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**THE COMPANY AND ITS ADVISERS**

<b>Directors</b>	Patrick McKenna (Chairman) Roger Ames Charles Peel* Kenneth Thompson*
<b>Company Secretary</b>	Susan Ford
<b>Registered Office</b>	100 Pall Mall London SW1Y 5NQ
<b>Company Number</b>	5289619
<b>Investment Manager &amp; Administrator</b>	Ingenious Ventures Limited 100 Pall Mall London SW1Y 5NQ
<b>Auditors</b>	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
<b>Taxation Advisers</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Registrar</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Brokers</b>	KBC Peel Hunt Ltd 111 Old Broad Street London EC2N 1PH
<b>Solicitors</b>	Mayer Brown Rowe & Maw 11 Pilgrim Street London EC4V 6RW

\* Independent director

# INGENIOUS MUSIC VCT

## CHAIRMAN'S STATEMENT

### Overview of activities

The period to 31 July 2006 has been an active period for the Company with two additional investments completed and further deals now in the advanced stages of negotiation, as detailed below.

The Company has cemented its relationship with Independiente, one of the UK's most prolific and successful independent record labels, after completing its investments in *Martina Topley-Bird* and *Travis* in June and July respectively. The Company made an investment of £1,000,000 in each and has made a further £1,000,000 commitment in respect of *Travis*' fifth album, which is due for release in early 2007. This deal marked the Company's first co-investment with Ingenious Music VCT 2 plc.

Deal flow remains strong and the Manager, Ingenious Ventures Limited, is in the final stages of negotiation on a number of deals, including a multi-artist deal with one of the Majors. These deals, which amount to over £7.25 million in total of investment by the Company, relate to both new bands that are looking to launch their debut albums and "named" artists.

### 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 intellectual property rights. This will be achieved by maximising the opportunities for making tax-free dividends to shareholders from both income received and capital profits on a sale of the investee companies or their assets.

Following implementation of the Company's amended investment policy (approved at the Extraordinary General Meeting held on 6 April 2006), the Company will be making its next investments alongside its sister fund, Ingenious Music VCT 2 plc, which enables the Company to participate in investments of up to £2 million per year per qualifying investment (rather than £1 million if each company acted alone) thereby enabling the Company to invest in more established artists and a wider range of music-related intellectual property rights. This amended investment policy will allow us to target larger, more established acts such as *Travis* whose previous albums have enjoyed significant commercial success and critical acclaim.

### VCT Qualifying Status

The Company is managed as a venture capital trust, enabling shareholders to benefit from both the income and capital gains tax reliefs available. Shareholders will be aware that in order to qualify for these tax reliefs 70% of net funds raised must be invested in VCT qualifying companies by January 2008. The Company retains PricewaterhouseCoopers LLP as advisers on all matters relating to the Company's VCT status and it continues to satisfy HM Revenue & Customs' requirements for the maintenance of formal approval as a VCT.

### Results

The Company has now invested and committed a total of £3.23 million in qualifying investments, which equates to approximately 22% of the Company's total funds. Whilst the Company's net asset value has remained relatively constant during the period at 95.3 pence per share, there have been no realisations in the reporting period and the Board can not therefore recommend the payment of an interim dividend as there are insufficient distributable reserves.

**Outlook**

The outlook for the Company remains positive and the Manager continues to actively source and review investment propositions and in so doing continues to develop its relationships with the Majors, leading independent record labels, prominent artist managers and individual artists.

I look forward to reporting to you on our transactions in the coming months.

A handwritten signature in black ink, appearing to read "P. McKenna".

**Patrick McKenna**

Chairman

19 October 2006

# INGENIOUS MUSIC VCT

## MANAGER'S REVIEW

### Investment Strategy

The current outlook in the global music market offers attractive investment opportunities for the Company with the UK continuing to play a key role in the market both in terms of new acts and consumer spending.

We continue to see a large number of opportunities and have to date focused our efforts on identifying projects that we believe achieve the inherent objectives of the fund, namely to support the development of exciting acts, whilst ensuring the optimum returns for our investors. We believe that this is best accomplished by developing a roster of diverse artists, both emerging and established, across the musical genres.

### Investments

The Company made two further investments in the reporting period totalling £2 million. The Manager has invested and committed 22% of the fund in qualifying investments and the outlook for prospective deals remains positive.

