

## INGENIOUS ENTERTAINMENT VCT 1 & 2

### THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

This document, the Summary and the Share Registration Document, which together constitute a prospectus (the "Prospectus") relating to Ingenious Entertainment VCT 1 plc and Ingenious Entertainment VCT 2 plc (the "VCTs"), have been prepared in accordance with the Prospectus Rules and the Listing Rules and approved by, and filed with, the Financial Services Authority under section 87A of the Financial Services and Markets Act 2000 (as amended). An application will be made for the 'D' Shares issued under the Offer to be admitted to the Official List and to be traded on the London Stock Exchange's main market for listed securities. It is expected that Admission will be effective within 10 Business Days of allotment of 'D' Shares. The 'D' Shares will not be dealt in, or on, any other recognised investment exchange and no other application will be made.

The Directors, whose names appear in Part 3, and the VCTs, accept responsibility for the information contained in the Prospectus. To the best of the knowledge and belief of the Directors and the VCTs (who have taken all reasonable care to ensure that such is the case), the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect its import.

Howard Kennedy is acting exclusively as sponsor to the VCTs in connection with the Offer and is not advising any other person or treating any other person as a customer or client in relation to the Offer and will (subject to the responsibilities and liabilities imposed by FSMA or the regulatory regime established thereunder) not be responsible to any such person for providing the protections afforded to its customers or clients or for providing advice in connection with the Offer.

### INGENIOUS ENTERTAINMENT VCT 1 PLC

*(incorporated in England & Wales under the Companies Act 1985 with registered number 6395011)*

### INGENIOUS ENTERTAINMENT VCT 2 PLC

*(incorporated in England & Wales under the Companies Act 1985 with registered number 6395025)*

### OFFER FOR SUBSCRIPTION

of up to, in aggregate, 10,000,000 'D' ordinary shares of 1p comprising up to 5,000,000 'D' ordinary shares in the share capital of each VCT at an issue price of 100p per 'D' ordinary share payable in full on application together with an over-allotment facility of up to, in aggregate, a further 10,000,000 'D' ordinary shares of 1p comprising 5,000,000 'D' ordinary shares in the capital of each VCT

**Sponsored by Howard Kennedy  
Promoted by Ingenious Media Investments Limited**

This document should be read in full. Your attention is drawn, in particular, to the risk factors on the following page. You are recommended to seek your own personal financial advice immediately from your stockbroker, accountant, fund manager or other independent financial adviser.

Assuming that the Offer is fully subscribed (including any Additional 'D' Shares) and the over-allotment facility is fully utilised, the issued share capital of each VCT following the Offer will be:

	<b>Issued Number of Shares</b>	<b>Nominal Value</b>
ordinary shares of 1p	10,205,011	£102,050.11
'C' ordinary shares of 1p	2,810,596	£28,105.96
'D' ordinary shares of 1p	10,000,000	£100,000

The Offer, which is being made to the public, will open at 8.00 am on 17 November 2009 and will close at 3.00 pm on 3 April 2010 or, if earlier, the date on which the Offer is fully subscribed, provided that the Offer may be extended to 3.00 pm on 30 July 2010 or such earlier date after 3 April 2010 on which the Directors may resolve to close the Offer. The Offer will not proceed unless the Minimum Net Proceeds have been raised by 31 March 2010. Each VCT reserves the right to extend the Offer to a further 5,000,000 'D' Shares in each VCT (totalling a further 10,000,000 'D' Shares) if there proves to be excess demand from investors. The minimum Application per Applicant is £3,000.

The terms and conditions of the Offer are set out in Part 9. The procedures for payment and completion of the Application Form can be found in Part 11. An Application Form can be found in Part 12. Application cheques should be made payable to "SLC Registrars re Ingenious Entertainment VCT 'D' class" and crossed "A/C Payee Only" and should be sent with the completed Application Form either by post or delivered by hand (during normal business hours only) to SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey, KT10 9AD.

