INGENIOUS LIVE VCT 2 PLC

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2010
COMPANY NUMBER: 5943531

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CORPORATE INFORMATION

The Company	**Ingenious Live VCT 2 plc**
Directors	Andrew Morris* (Chairman) Stephen Lewis*(appointed 16 November 2010) Patrick McKenna
Company Secretary	Sarah Cruickshank
Registered Office	15 Golden Square London W1F 9JG
Company Number	5943531
Investment Manager and 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	SLC Registrars Thames House Portsmouth Road Esher Surrey KT10 9AD Tel 01372 467 308
Sponsor and Stockbroker	Brewin Dolphin Securities Limited 34 Lisbon Street Leeds LS1 4LX

* Independent director (a director who is independent of the Investment Manager)

** Ingenious Ventures is a trading division of Ingenious Asset Management Limited

CHAIRMAN'S STATEMENT

I am delighted to present the Company's fourth Annual Report and Accounts covering the year to 31 December 2010 (the **Reporting Period**)

Overview of Activities

The Company has now completed its investment strategy and is fully invested under the VCT regulations and it will now continue to focus upon maximising the returns from these investments The Company is pleased to announce that 2010 followed on from the successes of the previous year, indicating that the strategy of identifying investments which provide both annual profits and increased capital value continues to deliver commercial success

I am pleased to report that the Company enjoyed another successful summer season with its three main festivals all delivering strong profits

Creamfields sold out for the second year in a row with an increased attendance from 30,000 to 40,000 per day The *80s Rewind Festival* had an exceptionally strong second year and also saw record attendances in 2010 *Underage and Field Day* had a solid third year

The *80s Rewind Tour* performed below expectations, although the Company remains confident in terms of the overall strategy for the *80s Rewind* brand

Results

The Company made a profit on ordinary activities of £89,000 in the year to 31 December 2010 (2009 profit of £104,000)

The net asset value per share is 91 0 pence (31 December 2009 97 1 pence) although this is after the deduction of the interim dividend paid during the year of 7 0 pence per share

The Directors do not recommend the payment of a final dividend in respect of the Reporting Period

Outlook

Now four years old, we believe that the Company has a strong portfolio of investments and has the potential to deliver significant upside from its equity interests It continues to maintain downside protection through its minimum revenue arrangements

Following the end of the financial year the Company declared an interim dividend of 7 0 pence per share for the year to 31 December 2011 The dividend was paid on 11 February 2011

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 18 May 2011

Andrew Morris

Chairman

7 April 2011

MANAGER'S REVIEW

Investment Objective

The Company's main objective is to invest in a portfolio of live event companies engaged in the production of new and established events providing Shareholders with an attractive return This strategy will aim to maximise the opportunities for making tax-free dividends to Shareholders from both the actual income received and capital profits on the sale of the Investee Companies or their assets

The Company has been fully invested since December 2009 and the Manager continues to focus solely on the portfolio of investments in order to deliver strong annual profits and, crucially, target exceptional back-end values as the Company exits its investments after the qualifying five-year period

Festivals

Creamfields

Investment amount £850,000 (£1,700,000 across the Ingenious Live VCTs)

The success of *Creamfields* in 2009 was highlighted when the event won 'Best Festival' at the 2010 Music Week Awards, beating festivals including Glastonbury, Reading and Leeds The 2010 event took place on the weekend of 28 and 29 August and delivered strong profitability for the Company as a result of the two-day dance music festival expanding in size from a 30,000 to a 40,000 per day capacity *Creamfields* is now widely regarded as the leading dance festival in the UK

We are confident that 2011 will bring further expansion in capacity as well as increased profitability over the bank holiday weekend in August 2011 Based in Cheshire, *Creamfields* has in previous years boasted an electrifying line up including the world famous *David Guetta, Swedish House Mafia, DeadMau5, Calvin Harris, Tiesto, Eric Prydz* and *Laidback Luke*

Ticket sales for this year's event are already well ahead of last year and we are confident that the festival will sell out in advance for the third year running This should generate further returns to the Company and additional information will be provided in the full year accounts to 31 December 2011

80s Rewind Festival & 80s Rewind Tour

Investment amount (*80s Rewind Festival*) £346,348 (£692,696 across the Ingenious Live VCTs, and £545,196 across the Ingenious Entertainment VCTs)

Investment amount (*80s Rewind Tour*) £328,350 (£656,700 across the Ingenious Live VCTs)

In its second year, the *80s Rewind Festival* held in August 2010 experienced an impressive increase in attendance figures across both days from 23,000 in 2009 to over 35,000 in 2010 Highlights included performances from *Boy George, Tony Hadley, Go West* and *Rick Astley* As expected, the event proved profitable and as a result of its success and in order to raise more brand awareness across the Christmas period, the Ingenious Live VCTs also agreed to invest in the *80s Rewind Tour*, which visited major cities across the UK Even though this event performed below expectations, there is now international interest in licensing the brand for events outside the UK, in locations such as Holland, South Africa and Australia

As a result of this strong performance, the Company remains confident that *80s Rewind* will continue to perform strongly in the future Tickets for the 2011 event are already on sale and have surpassed the target number of sales expected at this stage The festival will be held between 19 and 21 August and will host an impressive line up including *The Human League, Holly Johnson, Billy Ocean* and *Ali Campbell's UB40*, along with many more

Underage and Field Day Festivals

Investment amount £500,000 (£1,000,000 across the Ingenious Live VCTs)

This year the event continued to move from strength to strength with 2010 boasting an impressive line-up featuring artists such as *M I A , Tinie Tempah, Tinchy Stryder, Ellie Goulding* and *Crystal Castles* Following four successful years the event has firmly established its market niche as the summer music event for 13 to 17 year olds

MANAGER'S REVIEW (CONTINUED)

Festivals (continued)

Underage and Field Day Festivals (continued)

Meanwhile, *Field Day*, which is well established as the leading alternative music festival in London, featured exciting and dynamic performances from *Phoenix, Moderat* and *The Fall* The 2010 events delivered a good profit for the Company *Field Day* and *Underage* attracted over 28,000 people across the weekend

We believe that the *Underage* and *Field Day* brands still have strong potential to be 'rolled out', both in the UK and overseas This would assist in enhancing the capital value of the events, which is key to our investment strategy