#### *MARTINA TOPLEY-BIRD*

The Company closed its second qualifying investment in June 2006 by providing £1,000,000 to Independiente Music Ventures MTB Limited for all recording costs, artist, video, tour support and marketing expenditure required to launch *Martina Topley-Bird's* second album. This deal sees the London-born songwriter and singer team up with *DangerMouse* who will produce the album, recording on which is now underway with a release date currently scheduled for March 2007.

This deal marked the Company's first deal with Independiente and was soon followed by a second deal with Independiente, an investment to back *Travis*. This was the Company's third investment.

#### *About Martina Topley-Bird and DangerMouse*

Martina Topley-Bird released her first album, "Quixotic" in 2002, an album which combined multiple genres of music, from Soul and Gospel to Electro and Rock, reflecting the 26 year-old artist's own diverse background and influences – a mix of El Salvadorian, Indian and African American.

Martina began writing the songs for her first album with a small group consisting of her step brother Nick Bird, Steve Crittal and Alex McGowan. Recorded at McGowan's studio in Fulham, the album was mixed by Tchad Blake, Jake Davies and Hugo Nicholson of *Primal Scream* and produced by Martina, Alex McGowan and *Tricky*, who was responsible for Martina's musical break when she was a teenager.

Martina's second album will be produced by Brian Joseph Burton, better known by his stage name, *DangerMouse*, the American producer and DJ who first came to prominence in 2004. Having earned a Grammy nomination for Producer of the Year for his work on 'Demon Days', the highly acclaimed and successful second album from *The Gorillaz*, he has also teamed up with Cee-Lo as the duo, Gnarlz Barkley, a partnership which has achieved phenomenal success with the single 'Crazy' which made history when it became the first UK number 1 to achieve poll position on downloads alone and subsequently stayed at number 1 in the charts for nine consecutive weeks.

### TRAVIS

This deal marked the Company's first co-investment with Ingenious Music VCT 2 plc, following the Company's resolution to adopt the new amended investment policy.

The Company and Ingenious Music VCT 2 plc equally co-funded the venture with an initial £2 million followed by a further £1 million investment, to be made in the latter part of 2007. An additional £1 million has also been made available as a further marketing fund, should the parties see this as commercially beneficial at a later stage. Ingenious have formed a joint venture company, Independent Music Ventures Travis Limited, to release the band's fifth album, which is due for release in early 2007. Both UK and international distribution for the album will be handled by SonyBMG.

Since releasing their first album, 'Good Feeling' in 1997, *Travis* has experienced considerable success both in the UK and internationally. Having sold more than 8.5 million albums worldwide, the band's second album, 'The Man Who' became one of the biggest selling albums by a British band that year. This was followed by their third album, 'The Invisible Band', which entered the charts at Number 1 and stayed there for a total of ten weeks. Their fourth album '12 Memories', which was released in 2003, entered the album charts at Number 3 and was followed in 2004 by a singles retrospective 'Travis: Singles'. The band has toured extensively and has won several awards including Best Songwriter and Best Contemporary Song at the Ivor Novellos for 'Why Does It Always Rain On Me?' and Best Band and Best British Album at the Brits.

The band's forthcoming album will be produced by Nigel Godrich who has worked with *Travis* twice before, producing their breakthrough album, 'The Man Who' and their third album, 'The Invisible Band'. Godrich has worked with a variety of artists including *Paul McCartney*, *Beck*, *Natalie Imbruglia*, *U2* and *REM* but is best known for his longstanding collaboration with *Radiohead*.

### THE HEIGHTS

We continue to enjoy a strong working relationship with Channelfly and are pleased to report that recording on The Heights' new album is nearing completion, with a release date now scheduled for the early part of 2007. As reported in our last newsletter, the band has received international interest and a Japanese licensing deal is currently being negotiated.

After a summer tour launching their new single, 'Jamaica Beer Eyes', the band has also set further dates for their second leg at venues throughout the UK.

### Outlook

The growing digital market and rising DVD sales have together contributed to another strong year in music sales for the UK, which generated 10% of world music sales in 2005. The UK also continues to be one of the principal sources of music repertoire with international appeal, this being English-speaking popular music which is purchased by consumers both domestically and internationally.

