

# INGENIOUS MUSIC VCT 2

INTERIM REPORT  
For the period ending  
30 June 2006



WE ARE **INGENIOUS**

**CONTENTS**

THE COMPANY AND ITS ADVISERS.....	1
CHAIRMAN'S STATEMENT .....	2
INCOME STATEMENT (UNAUDITED) .....	4
BALANCE SHEET (UNAUDITED).....	5
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (UNAUDITED).....	6
CASHFLOW STATEMENT (UNAUDITED) .....	7
NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) .....	8

**INGENIØUS** MUSIC VCT 2

**THE COMPANY AND ITS ADVISERS**

<b>Directors</b>	Patrick McKenna (Chairman) Roger Ames Lionel Martin* Peter Reichardt*
<b>Company Secretary</b>	Susan Ford
<b>Registered Office</b>	100 Pall Mall London SW1Y 5NQ
<b>Company Number</b>	5564790
<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 2

### CHAIRMAN'S STATEMENT

This is my first statement since Ingenious Music VCT 2 plc first opened for subscription and I would like to welcome all shareholders to the Company.

I am pleased to report that more than £26 million was raised in the period from 22 November 2005 to 5 April 2006, which was an excellent outcome and I would like to thank all of our shareholders for their support.

### 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.

The fund will be making investments alongside Ingenious Music VCT plc which allows us to participate in investments 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.

### Overview of activities

Whilst the period to 30 June 2006 was dominated by fundraising, since the period end the Company has made its first qualifying investment alongside its sister fund, Ingenious Music VCT plc, in multi platinum selling band, *Travis*. The two funds have together invested a combined initial investment of £2 million. A further £1-2 million investment will be made in the latter part of 2007.

This deal, which will mark *Travis*' fifth album (scheduled for release later this year), is the second deal between Ingenious and Independiente, the record label behind acts as diverse as *Gomez*, *Paul Weller* and *Embrace*. *Travis* have been working on their forthcoming album with producer Nigel Godrich who has worked with a variety of artists including *Paul McCartney*, *Beck*, *Natalie Imbruglia*, *U2* and *REM* but who is best known for his longstanding collaboration with *Radiohead*. Godrich has worked with *Travis* twice before, producing their breakthrough album in 1999 "The Man Who" which became one of the biggest selling albums by a British band that year and their third album, "The Invisible Band" which entered the charts at Number 1 and stayed there for a total of 10 weeks.

The Company continues to actively source and review investment propositions and has continued to develop its relationships with the Majors, leading independent record labels, such as Independiente and Channelfly, as well as prominent artist managers and individual "named" artists who are looking to self-release their recordings. The Company is now in the final stages of negotiation on a number of deals with the UK's leading independents and has commenced discussions with two of the Majors. We anticipate closing these transactions in the coming months and will report to you on these when completed.

### 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 within three years. The Manager believes that the Company should meet this condition given the number of investment opportunities being pursued.

**Results**

As the majority of the reporting period was focused on fundraising the Board is not recommending the payment of an interim dividend.

**Outlook**

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. The Manager continues to see a good flow of high-quality investment opportunities, which I intend to report on further in my full statement to accompany the annual report and financial statements for the year ended 31 December 2006.



**Patrick McKenna**

Chairman  
25 September 2006

## INGENIØUS MUSIC VCT 2

### INCOME STATEMENT (UNAUDITED)

(for the period 15 September 2005 to 30 June 2006)

	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments - unrealised		-	6	6
Investment income		256	21	277
Arrangement fees		(266)	-	(265)
Investment management fees		(82)	(82)	(164)
Other expenses		(68)	-	(68)
<b>Loss on ordinary activities before taxation</b>		<b>(159)</b>	<b>(55)</b>	<b>(214)</b>
Tax on ordinary activities		-	-	-
<b>Loss attributable to equity shareholders</b>		<b>(159)</b>	<b>(55)</b>	<b>(214)</b>
<b>Basic and diluted return per share (pence)</b>	2	<b>(1.7)</b>	<b>(0.6)</b>	<b>(2.3)</b>