Exhibitions

Brand Events - Taste of Christmas and the Taste Festivals

Investment amount (*Taste of Christmas*) £902,489 (£1,804,978 across the Ingenious Live VCTs)

Taste of Christmas, the festive food and drink event returned for the third year to the ExCel Centre in London during December 2010 and attracted over 20,000 people Despite the severe weather conditions, the exhibition was extremely well attended and as a result, the event became profitable for the first time in 2010 A high proportion of exhibitors and sponsors have already signed up for the next exhibition to be held in December 2011, which will once again inspire and educate consumers while offering them the very best in food shopping, fine wines and access to celebrity chefs

Investment amount (*Taste Festivals*) £1,000,000 (£2,000,000 across the Ingenious Live VCTs)

The *Taste Festivals* are established as successful outdoor food and wine events featuring a number of famous chefs including *Gary Rhodes, Michel Roux Jr, Giorgio Locatelli* and *Theo Randall* who serve up their signature dishes for the public to taste The London event took place in Regent's Park between 17 and 20 June 2010, whilst the Edinburgh event was held in Inverleith Park between 28 and 29 May 2010

Taste of London is the jewel in the *Taste Festivals'* crown, attracting 50,000 visitors to Regent's Park every year *Taste Festivals* have set a new benchmark for food and drink events worldwide with 13 *Taste Festivals* now being hosted around the world including Dublin, Cape Town, Sydney and Dubai The investment generated a small profit to the Company

Taste of London returns to Regent's Park between 16 and 19 June 2011

O_2 Golf Live

Investment amount £275,000 (£1,100,000 across the Ingenious Live VCTs and the Ingenious Entertainment VCTs)

O_2 Golf Live is a new three-day interactive golf event which was staged at Stoke Park in Buckinghamshire between 14 and 16 May 2010 *O_2 Golf Live* returns in 2011 and will be held at the prestigious London Golf Club in Kent from 20 to 22 May In conjunction with our co-promoters Brand Events and IMG, the event will again be hosted by last year's Ryder Cup captain, *Colin Montgomerie* The 2010 event was described by those who attended as the most exciting and dynamic event to be added to the golfing calendar

IMG invested into the event as an equity partner giving Brand Events access to worldwide sporting talent IMG Worldwide is a global sports, fashion and media business and is excited to be working with Brand Events, who together aim to roll the event out to further prestigious golf courses around the world O_2, Jaguar and the European Tour were amongst the partners for the initial UK launch and have all agreed to continue to sponsor and support the event in 2011

The event made a loss in the first year, however it was extremely well received by both the corporate partners and the paying public Sponsorship and exhibitor income are already ahead of this year's budget and 2011 ticket sales are also ahead of where they were in 2010 Both Brand Events and IMG are confident that the event will move into profit in 2011, building on the significant brand awareness that was created in its first year

MANAGER'S REVIEW (CONTINUED)

Live Venues

Scarborough Open Air Theatre

Investment amount £1,000,000 (£4,000,000 across the Ingenious Live VCTs and the Ingenious Entertainment VCTs)

The Ingenious Live VCTs along with Apollo Resorts and Leisure Scarborough joined forces to co-promote a new venue in 2009 known as the *Scarborough Open Air Theatre* The theatre was originally opened in 1932 and in 2009 Scarborough Council entered into a major restoration programme as part of the North Bay Project to reinstate the theatre, reopening it to the public in 2010

Scarborough is now the largest open air theatre in Europe It was opened by the Queen on 20 May 2010 and this ceremony was followed by a series of sell out events throughout the summer season These included the Gala Opening with performances by *Jose Carreras* and *Dame Kiri Te Kanawa* as well as the *80s Rewind* concert, which included performances from *Boy George, Rick Astley* and *Paul Young*

The second half of the season showcased an impressive range of events, which included a number of shows by *Justin Fletcher*, the Bafta award winning children's presenter and star of *CBeebies* This new venue also hosted some less successful events, which meant that in its opening year Scarborough did not generate a profit Nonetheless, following the encouraging reception Scarborough received in its first year, we are confident that this venue will move into profit in 2011

Television Format

Let's Dance

Investment amount £500,000 (£2,000,000 across the Ingenious Live VCTs and the Ingenious Entertainment VCTs)

Originally commissioned by the BBC for Comic Relief in 2009 and Sport Relief in 2010, the TV format *Let's Dance* is the celebrity packed dance spectacular which sees well known celebrities such as *Rufus Hound* and *Jo Brand* pay homage to some of the world's most iconic dance routines in front of a live audience *Let's Dance* has started its international roll-out with deals in Russia, Holland, Germany, Slovakia, Indonesia and Sweden

In 2010 the show had a peak audience of over eight million viewers and as a result, the programme was recommissioned in 2011 for the third year, once again in conjunction with Comic Relief The series aired during its usual prime time TV slot on BBC One on Saturday 19 February 2011 The series ran over four weeks, featured three heats and culminated in a spectacular final dance off on Red Nose Day weekend

Outlook

The economic environment continues to challenge the Company as a whole, however we are pleased to report that the live events sector has performed resiliently in the downturn and we anticipate that the expansion of the digital media sector will also create new markets for content creators

Our business model is effective and we believe this is crucial in order to stay ahead of the competition and produce successful global brands We aim to continue to raise the profile of the Company's investments and to enhance their profitability which enables the Company to achieve its investment strategy

All our investments are backed by management teams with vast experience in the live events sector Examples include Brand Events, the event production company behind *Taste of Christmas* and all the *Taste Festivals* and *Whizz Kid* who have experience in producing top quality programmes across a wide-range of genres including factual entertainment, events and music such as *Let's Dance* and *The Orange British Academy Film Awards*

Contact

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

Ingenious Ventures

7 April 2011

BOARD OF DIRECTORS

Andrew Morris (Chairman), 58

Andrew has been a leading figure in the media and events industry for over twenty years He launched the innovative Business Design Centre in Islington in 1986 which became the most stylish and successful boutique venue in the UK, organising the London Art Fair and hosting the annual CBI Conference

In 1999, Andrew partnered with Candover Investments and led the MBI for Earls Court & Olympia, acquired for £154 million from P&O Using the strategic tools of capital investment, customer service and the event organising arm, Clarion, the business prospered and was sold to Nomura and St James's Capital in 2004 for £245 million