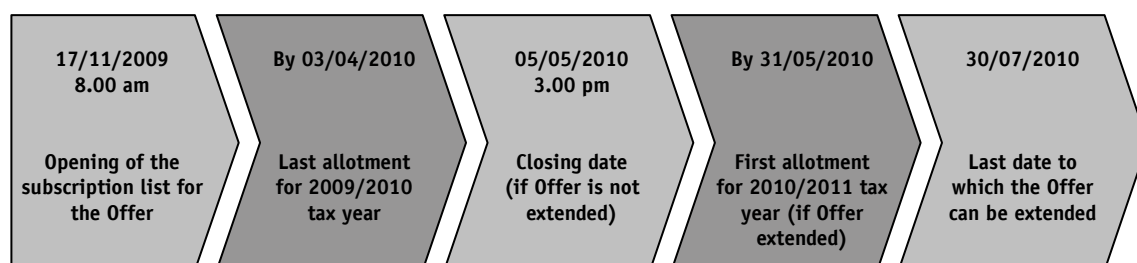
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## EXPECTED OFFER TIMETABLE



Expected date for Admission . . . . . Within 10 Business Days of the relevant 'D' Share allotment

Dispatch of share and tax certificates . . . . . Within 14 Business Days of the relevant 'D' Share Admission

Note: 'D' Shares will not be allotted before 1 January 2010. The Directors reserve the right to allot and apply for the admission of 'D' Shares at any time while the Offer remains open. The deadline for receiving Applications is subject to the Offer not being fully subscribed by an earlier date. This timetable is indicative only and is subject to change at the VCTs' sole discretion. Applicants who wish to hold their 'D' Shares in Crest are referred to paragraph 6 of Part 6. An announcement will be made through a regulatory information service by 5.00 pm on the Business Day following the day of each allotment of 'D' Shares. Details of the entitlement to Additional 'D' Shares on early subscription are set out at paragraph 3 of Part 6.

## OFFER STATISTICS\*

Offer Price (save where Additional 'D' Shares are issued)	100p
Issue costs per 'D' Share	5.5p
Initial net assets per 'D' Share if over-allotment facility is not utilised*	94.2p
Initial net assets per 'D' Share if over-allotment facility is utilised in full*	94.3p
Minimum number of 'D' Shares in issue following the Offer	2,000,000
Maximum number of 'D' Shares in issue following the Offer if over-allotment facility is not utilised	10,000,000
Maximum number of 'D' Shares in issue following the Offer if over-allotment facility is utilised in full	20,000,000
Aggregate Net Proceeds if over-allotment facility is not utilised (£ millions)*	9.4
Aggregate Net Proceeds if over-allotment facility is utilised in full	18.9

\* Assumes that the Offer is fully subscribed and that 50,000 Additional 'D' Shares are issued. Details of the entitlement to Additional 'D' Shares are set out at paragraph 3 of Part 6.

### RISK FACTORS

Each VCT's business, financial condition or results could be materially and adversely affected by any of the risks described below. In such cases, the market price of the 'D' Shares may decline due to any of these risks and investors may lose all or part of their investment. Additional risks not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the VCTs. The Directors consider the following to be all the risk factors that are material to the 'D' Shares in order for potential investors to assess the market risk associated with the 'D' Shares, but these risks do not necessarily comprise all those associated with an investment in the VCTs and are not set out in any particular order of priority. Risk factors that are specific to the VCTs and their industry are set out on page 3 of the Share Registration Document.

