11	11

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 £195,054 including VAT (31 December 2007: £703,228; 30 June 2007: £168,294), have been invoiced for the period, none of which remains outstanding as at 30 June 2008.

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.

8. The unaudited half-yearly financial statements for the period ended 30 June 2008 do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies.
9. Copies of the half-yearly report are being sent to all shareholders. Further copies can be obtained from the Company's Registered Office at 15 Golden Square, London, W1F 9JG.