Later that year, Andrew became CEO of the National Exhibition Centre (NEC) in Birmingham and has a portfolio of interests including Non-Executive Chairman of Brand Events and the annual World Photography Awards in Cannes

Patrick McKenna, 54

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

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

Stephen Lewis, 57

Stephen has been closely involved with the entertainment industry throughout his career Stephen began his career by working at Virgin when it was first set-up in 1969 Stephen went on to become Deputy Managing Director of Virgin Records and Managing Director of Virgin Music (Publishers) opening subsidiary offices across the globe He was named 'Best Managing Director' by the readers of Music Week in their "dream team" poll in 1992

Stephen went on to become appointed to the main board of Chrysalis Group plc heading up their music division Stephen then went on to become the founder of Stage Three Music in London where he acquired music catalogues, including amongst others, *Mike Oldfield, Aerosmith, ZZ Top, Macy Gray, New Radicals, David Essex*

He established offices in Los Angeles and Nashville signing top music writers Stephen has served on the boards of Music Publishers Association, MCPS, BPI, AIM and PRS

DIRECTORS' REPORT

The Directors submit their Annual Report and Accounts for the year from 1 January 2010 to 31 December 2010

1. Principal Activity, VCT and Investment Company Status

The principal activity of the Company is to invest in a portfolio of event companies that will be engaged in the production, promotion and exploitation of live or interactive events 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 833 of the Companies Act 2006

2. Directors and Directors' Interests

The current Directors and their respective biographies are set out on page 6 All Directors served during all or part of the year

As at 31 December 2010, the interests of the Directors in the issued ordinary share capital of the Company were as follows

Name	Number of Shares as at 31 December 2010	% of issued ordinary share capital
Patrick McKenna*	203,201	2 2
Piers Gregson (resigned 16 November 2010)	20,320	0 2
Paul Gregg (resigned 5 October 2010)	50,801	0 5
Stephen Lewis (appointed 16 November 2010)	-	-
Andrew Morris	7,500	0 1
Total	281,822	3 0

** Includes 101,600 shares held by Patrick McKenna's wife, Margaret McKenna*

Except for one subscriber share acquired by each of Patrick McKenna on 22 September 2006 and Piers Gregson on 6 November 2006, 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 2010 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 entity had an interest of 3% or more of the issued share capital of the Company

	Number of ordinary shares	% of issued share capital
Cazenove Capital Management Limited	1,481,325	16 0

4. Capital

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

DIRECTORS' REPORT (CONTINUED)

5. VCT Status Monitoring

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

6. Re-appointment of Auditors

A resolution to re-appoint Grant Thornton UK LLP as auditors to the Company will be put to the Shareholders at the AGM (see resolution 6 of the Notice)

7. Indemnities

All Directors were covered by Directors and Officers liability insurance throughout the year under review and this will continue to remain in force

8. Policy and Practice on the Payment of Creditors

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms thereof There were zero trade creditor days of the Company as at 31 December 2010 (31 December 2009 nine) This represents the ratio, expressed in days, between the amounts invoiced to the Company in the period by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year

9. Financial Risk Management

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

10. Management Agreement

The Management Agreement is dated 6 November 2006, as novated on 28 February 2008, and allows for the Manager to assume responsibility for the continuous management of the Company's portfolio of investments and to provide administrative services In return for its services the Manager is paid an annual portfolio management fee of 2% of the Company's net asset value plus VAT, a performance-related incentive fee (details of which can be found in the Prospectus and note 11 of the Directors' Report), and an annual administration fee of £17,500 (adjusted annually in line with inflation) amounting to £19k as at 31 December 2010 (2009 £18k)

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

The Management Agreement runs for a basic period of six years from 22 September 2006, the date of the first allotment of shares 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% of the Company's net asset value at the date of termination

The Board has reviewed the performance of the Manager and is satisfied with the approach and procedures in providing investment management services to the Company and that the continued appointment of the Manager on the terms agreed is in the best interests of the Shareholders and the Company

11. Performance Incentive Fees

The performance-related incentive fee payable by the Company is equal to 20% of any amounts by which the net asset value per share at the relevant year end exceeds the previous high water mark (less distributions made since that date) subject to performance exceeding the previous high water mark plus a hurdle rate of 8% per annum (compounding annually) Further details can be found in the Prospectus

DIRECTORS' REPORT (CONTINUED)

12. The AGM

The notice convening the AGM can be found on pages 36 to 38 Additional information relating to the AGM and the resolutions to be considered by Shareholders can be found on pages 39 and 40

13. Business Review

The Directors have included their business review on pages 11 and 12

14. Corporate Governance Report

The Directors have included their corporate governance report on pages 15 to 18

15. Environmental, Employee, Social And Community Matters

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

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

For many years the Ingenious Group has been a strong supporter of The Young Vic Company (a registered charity) The Young Vic is a not-for-profit theatre company of which Patrick McKenna is chairman and director

16. Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as each of the Directors is aware

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

DIRECTORS' REPORT (CONTINUED)

16. Directors' Responsibilities Statement (continued)

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

To the best of my knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

Signed on behalf of the Board of Directors

Andrew Morris

Chairman

7 April 2011

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

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

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

The Manager's review on pages 3 to 5 provides a review of the investment portfolio and the market outlook

2. Investment Policy

The Company's investment policy is to invest in Investee Companies that will produce and promote new and established events whose revenues will be underpinned by warranties or other similar contractual arrangements The Ingenious Live VCTs will invest in Investee Companies which are expected to participate in the revenues and growth of events The events produced and promoted by the Investee Companies are likely to be held primarily in the UK and may include concerts, festivals, exhibitions, theatrical shows, conferences, trade fairs and sporting events

The Company will only invest in an Investee Company

- where the event has been approved by the Manager through its selection process, and
- where the Investee Company has obtained performance warranties or similar contractual arrangements that will provide for the Investee Company to receive minimum revenues equivalent to at least 75% of the Company's investment, although the Manager is currently endeavouring to secure higher levels of minimum revenues in the current economic environment

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

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

At 31 December 2010 the Company had made ten investments in Qualifying Companies, with contractual arrangements that provide for the Investee Company to receive minimum revenues equivalent to at least 75% of the Company's investment, all of which had received the prior approval of 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** – the performance of an investment in an event is tied to a certain degree to the fortunes of the industry generally In particular, there is a risk that the Company will not identify opportunities where the commercial success of the Event is sufficient to earn revenues over and above the minimum contractual income negotiated