- Prior to the Offer, there has been no public trading market for the 'D' Shares. The Offer Price may not be indicative of the market price for the 'D' Shares following Admission. Following Admission, the trading price of the 'D' Shares may be subject to wide fluctuations in response to many factors, including those referred to in this section, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the 'D' Shares, regardless of the VCTs' actual performance or conditions in its key markets.
- Prospective investors should be aware that the value of the 'D' Shares and the income from them may go down as well as up and an investor may only get back a lower amount than originally invested. In addition, there is no guarantee that the market price of the 'D' Shares will fully reflect their underlying net asset value or the ability to buy and sell at that price as VCTs usually trade at a discount to net asset value. There is likely to be a substantial difference between the bid price and the offer price of the 'D' Shares.
- Although the 'D' Shares will be admitted to the Official List and to trading on the London Stock Exchange, there is unlikely to be a liquid market in the 'D' Shares at least for the first five years from investment and there may not be two competitive market makers. It may, therefore, prove difficult for 'D' Shareholders to sell their 'D' Shares.
- VCTs are managed so as to retain their status as venture capital trusts, however, there is no guarantee that such status will be maintained. If the VCTs fail to retain their status as venture capital trusts, this could result in: (i) Qualifying Investors being required to repay the 30% income tax relief received on subscription for the 'D' Shares; (ii) the loss of income tax relief on dividends paid (or subsequently payable) to Qualifying Investors; (iii) the loss of tax relief previously obtained in relation to corporation tax on capital gains made by the VCTs; (iv) a liability to tax on capital gains on any disposal of 'D' Shares by Qualifying Investors; and (v) the loss of the VCTs' listing on the Official List and the facility for the 'D' Shares to be traded on the London Stock Exchange. Further details of the taxation implications of an investment in the VCTs are set out in Part 7.
- A qualifying disposal of an investment in a venture capital trust is free from tax on capital gains. Consequently, any realised losses on disposal of 'D' Shares cannot be used to create an allowable loss for capital gains tax purposes.
- Qualifying Investors should be aware that the sale of 'D' Shares within five years of their subscription will require repayment of the 30% income tax relief available upon investment to the extent of the amount received from such sale. Accordingly, investment in the VCTs should be viewed as a longer term investment.
- The levels and basis of reliefs from taxation may change and such changes could be retrospective. The tax reliefs referred to in the Prospectus are those currently available and their availability and/or value may depend on the individual circumstances of Applicants.

## **DIRECTOR'S LETTER**

Ingenious Entertainment VCT 1 plc and  
Ingenious Entertainment VCT 2 plc  
15 Golden Square  
London, W1F 9JG

16 November 2009

Dear Investor

I am delighted to introduce the opportunity to invest in Ingenious Entertainment VCT 1 plc and Ingenious Entertainment VCT 2 plc's 'D' Share offer.

Ingenious Entertainment VCT 1 plc and Ingenious Entertainment VCT 2 plc were successfully launched in November 2007, raising £20 million in aggregate. A further successful 'C' Ordinary Share offer was made by both VCTs in September 2008, raising in excess of £5 million. The Directors and the Manager now wish to further increase the size of the funds available to the VCTs. This will enable the VCTs to make more investments and allow them to spread the fixed costs over a larger asset base, which will result in economies of scale that will ultimately increase the VCTs' profitability to the benefit of all Shareholders. The Directors and the Manager believe that the best way to achieve this goal is by way of a further 'D' Share offer.

The money raised from the 'D' Share offer will form a separate pool of capital that will be invested alongside new investments made out of funds raised from the VCTs' original Ordinary Share offer in November 2007 and from the VCTs' 'C' Ordinary Share offer in September 2008.

The 'D' Share offer presents an attractive opportunity with downside protection to invest in a fund managed by one of the UK's leading media investment specialists and to participate in a portfolio of companies that will engage in the production and exploitation of media and entertainment content. I believe that the Offer will offer investors the following advantages:

### **1. Opportunity to Invest in a Fast Growing Industry**

The VCTs offer investors an opportunity to participate in a thriving area of the UK economy. We believe that lifestyle changes, de-regulation and technological advances in the digital arena have created excellent investment opportunities for knowledgeable investors.

### **2. Pre-Sales Downside Protection**

The Manager's investment strategy will require each Investee Company to put into place pre-sales or similar minimum revenue arrangements covering at least 75% of the VCTs' investment.