The UK continues to maintain a commanding position in online sales accounting for the largest number of digital downloads across Europe. The phenomenal rise in social networking sites such as My Space and YouTube has contributed to the discovery of new home grown talent, allowing previously unsigned artists to reach larger international audiences within a much shorter timeframe - recent online discoveries include acts like *Arctic Monkeys* who have now been signed by independent record label, Domino Records and more recently *Lily Allen* who has been signed by EMI. This area of the market is still in its relative infancy with more download sites emerging including those which challenge the existing download model, such as Spiral Frog.

## **INGENIOUS MUSIC VCT**

The Company is well positioned to take advantage of these new market developments and to capitalise on the full range of intellectual property rights that attach to an artist, which includes their recording, digital and synch rights as well as their touring, merchandising and publishing rights.

### **Contact**

If you have any questions on this review or you would like to speak to a member of the management team, please do not hesitate to call us on 020 7024 3600.

**INVESTMENT PORTFOLIO SUMMARY**

as at 31 July 2006

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**The Heights Recording Limited**

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Date of investment:	Jan-06
Initial investment:	£200,000
Valuation:	£200,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	49.9%

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**Independiente Music Ventures - MTB Limited**

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Date of investment:	Jun-06
Initial investment:	£1,000,000
Valuation:	£1,000,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	49.9%

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**Independiente Music Ventures - Travis Limited**

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Date of investment:	Jul-06
Initial investment:	£1,000,000
Valuation:	£1,000,000
Valuation basis:	Fair value - Price of Recent Investment
Percentage of equity held:	24.95%

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## INGENIOUS MUSIC VCT

### INCOME STATEMENT (UNAUDITED)

for the six months ended 31 July 2006

		Six months ended 31 July 2006		
	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments - unrealised		-	113	113
Investment income		123	19	142
Arrangement fees		-	-	-
Investment management fees		(63)	(63)	(126)
Other expenses		(122)	-	(122)
<b>Profit (loss) on ordinary activities before taxation</b>		(62)	69	7
Tax on ordinary activities		-	-	-
<b>Profit (loss) attributable to equity shareholders</b>		(62)	69	7
<b>Basic and diluted return per share (pence)</b>	2	(0.41)	0.46	0.05

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

**INCOME STATEMENT (UNAUDITED)** continued

Six months ended 31 July 2005			Year ended 31 January 2006		
<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
-	2	2	-	32	32
29	-	29	354	-	354
(151)	-	(151)	(151)	-	(151)
(36)	(36)	(72)	(63)	(63)	(126)
(67)	-	(67)	(204)	(24)	(228)
(225)	(34)	(259)	(64)	(55)	(119)
-	-	-	-	-	-
(225)	(34)	(259)	(64)	(55)	(119)
(6.03)	(0.91)	(6.94)	0.76	0.64	1.40

## INGENIOUS MUSIC VCT

### BALANCE SHEET (UNAUDITED)

as at 31 July 2006

	Note	31 July 2006 £'000	31 July 2005 £'000	31 January 2006 £'000
<b>Fixed assets</b>				
Qualifying investments		2,200	-	200
<b>Current assets</b>				
Debtors		8	13	156
Non-Qualifying investments	3	12,158	1,502	1,532
Cash at bank and in hand		22	12,806	12,811
<b>Creditors: amounts falling due within one year</b>		(11)	(91)	(329)
<b>Net current assets</b>		12,177	14,230	14,170
<b>Net assets</b>		<b>14,377</b>	<b>14,230</b>	<b>14,370</b>
<b>Capital and reserves</b>				
Called-up share capital		151	151	151
Share premium account	5	6,867	14,338	6,867
Other reserves	5	7,471	-	7,471
Capital reserves				
realised	5	(131)	(36)	(87)
unrealised	5	145	2	32
Revenue reserve	5	(126)	(225)	(64)
<b>Equity shareholders' funds</b>		<b>14,377</b>	<b>14,230</b>	<b>14,370</b>
<b>Net asset value (pence per share)</b>	4	95.3	94.3	95.2

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (UNAUDITED)**

as at 31 July 2006

	<b>31 July 2006 £'000</b>	<b>31 July 2005 £'000</b>	<b>31 January 2006 £'000</b>
Equity shareholders' funds at 1 February 2006	14,370	-	-
Capital subscribed	-	15,093	15,093
Issue costs	-	(604)	(604)
Profit for the period	7	(259)	(119)
Equity shareholders' funds at 31 July 2006	14,377	14,230	14,370