BUSINESS REVIEW (CONTINUED)

3. Principal Risks, Risk Management and Regulatory Environment (continued)

- **Loss of approved status as a Venture Capital Trust** - the Company must comply with section 274 of the ITA which allows it to be exempt 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, and qualifying Shareholders who have not held their Shares for the designated holding period would have to repay the income tax relief they obtained and future dividends paid by the Company would become subject to tax The Company would also lose its exemption from corporation tax on capital gains
- **Regulatory** - the Company is required to comply with the Companies Act, the rules of the UK Listing Authority and United Kingdom Accounting Standards Breach of any of these regulatory rules might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report
- **Financial** - inadequate internal controls might lead to misappropriation of assets Inappropriate accounting policies might lead to misreporting or breaches of regulations
- **External inherent risks** - the Company's investments will be in unquoted companies which by their nature involve a higher degree of risk than investment in the main market due to the fact there is no liquid market and may, therefore, be difficult to realise Furthermore, there may be further constraints imposed on realisations because of the requirement to satisfy certain conditions necessary for the Company to maintain its VCT status (such as the obligation to have at least 70% by value of its investments in qualifying holdings by the beginning of the accounting period commencing three years after provisional VCT approval)

The Board seeks to mitigate the internal risks by setting clear policies, including establishing a funding structure which provides for minimum revenues equivalent to at least 75% 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 15 to 18

4. Key Performance Indicators (KPIs)

The primary KPI 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 year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on page 2 and the Manager's Review on pages 3 to 5

DIRECTORS' REMUNERATION REPORT

This report has been prepared by the Directors in accordance with the requirements of Chapter 6 of Part 15 of the Companies Act 2006 A resolution to approve the report will be proposed at the AGM The Companies Act 2006 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 19 to 20

1. Directors' Remuneration Policy

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

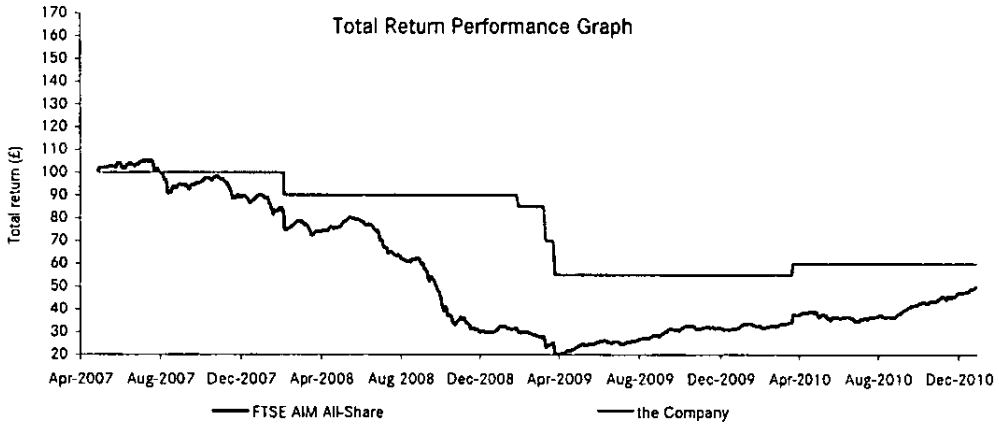
2. Appointment Letters

Each Director has executed an appointment letter which provides that he is to receive an annual fee, which is £15,000 per annum for Stephen Lewis and Andrew Morris and £7,500 for Patrick McKenna and is to be reimbursed for any reasonable out-of-pocket expenses These appointment letters state that each 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



DIRECTORS' REMUNERATION REPORT (CONTINUED)

4. Directors' Remuneration

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

Director	Year ended 31 December 2010 Fees £'000	Year ended 31 December 2009 Fees £'000
Patrick McKenna	7 5	7 5
Piers Gregson	6 6	7 5
Stephen Lewis (appointed 16 November 2010)	1 9	-
Paul Gregg (resigned 5 October 2010)	5 7	7 5
Andrew Morris (resigned 16 November 2010)	8 4	7 5
	30 1	30 0

No expenses were paid to any Director in the year 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 2010 In respect of the year ended 31 December 2010, the Company has purchased (and continues to maintain) liability insurance covering the Directors and Officers of the Company

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

5. Shareholder Approval

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

By order of the Board

Sarah Cruickshank

Company Secretary

7 April 2011

Registered office

15 Golden Square

London

W1F 9JG

Company Registration Number 5943531 (England and Wales)

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining the highest standards of corporate governance The Directors seek to comply with the Combined Code on Corporate Governance 2008 (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 year under review, the Company has complied with the provisions of the 2008 Combined Code except as explained below

A copy of the Combined Code on Corporate Governance 2008 can be obtained from the website of the Financial Reporting Council at www frc org uk/corporate/ukcgcode cfm

1. Board Composition

The Board consists of three Directors Andrew Morris (Chairman), Stephen Lewis, and Patrick McKenna Andrew Morris and Stephen Lewis are considered to be independent in accordance with the Listing Rules and the Combined Code

Patrick McKenna is not considered to be independent as he is a director of the Manager and is also a director of Ingenious Live VCT 1 plc, Ingenious Entertainment VCT 1 plc and Ingenious Entertainment VCT 2 plc to which the Manager also acts as investment manager As a non-independent Director, Patrick McKenna will stand for re-election at the 2011 AGM of the Company as required by Listing Rule 15 2 13A

The Board believes Patrick McKenna's directorship helps to enhance the communication between the Board and the Manager as well as allowing the Board to closely supervise the Manager's performance The Board therefore believes that this directorship is advantageous to the Company, and does not affect the well balanced nature of the Board

Biographical details of each of the Directors can be found on page 6

2. Board Appointments and Tenure

Stephen Lewis joined the Board in November 2010 His appointment was approved by the Board as a whole following a recommendation by the Manager which completed a review of its extensive network of contacts in the media industry As detailed in his biography on page 6, Stephen has a wealth of relevant experience which he brings to the Board Due to the specialised nature of the Company's investment policy, it was not felt necessary to engage the services of an external search consultancy firm or to advertise during the appointment process