### **3. Tax Benefits**

VCTs provide investors with a combination of tax advantages. The most significant benefit is that Qualifying Investors will receive 30% upfront income tax relief on their investment (on a maximum investment of £200,000 per tax year), provided that the 'D' Shares are held for at least five years. In addition, dividends and gains on disposal of the 'D' Shares are exempt from tax under current legislation.

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### 4. Experienced Management

The Manager, Ingenious Ventures, is one of the UK's leading media investment specialists and has proven experience of successfully structuring, promoting and managing investment opportunities across the media and entertainment industries. The Manager enjoys deep industry relationships and contacts as well as access to excellent deal flow through the five complementary divisions of Ingenious Media – Asset Management, Consulting, Corporate Finance, Investments and Ventures.

### 5. Five Year Liquidity Plan

The Manager intends to provide liquidity from the VCTs to enable 'D' Shareholders to realise their investment after five years should they wish to do so.

### 6. £1 Million Foundation Investment from Ingenious Media Limited

Ingenious Media Limited has made a £1 million foundation investment in the Ordinary Shares. In addition the Directors and the Manager's team and persons associated with them have invested £471,625 in the Ordinary Shares and a further £200,000 in the 'C' Ordinary Shares, representing a total investment of £1,671,625.

#### Returns to 'D' Shareholders

The Manager is targeting returns to 'D' Shareholders of 10.6% per annum over the life of the VCTs. Set out below is a table illustrating hypothetical returns to investors at three different levels of shareholders proceeds on a per share basis.

<b>Illustrative Investor Return Scenarios for every £1 Invested</b>	<b>Target Return</b>
Total Shareholder Proceeds	1.28
Less: Net Cost of Investment (assuming 30% tax benefit)	(0.70)
Tax Free Cash Profit	0.58
Tax Free Profit (as a % of Net Investment)	83.1%
<b>Annualised Tax Free Return to 'D' Shareholders</b>	<b>10.6%</b>
Gross Equivalent Return (assuming a 40% taxpayer)	17.7%

#### Assumptions for Target Return

The Target Return are internal rates of return based on an investment of 100p deemed to be made on 3 April 2010, assuming 30p income tax relief received the next day and either 128p (Target Return) received on 5 April 2016. This illustration has been simplified to ease understanding by showing the returns in the form of one payment over the life of the investment, whereas in practice shareholder proceeds are likely to comprise a number of smaller payments over the same overall time period. In addition, again for simplicity, the illustration assumes an immediate return of the 30p income tax relief whereas in practice the return of such income tax relief will depend upon a number of factors, including the date of submission of an individual's tax return.

The above returns are set out for illustrative purposes only and no forecast or projection is implied or should be inferred.

I look forward to welcoming you as a Shareholder.

Yours sincerely



Patrick McKenna  
For and on behalf of the Directors of  
Ingenious Entertainment VCT 1 plc  
and Ingenious Entertainment VCT 2 plc

## PART 1 - REASONS FOR THE OFFER AND INVESTMENT POLICY

### 1. Overview

The VCTs' investment policy is to focus on investing in companies established to create and bring to market live events and premium entertainment content. These investments should be Qualifying Investments for the purposes of the VCT legislation. To balance the risk profile, the Manager intends to invest the net proceeds of the Offer in a blend of low risk financial market investments (which are non-qualifying for the purposes of VCT legislation) and in qualifying media content investments. The investment policy for qualifying media content investments is based upon a rigorous selection process, together with a funding structure and minimum revenue contractual arrangements specifically designed to offer investors with downside protection whilst preserving the considerable upside potential of the live events and entertainment content within the portfolio.

### 2. Asset Allocation

The Manager will focus on investing in companies producing live events or creating branded entertainment content with a view to achieving a broad allocation of the VCTs' assets across the entertainment sector. Investments could include the production and promotion of a theatrical show or the launch of a music festival, the development and exploitation of new formats or the creation of online or mobile games. The Manager's objective will be to identify projects in which the VCTs can participate in the revenues and in the capital value of the content once the market is established. The Manager will invest at least 70% of the funds raised by the Offer in such investments within three years in line with the VCT legislation.