## INGENIOUS MUSIC VCT

### CASH FLOW STATEMENT (UNAUDITED)

for the six months ended 31 July 2006

	Six months ended <b>31 July 2006 £'000</b>	Six months ended <b>31 July 2005 £'000</b>	Year ended <b>31 January 2006 £'000</b>
<b>Net cash outflow from operating activities</b>	(76)	(183)	(178)
<b>Capital expenditure and financial investment</b>			
Purchase of qualifying investments	(2,200)	-	-
Purchase of non-qualifying investments	(12,513)	(1,500)	(1,500)
Disposal of non-qualifying investments	2,000	-	-
<b>Net cash outflow from capital expenditure and financial investment</b>	(12,713)	(1,500)	(1,500)
<b>Financing</b>			
Issue of ordinary shares	-	15,093	15,093
Expenses of the issue of ordinary shares	-	(604)	(604)
<b>Net cash inflow from financing</b>	-	14,489	14,489
<b>(Decrease)/Increase in cash</b>	(12,789)	12,806	12,811

### Reconciliation of Loss Before Taxation to Net Cash Flow from Operating Activities

	£'000	£'000	£'000
Loss on ordinary activities before tax	7	(259)	(119)
Gains on investments - unrealised	(113)	(2)	(32)
(Increase) /Decrease in receivables	148	(13)	(156)
(Decrease)/Increase in payables	(118)	91	129
Net cash inflow from operating activities	(76)	(183)	(178)

### Reconciliation of Net Cash Flow to Movement in Net Funds

	£'000	£'000	£'000
Opening cash balances	12,811	-	-
Net cash inflow	(12,789)	12,806	12,811
Closing cash balances	22	12,806	12,811

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

for the six months ending 31 July 2006

**1. Accounting Policies**

**(a) Basis of Accounting**

The interim financial statements have been prepared using accounting policies and presentation consistent with those applied in preparation of the annual report and accounts for the company for the period ended 31 January 2006. The unaudited interim financial statements for the six months ended 31 July 2006 have been prepared in compliance with applicable accounting standards, 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.

**(b) Valuation of Investments**

Unquoted investments are stated at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The unrealised appreciation or depreciation on the valuation of investments is dealt with in the unrealised reserve and gains or losses arising from the disposal of investments are dealt with in the realised capital reserve.

**(c) Investment income**

Interest income is included on an accruals basis.

**(d) Expenses**

All expenses have been accounted for on an accrual basis. All expenses are charged through revenue except where they relate to the raising and maintenance of capital.

**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 six months ended 31 July 2006 and on 15,093,283 (2005 - 3,729,915) ordinary shares, being the weighted average number of shares in issue during the period.

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.

Included within the total amount of Non-qualifying investments, £2m has been invested in the Ingenious Enhanced Cash Fund, which is a quoted cash fund managed by Ingenious Asset Management Limited.

**4. Net Asset Value per Share**

The calculation of net asset value per share is based on the net assets at 31 July 2006 divided by the 15,093,283 (2005 - 15,093,283) ordinary shares in issue at that date.

## INGENIOUS MUSIC VCT

### 5. Reserves

	Share premium £'000	Other reserve £'000	Capital realised £'000	Capital unrealised £'000	Revenue reserve £'000	Total reserves £'000
<b>At 1 February 2006</b>	6,867	7,471	(87)	32	(64)	14,219
Movement in valuations	-	-	-	113	-	113
Investment income	-	-	19	-	123	142
Investment management fees	-	-	(63)	-	(63)	(126)
Other expenses	-	-	-	-	(122)	(122)
<b>At 31 July 2006</b>	6,867	7,471	(131)	145	(126)	14,226

6. The unaudited interim financial statements for the six months ended 31 July 2006 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. The financial statements for the period ended 31 January 2006 have been delivered to the Registrar and included the auditors' report which was unqualified and did not contain a statement under either Section 237(2) or 237(3) of the Companies Act 1985.
7. Copies of the unaudited interim report are being sent to all shareholders. Further copies can be obtained from the Company's Registered Office.