Each of the independent Directors has been appointed for an initial term of six years and is subject to regular re-election by Shareholders in accordance with the articles of association of the Company Patrick McKenna was appointed for an initial term of six years commencing November 2006 and is subject to annual re-election by Shareholders Each Director's appointment may be terminated on one month's written notice being given by the Company Patrick McKenna is the longest serving Director, having served for a period of 4 years

In accordance with the relevant requirements of the Company's articles of association, the Listing Rules and the Combined Code, Patrick McKenna, Andrew Morris and Stephen Lewis will seek re-election at the 2011 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 of the Company The Board does not believe that length of service necessarily affects a Director's independence of character or judgement, but will continue to review its policy on tenure throughout the life of the Company

To date, no formal performance evaluation of the Directors or the Board has been undertaken Specific performance issues will be dealt with as and when they arise No performance issues arose during the year under review and the Board considers that the individual performance of each of the Directors continues to be effective The Board therefore recommends that the Directors be re-appointed and, accordingly, that Shareholders vote in favour of resolutions 3 and 4 (inclusive) as set out in the Notice

CORPORATE GOVERNANCE REPORT (CONTINUED)

2. Board Appointments and Tenure (continued)

No senior independent Director has been appointed by the Board as it does not consider this to be necessary as the Board is comprised solely of non-executive Directors The Company does not have a Chief Executive or Deputy Chairman as these positions are not considered appropriate given the Company's status as a VCT

3. Board Proceedings

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

	Attended	Possible
Patrick McKenna	3	5
Paul Gregg	4	5
Piers Gregson	5	5
Andrew Morris	2	5
Stephen Lewis	0	0

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

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

4. Board Responsibilities

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

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

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

5. Board Committees

The Company has an audit committee comprising of two independent Directors, Stephen Lewis (Chairman) and Andrew Morris The audit committee has defined terms of reference and duties The audit committee meets at least twice a year The Board has satisfied itself that at least one member of the audit committee has recent and relevant financial experience

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

5. Board Committees (continued)

The following table sets out the number of audit committee meetings held during the year and the number of meetings attended by each committee member

	Attended	Possible
Paul Gregg	2	2
Piers Gregson	2	2
Andrew Morris	0	2
Stephen Lewis	0	0

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

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 18 May 2011, will be an opportunity for Shareholders to meet with both the Board and the Manager in order to discuss the Company's progress Participation at the meeting is therefore encouraged

7. Internal Controls

The Board is responsible for supervising the Company's system of internal controls operated by Ingenious Ventures and for reviewing its effectiveness The Board, in conjunction with the Manager, has therefore established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company This process has been in place for the year 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 at board meetings held at least four times a year,
- the Manager monitors the qualifying status of each qualifying holding in conjunction with PwC who report to the Board annually on the Company's VCT status (with an interim monitoring report being provided to the Board by the Manager) 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

CORPORATE GOVERNANCE REPORT (CONTINUED)

8. Internal Audit Function

The Company does not have an internal audit function The Board believes that such a function is not necessary, given the systems and procedures of the Manager together with the VCT monitoring services provided by PricewaterhouseCoopers

9. Authority to Make Market Purchases of Shares

By a special resolution of the Company passed at an annual general meeting of the Company held on 13 May 2010, the Company was generally and unconditionally authorised pursuant to section 701 of the Companies Act 2006 (the Act) to make one or more market purchases as defined in section 693 of the Act of up to 14 99% of the issued Ordinary share capital The price paid must not be less than 1p per share nor more than the net asset value per share nor more than 5% above the average market value of a share in the Company for the five business days prior to the day the purchase is made

The authority expires at the conclusion of the 2011 annual general meeting and renewal of the authority will be sought at that meeting

10. Share Capital

Details of the Company's share capital and substantial shareholdings can be found in note 12 to the financial statements and in the Directors' Report on pages 7 to 10

11. Going Concern

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

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

12. Auditor Independence

The audit committee and Board regularly review and monitor the independence and effectiveness of the Company's auditors, Grant Thornton UK LLP Grant Thornton UK LLP did not provide any non-audit services to the Company during the year

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

We have audited the financial statements of Ingenious Live VCT 2 plc for the year ended 31 December 2010 which comprise the Income Statement, the Reconciliation of Movement in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and notes 1 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Directors' Responsibilities Statement on pages 9 and 10, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at **www.frc.org.uk/apb/scope/private.cfm**

Opinion on Financial Statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements , and
- the information given in the Corporate Governance Report set out on pages 15 to 18 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF INGENIOUS LIVE VCT 2 PLC (CONTINUED)

Matters on Which We are Required to Report by Exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules, we are required to review

- the Corporate Governance Report, set out on page 18 in relation to going concern,
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to the Shareholders by the Board on Directors' remuneration

Grant Thornton UK LLP

Mark Cardiff

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
7 April 2011

INCOME STATEMENT

for the year ended 31 December 2010

	Note	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Gain on disposal of investments		-	**63**	**63**	-	154	154
(Decrease)/increase in fair value of investments held		-	**(111)**	**(111)**	-	178	178
Investment income	2	**410**	-	**410**	68	-	68
Investment management fee	3	**(86)**	**(86)**	**(172)**	(89)	(89)	(178)
Other expenses	4	**(101)**	-	**(101)**	(105)	(13)	(118)
Profit/(loss) on ordinary activities before taxation		**223**	**(134)**	**89**	(126)	230	104
Tax on ordinary activities	5	-	-	-	-	-	-
Profit/(loss) on ordinary activities after taxation attributable to shareholders		**223**	**(134)**	**89**	(126)	230	104
Basic and diluted return per share (pence)	6	**2.4**	**(1.4)**	**1.0**	(1 4)	2 5	1 1

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

The total column is the Income Statement of the Company for the year The supplementary capital and revenue columns are prepared following guidance published by the Association of Investment Companies (AIC)

All operations are considered to be continuing

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2010

	31 December 2010 £'000	31 December 2009 £'000
Opening shareholders' funds	**8,973**	8,869
Dividends	**(647)**	-
Profit for the year	**89**	104
Closing shareholders' funds	**8,415**	8,973