The Directors believe that it is of the utmost importance to seek to safeguard the capital available for investment in Qualifying Investments during five years following the Offer and that this should be balanced with seeking to provide attractive returns to 'D' Shareholders. Therefore, pending deployment in Qualifying Investments, the Manager intends to invest the net proceeds of the Offer in a number of cash funds (OEICs) with a rating of at least AAAm (S&P) or Aaa/MR1+ (Moody's) or, where the fund is not rated by these agencies, the average credit quality of portfolio is not less than AA+ (S&P). In any event, each of the VCTs expects to retain up to 30% of the funds raised by the Offer in such investments throughout the life of the VCT.

### 3. Diversification

The Manager will seek to diversify the risk of Qualifying Investments through investment in media content and live events chosen from a broad spectrum of opportunities in the media and entertainment sector. However, the principal focus will be on the quality of the proposition, the experience of the production partner and the returns that can be generated. There is, therefore, no limitation on investments in any specific segment of the entertainment sector.

### 4. Risk Mitigation

The following risk mitigation strategies will be utilised by the Investee Companies, and in common with industry practice:

- Each Investee Company will be required to put into place pre-sales or similar minimum revenue arrangements providing for the Investee Company to receive at least 75% of the VCTs' investment (Base Revenues).
- Each Investee Company will engage the services of an experienced producer or promoter with a proven track record in bringing media projects to market and delivering the returns targeted by the VCTs.
- Each Investee Company will be required, where appropriate, to obtain relevant insurance policies in order to protect against normal industry risks.

## **INGENIOUS ENTERTAINMENT VCT 1 & 2**

After delivery of its first project, each Investee Company may seek to undertake further projects (with at least the same level of downside protection) from its existing cash-flows. However, Investee Companies will not be permitted to undertake further projects which could reduce the base revenues generated from its first project. The Investee Company will be expected to realise the capital value of its rights and goodwill after 5 years.

This investment policy should ensure a high degree of downside protection whilst preserving the considerable upside potential of the premium media content within the portfolio.

### **5. Funding Structure, Gearing and Contractual Arrangements**

Each Investee Company will initially be formed for the purpose of engaging in the production and exploitation of premium media content or a live event.

The initial capital required by an Investee Company will be provided by the VCTs through a combination of equity and loan finance (with a minimum of 30% of each VCT's investment comprising shares). The majority of this initial capital will be provided through loan finance provided by the VCT which will be capped at 70% of the total initial capital of the Investee Company, giving a gearing of approximately 2.3 times the original equity capital.

The VCTs will have a non-controlling interest in each Investee Company and other shareholders may include, amongst others, promoters, record labels, game developers and charities. It is expected that the initial capital provided by the VCTs will be sufficient to cover the Investee Company's budgeted costs of creating and bringing to market the initial project.

The VCTs can invest, under current VCT legislation, up to £1 million each (and therefore £2 million in aggregate) per tax year in any one Investee Company and will always co-invest on equal terms pro rata to the capital in each VCT. This should have the advantage of enabling the VCTs to co-invest in larger projects than if one VCT was investing by itself. The VCTs will not borrow money for the purposes of making investments.

### **6. Liquidity**

Each VCT intends to create a 'D' Share reserve which will enable it to make share buy-backs in the market, subject to liquidity restraints. The VCTs will operate a discount policy for repurchasing 'D' Shares, which will be determined by the Board at its discretion.

The Ingenious Entertainment VCTs will be able to return funds to 'D' Shareholders after five years if they so desire. In any event, the Articles of Association of each of the VCTs contain a provision requiring the Directors to propose an ordinary resolution at the fifth annual general meeting of the VCTs to continue the life of the VCTs. It is proposed that the Articles be amended at the General Meetings to provide that the Directors are required to propose an ordinary resolution at the tenth as opposed to the fifth annual general meeting of the VCTs. If any such resolution is not passed, the Directors will draw up proposals for the re-organisation, reconstruction or voluntary winding up of the VCTs for consideration of members at a general meeting on a date not more than four months after such annual general meeting. Implementation of such proposals will require the approval of Shareholders by special resolution.