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

**BALANCE SHEET (UNAUDITED)**

(as at 30 June 2006)

	Note	£'000
<b>Current assets</b>		
Debtors	3	80
Non-Qualifying investments		12,010
Cash at bank and in hand		14,001
		<b>Creditors: amounts falling due within one year</b>
		(897)
<b>Net current assets</b>		25,194
<b>Net assets</b>		<b>25,194</b>
<b>Capital and reserves</b>		
Called-up share capital		265
Share premium account	5	25,143
Capital reserves		
realised	5	(82)
unrealised	5	27
Revenue reserve	5	(159)
<b>Equity shareholders' funds</b>		<b>25,194</b>
<b>Net asset value (pence per share)</b>	4	95.1

## INGENIØUS MUSIC VCT 2

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

(as at June 2006)

	<b>£'000</b>
Equity shareholders' funds at 15 September 2005	-
Capital subscribed	26,467
Issue costs	(1,059)
Loss for the period	(214)
Equity shareholders' funds at 30 June 2006	25,194

**CASHFLOW STATEMENT (UNAUDITED)**

(for the period 15 September 2005 to 30 June 2006)

	<b>£'000</b>
<b>Net cash inflow from operating activities</b>	593
<b>Capital expenditure and financial investment</b>	
Purchase of non-qualifying investments	(12,000)
<b>Net cash outflow from capital expenditure and financial investment</b>	(12,000)
<b>Financing</b>	
Issue of redeemable preference shares	50
Repurchase of redeemable preference shares	(50)
Issue of ordinary shares	26,467
Expenses of the issue of ordinary shares	(1,059)
<b>Net cash inflow from financing</b>	25,408
<b>Increase in cash</b>	14,001

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

	<b>£'000</b>
Loss on ordinary activities before tax	(214)
Gains on investments	(6)
Increase in receivables	(80)
Increase in payables	897
Interest receivable - reinvested	(4)
<b>Net cash inflow from operating activities</b>	593

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

	<b>£'000</b>
Opening cash balances	-
Net cash inflow	14,001
<b>Closing cash balances</b>	14,001

## INGENIOUS MUSIC VCT 2

### NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

(for the period 15 September 2005 to 30 June 2006)

#### 1. Accounting policies

##### (a) Basis of Accounting

The company is required to comply with a number of new Financial Reporting Standards (FRS), which now represent UK Generally Accepted Accounting Practice (UK GAAP), in presenting its financial statements for the year ended 31 December 2006. These standards have been introduced as part of the process of aligning UK accounting principles with International Accounting Standards. The unaudited interim financial statements for the period ended 30 June 2006 have been prepared in compliance with the new 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) Investment income

Interest income is included on an accruals basis.

##### (c) 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 period ended 30 June 2006 and on 9,180,550 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, £3m 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 30 June 2006 divided by the 26,496,897 ordinary shares in issue at that date.

**5. Reserves**

	Share premium	Capital realised	Capital unrealised	Revenue reserve	Total reserves
	£'000	£'000	£'000	£'000	£'000
<b>At 15 September 2005</b>	-	-	-	-	-
Issue of equity	26,202	-	-	-	26,202
Movement in valuations	-	-	6	-	6
Investment income	-	-	21	256	277
Arrangement fees	(1,059)	-	-	(265)	(1,324)
Investment management fees	-	(82)	-	(82)	(164)
Other expenses	-	-	-	(68)	(68)
<b>At 30 June 2006</b>	<b>25,143</b>	<b>(82)</b>	<b>27</b>	<b>(159)</b>	<b>24,929</b>

**6. Share capital**

The offer closed on 5 April 2006, with a total of 26,496,895 ordinary shares of 1p being issued and allotted in accordance with the terms of the Prospectus. The two subscriber shares created upon incorporation were issued at par.

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.

During the period under review, 50,000 redeemable preference shares were issued and redeemed at par.

7. The unaudited interim financial statements for the period ended 30 June 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.
8. Copies of the unaudited interim report are being sent to all shareholders. Further copies can be obtained from the Company's Registered Office.

**INGENIØUS** MUSIC VCT 2