The accompanying notes form an integral part of these financial statements

BALANCE SHEET

as at 31 December 2010

	Note	31 December 2010 £'000	31 December 2009 £'000
Fixed assets			
Qualifying investments	7	**6,521**	6,242
Current assets			
Debtors	9	**138**	68
Non-qualifying investments	10	**1,717**	2,598
Cash at bank and in hand		**63**	93
		1,918	2,759
Creditors: amounts falling due within one year	11	**(24)**	(28)
Net current assets		**1,894**	2,731
Net assets		**8,415**	8,973
Capital and reserves			
Called-up share capital	12	**92**	92
Share premium account	13	**4,383**	4,383
Other reserve	13	**3,735**	4,382
Capital reserve	13	**482**	616
Revenue reserve	13	**(277)**	(500)
Shareholders' funds		**8,415**	8,973
Net asset value (pence per share)	14	**91.0**	97 1

The accompanying notes form an integral part of these financial statements

The financial statements on pages 21 to 34 were approved by the Board of Directors on 7 April 2011

Signed on behalf of the Board of Directors

Andrew Morris

Chairman

Company Registration Number 5943531 (England & Wales)

CASH FLOW STATEMENT

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash outflow from operating activities		**(211)**	(134)
Financial investment			
Purchase of qualifying investments	7	**(74)**	(3,203)
Disposal of qualifying investments	7	**74**	-
Net cash outflow from financial investment		**-**	(3,203)
Management of liquid resources			
Disposal of non-qualifying investments	10	**828**	3,338
Net cash inflow from liquid resources		**828**	3,338
Dividends			
Payment of dividends	13	**(647)**	-
Net cash outflow from dividends		**(647)**	-
(Decrease)/increase in cash		**(30)**	1

Reconciliation of profit before taxation to net cash flow from operating activities	Note	£'000	£'000
Profit on ordinary activities before tax		**89**	104
Decrease/(increase) in fair value of investments held	13	**111**	(178)
Investment income		**(337)**	-
Increase in receivables		**(70)**	(62)
(Decrease)/increase in payables		**(4)**	2
Net cash outflow from operating activities		**(211)**	(134)

Reconciliation of net cash flow to movement in net funds	£'000	£'000
Opening cash balances	**93**	92
Net cash (outflow)/inflow	**(30)**	1
Closing cash balances	**63**	93

Total net funds is cash of £63k (2009 £93k) and non-qualifying investments of £1,717k (2009 £2,598k)

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

1. Accounting Policies

a) Basis of Accounting

The financial statements for the year ended 31 December 2010 have been prepared in compliance with UK Generally Accepted Accounting Practice, and with the Statement of Recommended Practice (the **SORP**) entitled "Financial Statements of Investment Trust Companies and Venture Capital Trusts" which was issued in January 2009

The comparative figures are for the year 1 January 2009 to 31 December 2009

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the measurement at fair value for investments The principal accounting policies have remained unchanged from those set out in the Company's 2009 annual report and financial statements

b) Valuation of Investments

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

Investee Companies

Unquoted investments including equity and loan investments are designated at fair value and valued in accordance with the International Private Equity and Venture Capital Guidelines and Financial Reporting Standard 26 "Financial Instruments Recognition and Measurement" (**FRS 26**) Investments are initially recognised at fair value The investments are subsequently re-measured at fair value, as estimated by the Directors with prudence and good faith Investment holding gains or losses arising from the revaluation of investments are taken directly to the Income Statement Fair value is determined as follows

- Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction
- In estimating fair value for an investment, the Investment Manager will apply a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio and will use reasonable assumptions and estimations
- An appropriate methodology incorporates available information about all factors that are likely to materially affect the fair value of the investment The valuation methodologies are applied consistently from period to period, except where a change would result in a better estimate of fair value Any changes in valuation methodologies will be clearly disclosed in the financial statements

The most widely used methodologies are listed below In assessing which methodology is appropriate, the Directors are predisposed towards those methodologies that draw upon market based measures of risk and return

- Price of recent investment
- Earnings multiple
- Net assets
- Available market prices

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

1. Accounting Policies (continued)

b) Valuation of Investments (continued)

Of these the two methodologies most applicable to the Company's investments are

1 Price of recent investment

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

2 Discounted cash flows/earnings of the underlying business

Investments can be valued by calculating the net present value of expected future cashflows of the companies in which the Company has invested (the **Investee Companies**) In relation to the Company's investments, anticipating future cashflows in excess of the guaranteed amounts would clearly require highly subjective judgements to be made in the early stage of each investment and therefore would not be an appropriate methodology to apply in the early stage of the investment

In the period prior to the second live event it is considered appropriate to use the price paid for the recent investment as the latest available information Thereafter, the portfolio of investments is fair valued on the earnings multiple basis using the latest available information on the performance of the live event or entertainment content Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement in the period in which they arise

As a result of the above basis of valuation, there is significant judgement associated with the valuation of investments

Non-qualifying Investments - Open Ended Investment Companies

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

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

c) Investment Income

Interest income relating to loan note premiums is recognised in the Income Statement as accrued on a time-apportionment basis so as to reflect the effective interest rate Where those loan note premiums are charged in lieu of higher interest then they are credited to income over the life of the advance to the extent those premiums are anticipated to be collected

d) Dividend Income

Dividend income is recognised in the Income Statement once declared by any investee company

e) 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

1. Accounting Policies (continued)

e) Expenses (continued)

- 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
- the management fee has been allocated 50% to revenue and 50% to capital, which represents the expected split of the Company's long term returns

f) 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

	2010 £'000	2009 £'000
Bank deposit interest	**-**	5
Dividend income from Qualifying Investments	**25**	11
Loan note interest from Qualifying Investments	**385**	52
	410	68

3. Investment Management Fee

	2010 Revenue £'000	**2010 Capital £'000**	**2010 Total £'000**	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Investment management fee	**86**	**86**	**172**	89	89	178
	86	**86**	**172**	89	89	178

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 expected split of the Company's long term returns

4. Other Expenses

	2010 Revenue £'000	**2010 Capital £'000**	**2010 Total £'000**	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Directors' remuneration (including employer's national insurance)	**30**	-	**30**	31	-	31
Auditors' remuneration - Audit fees	**13**	-	**13**	13	-	13
Legal & professional fees	**6**	-	**6**	5	8	13
Other administration expenses	**50**	-	**50**	43	4	47
Irrecoverable VAT	**2**	-	**2**	13	1	14
	101	-	**101**	105	13	118

The Company is not registered for VAT Fees payable to the Company's auditor for the audit of the Company's financial statements are £13k excluding VAT Further details on the Directors' fee disclosures are given in the Directors' Remuneration Report

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

5. Tax Charge on Ordinary Activities

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Profit/(loss) on ordinary activities before tax	**223**	**(134)**	**89**	(126)	230	104
Profit/(loss) on ordinary activities by tax rate 28% (2009 28%)	**62**	**(38)**	**24**	(35)	64	29
Adjustments						
Non taxable losses/(gains) on investments	-	**13**	**13**	-	(93)	(93)
Disallowed expenses	-	**25**	**25**	-	29	29
UK dividends not taxable	**(7)**	-	**(7)**	(3)	-	(3)
Utilisation of brought forward excess management expenses	**(55)**	-	**(55)**	38	-	38
	-	-	-	-	-	-

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

At 31 December 2010 the Company had surplus management expenses of £382k (2009 £582k) A deferred tax asset has not been recognised in respect of these surplus management expenses as the Company has only been investing for a short period of time, and future taxable income can not be predicted with reasonable certainty Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company does not recognise deferred tax on any capital gains or losses which arise on the revaluation of investments

6. Basic and Diluted Return per Share

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Profit/(loss) on ordinary activities after taxation	**223**	**(134)**	**89**	(126)	230	104
Weighted average shares in issue (number)	**9,242,845**	**9,242,845**	**9,242,845**	9,242,845	9,242,845	9,242,845
Profit/(loss) attributable per share (pence)	**2.4**	**(1.4)**	**1.0**	(1 4)	2 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

7. Fixed Asset Investments

	2010	2009
Unquoted investments	**£'000**	£'000
Equity shares	**2,037**	2,074
Unsecured loan notes	**4,484**	4,168
	6,521	6,242

Qualifying Investments	**£'000**	£'000
Opening valuation	**6,242**	2,752
Fair value adjustment	**279**	287
Purchases at cost	**74**	3,203
Repayment of loan note	**(74)**	-
Closing valuation	**6,521**	6,242

8. Significant Interests

The Company has interests of greater than 10% of the nominal value of the allotted shares in the following Investee Companies incorporated in the United Kingdom as at 31 December 2010

Trading Companies	% class and share type	% voting rights
Aurem Limited	24 95% A Ordinary	24 95%
IR Productions Limited	24 95% A Ordinary	24 95%
CFDT Limited	24 95% A Ordinary	24 95%
Taste Xmas Live Limited	24 95% A Ordinary	24 95%
Brand Events Live Limited	24 95% A Ordinary	24 95%
Annie Films Limited	24 95% A Ordinary	24 95%
Jetstream Events Limited	24 95% A Ordinary	24 95%
Dance Floor Limited	12 48% A Ordinary	12 48%
Golfmania Limited	12 48% A Ordinary	12 48%
Into The Groove Limited	13 97% A Ordinary	13 97%

It is considered that, as permitted by FRS9, "Associates and Joint Ventures", the above investments are held as part of an investment portfolio, and that, accordingly, their value to the Company lies in their marketable value as part of that portfolio In view of this, it is not considered that any of the above represents investments in associated undertakings

9. Debtors

	2010	2009
	£'000	£'000
Prepayments and accrued income	**138**	68

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

10. Current Asset Investments

	2010 £'000	2009 £'000
Funds held in listed money market instruments	**1,717**	2,598

Non-Qualifying Investments	**£'000**	£'000
Opening valuation	**2,598**	6,045
Disposal proceeds	**(828)**	(3,338)
Unrealised change in value of investment	**(53)**	(109)
Closing valuation	**1,717**	2,598

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

11. Creditors: Amounts Falling Due Within One Year

	2010 £'000	2009 £'000
Trade creditors	**-**	7
Accruals and deferred income	**24**	21
	24	28

12. Called-Up Share Capital

Allotted, called-up and fully paid	2010 £'000	2009 £'000
9,242,845 ordinary shares 1p each	**92**	92

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

13. Reserves

	Share premium £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total reserves £'000
At 1 January 2010	4,383	4,382	616	(500)	8,881
Dividend payments	-	(647)	-	-	(647)
Gain on disposal of investments	-	-	63	-	63
Decrease in fair value of investments held	-	-	(111)	-	(111)
Investment income	-	-	-	410	410
Investment management fees	-	-	(86)	(86)	(172)
Other expenses	-	-	-	(101)	(101)
At 31 December 2010	4,383	3,735	482	(277)	8,323

The capital reserve includes realised investment holding gains of £88k and unrealised investment holding gains of £394k As an investment company under section 833 of the Companies Act 2006, the other reserve account is the only distributable reserve of the Company

On 13 April 2010, the Company paid dividends amounting to £647k (2009 £Nil) Although the Company had applied to the High Court to reduce its share premium account and create distributable reserves, the Company had not complied with certain technical requirements of the Companies Act 2006 Specifically, prior to the payment of the dividends from capital reserves, the Company was required to revoke its investment company status The payment of the dividends received appropriate pre-clearance from HMRC, to confirm the Company's VCT status was not affected by the dividend payment The Company is taking advice from its advisers as to any remedial action that is required, and will inform shareholders as soon as practicable The accounts have been drawn up on the basis that the issue referred to above is regularised The proposals do not affect the results of the Company for the year to 31 December 2010, its net assets at 31 December 2010, nor its ability to pay future dividends

14. Net Asset Value per Share

	2010	2009
Net assets attributable to shareholders (£'000)	**8,415**	8,973
Shares in issue (number)	**9,242,845**	9,242,845
Net asset value per share (pence)	**91.0**	97 1

15. Financial Instruments and Risk Management

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

Fixed asset investments (see note 7) 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

Fair Value Hierarchy

		2010 £'000	2009 £'000
Listed money market instruments (note 10)	Level 1	**1,717**	2,598
Unquoted investments (note 7)	Level 3	**6,521**	6,242
		8,238	8,840

The level 3 investments include net fair value gains of £279k in the current year (2009 £287k), as disclosed in note 7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

15. Financial Instruments and Risk Management (continued)

In accordance with Financial Reporting Standard 29 'Financial Instruments Disclosures', the above table provides an analysis of these investments based on the fair value hierarchy described below which reflects the reliability and significance of the information used to measure their fair value

- Level 1 - investments with quoted prices in active markets,
- Level 2 - investments whose fair value is based directly on observable market prices or is indirectly drawn from observable market prices, and
- Level 3 - investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data

The valuation techniques used by the Company are explained in note 1 on accounting policies

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 has 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 interest bearing money market open ended investment companies (OEICs) This is the Non-Qualifying Investments amount on the Balance Sheet being £1,717k (2009 £2,598k) 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 0 5% as at 31 December 2010 (31 December 2009 0 5%)

The following table illustrates the sensitivity of the impact 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 sheet date All other variables are held constant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

15. Financial Instruments and Risk Management (continued)

b) Interest Rate Risk (continued)

	31 December 2010 £ '000	31 December 2009 £ '000
	+/- 50 basis points	+/- 50 basis points
Impact on profit/(loss) on ordinary activities for the year before taxation and total equity	**9**	14

c) Credit Risk

Credit risk is the risk that the 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 £4,484k (2009 £4,168k) unsecured loan note instruments, this risk is mitigated by the Company requiring that minimum royalty arrangements are in place prior to the investment as set out in the Company's investment policy In addition, and in accordance with the Company's monitoring procedure, the Manager closely monitors progress (including financial expenditure) against the Investee Companies' agreed business plans

The £4,484k (2009 £4,168k) unsecured loan notes are the contractually agreed 70% of initial investments

d) Liquidity Risk

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

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

16. Contingencies, Guarantees and Financial Commitments

There is currently interest income accruing on the unsecured loan note instruments at a rate of 4 5% (2009 1 5%, amended to 4 5% in April 2010), being 4% over the bank base rate which was 0 5% as at 31 December 2010 (2009 0 5%), totalling £137k (2009 £47k) The repayment of this interest is not deemed recoverable based on current profits being derived by the Investee Companies, which currently can not be determined with any certainty, therefore the Directors have not recognised it in the financial statements

17. Related Party Transactions

a) Ingenious Ventures Limited was the investment manager until 28 February 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 Asset Management Limited and was a director of Ingenious Ventures Limited until 1 June 2009, which are both subsidiaries within the Ingenious Media Holdings plc group of companies (the **Ingenious Group**), which is controlled by Patrick McKenna

Ingenious Ventures (the Manager), as per the management agreement, receives a management fee of 0 5% of the net asset value payable quarterly in advance This amounted to £172k as at 31 December 2010 (2009 £178k) The Manager also charges an administration fee of £19k (2009 £18k) per annum and irrecoverable VAT

b) The funds invested in OEICs are managed by the Asset Management division of Ingenious Asset Management Limited, a company of which Patrick McKenna is a director Ingenious Asset Management Limited is a subsidiary of the Ingenious Group, which is controlled by Patrick McKenna There is no fee associated with this transaction

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

17. Related Party Transactions (continued)

c) Patrick McKenna is a director and a shareholder of Ingenious Live VCT 1 plc In January 2010, the Company made a further investment of £74,000 into an existing company, Into the Groove Limited, to co-promote *80s Rewind* bringing its total investment to £346,348 for 13 97% of the equity Ingenious Live VCT 1 plc also invested £74,000 bringing its total investment to £346,348 for 13 97% of the equity of Into the Groove Limited

d) Patrick McKenna is a director and a shareholder of Ingenious Live VCT 1 plc In January 2010, an existing company, IR Productions Limited, which co-promotes a music festival at Powderham Castle, repaid £74,000 of unsecured loan notes to the Company This reduced the Company's total investment to £328,350 while retaining 24 95% of the equity IR Productions Limited also repaid £74,000 of unsecured loan notes to Ingenious Live VCT 1 plc reducing its total investment to £328,350 while retaining 24 95% of the equity

During the period the Company has entered into transactions with the above-mentioned related parties in the normal course of business and on an arm's length basis

Entity	Note	**2010 Expenditure paid £'000**	**2010 Amounts due £'000**	2009 Expenditure paid £'000	2009 Amounts due £'000
Ingenious Asset Management Limited					
Investment management fee	a	**172**	**-**	178	-
Administration fee	a	**19**	**-**	18	-
Irrecoverable VAT	a	**1**	**2**	8	3

Transactions Between Related Parties

Ingenious Media Consulting Limited, a company which is a wholly-owned subsidiary in the Ingenious Group, which is controlled by Patrick McKenna, has entered into consultancy agreements with each of the Company's investee companies to provide management services For the provision of such services, consulting fees totalling £166k excluding VAT (31 December 2009 £242k), have been invoiced in the year No amounts remain outstanding as at 31 December 2010 (31 December 2009 £39k)

18. Events After the Balance Sheet Date

The Company declared an interim dividend of 7 0 pence per ordinary share on 17 January 2011 (2010 7 0 pence) The dividend was paid on 11 February 2011 by way of a capital distribution reducing the Company's other reserves

19. Capital Management

The capital management objectives of the Company are

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

The Company has no external debt, consequently all capital is represented by the value of share capital, distributable and other reserves Total shareholder equity at 31 December 2010 was £8,415k (2009 £8,973k)

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

There have been no changes to the capital management objectives or the capital structure of the business from the previous period

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2010

19. Capital Management (continued)

The Company is subject to the following externally imposed capital requirements

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

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

DEFINITIONS

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

Act or Companies Act
Companies Act 2006

AGM
The annual general meeting of the Company which is to be held on 18 May 2011 as convened by the Notice

Annual Report & Accounts
These *Annual Report & Accounts* of the Company for the year ending 31 December 2010

Articles
The Company s articles of association

Board
The Company s board of directors from time to time

Combined Code
Combined Code on Corporate Governance 2008

Company
Ingenious Live VCT 2 plc

Directors
Directors of the Company from time to time

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

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

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 Ventures
Ingenious Ventures, a trading division of Ingenious Asset Management Limited

IMAC
Ingenious Media Active Capital Limited

Investee Company or Investee Companies
A company in which the VCT will invest

IVLP
Ingenious Ventures Limited Partnership

Listing Rules
Listing Rules of the UK Listing Authority

LSE
The London Stock Exchange

Manager
Ingenious Ventures

Notice
The notice convening the AGM and which can be found on pages 36 to 38

Offer
The Company s offer to the public to subscribe for up to 35 million Shares at an issue price of 100p per Share launched on 8 November 2006

Prospectus
The prospectus published by the Company on 7 November 2006 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 or Qualifying Companies
An investment by a VCT in a Qualifying Company

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

Shareholder or Shareholders
Holder or Holders of Shares

SORP
Has the meaning given to it on page 24

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