## **7. VCT Status and Maximum Exposures**

In order to obtain venture capital trust status, the VCTs must be approved by HM Revenue & Customs. The conditions which must be satisfied to obtain and retain such status are set out in full in paragraph 1 of Part 7 and they include the following restrictions on the maximum exposure of each VCT:

- (i) no holding in a company will represent more than 15% by value of the VCT's total investments; and
- (ii) each VCT is limited to investing up to £1 million per Investee Company in any one tax year or in any six month period straddling two tax years.

The Boards do not intend to vary the VCTs' investment policy, however, should a change in the investment policy (including the conditions above) be deemed appropriate this will be done with Shareholders' approval and in accordance with the Listing Rules.

## INGENIOUS ENTERTAINMENT VCT 1 & 2

### PART 2 - THE MANAGER AND INVESTMENT TEAM

The Manager of the VCTs is Ingenious Ventures. Through its extensive experience and contacts in the media and entertainment industry, the Manager is well placed to identify attractive investment opportunities for the VCTs.

Ingenious Ventures is the trading name of the venture capital arm of Ingenious Asset Management Limited, a wholly owned subsidiary of Ingenious Media Holdings plc, a specialist media investment and advisory business with five principal operating subsidiaries. The Ingenious Group has an extensive footprint across the UK media sector from both its investment and advisory activities, having raised in excess of £5 billion of funds for investments in film, TV, games, music, live events and other media and entertainment assets and it operates a number of specialist funds across the media sector.

Examples of the Manager's experience include the following:

#### Ingenious Media Active Capital

Ingenious Ventures is the manager of Ingenious Media Active Capital Limited ("IMAC"), a private equity fund whose shares were admitted to trading on AIM in April 2006, raising approximately £150 million (before expenses) from institutional and individual investors. IMAC's strategy is to make investments in the media sector focussing on unquoted "mid-stage" companies with high growth potential. Since its launch IMAC has made sixteen investments aggregating over £93 million in a broad range of entertainment and media companies.

#### Ingenious Music VCTs

Ingenious Ventures is the manager of the Ingenious Music VCTs, which raised over £40 million of funds (before expenses). The Ingenious Music VCTs invest principally in the creation and exploitation of recorded music and related rights in the music industry. The Ingenious Music VCTs represent one of few significant independent sources of artist and repertoire investment in the UK. Further, Ingenious Music VCT plc and Ingenious Music VCT 2 plc have now commenced the successful return of capital to shareholders after a three year period through the orderly winding-up of the companies' investments which will enable shareholders to realise value in a tax efficient and cost-effective manner.

#### Ingenious Live VCTs

Ingenious Ventures is the manager of the Ingenious Live VCTs which, as at the date of this Prospectus, have approximately £18.5 million of funds under management (in aggregate). The Ingenious Live VCTs invest principally in the revenues and growth potential of live events held primarily in the UK which may include concerts, festivals, exhibitions, theatrical shows, conferences, trade fairs and sporting events.

#### Ingenious Ventures LP

Ingenious Ventures also manages Ingenious Ventures LP, a media investment fund. The fund was established in August 2001 with £25 million under management and has since invested £22.5 million in five companies across the music, television, live events and video games sectors. Ingenious Ventures LP made one of its first investments in 19 Entertainment Limited, the company that created the worldwide hit formats *Pop Idol* and *American Idol*, which was subsequently sold at a significant multiple. They also invested in Cream Holdings Limited, the promoter of the Creamfields summer festival which attracts in excess of 40,000 people each year in the UK.

The Manager's investment team is comprised of Patrick McKenna, Duncan Reid (both of whom are also directors of Ingenious Media), Paul Bedford and Patrick Bradley. The team combines venture capital investment disciplines with in-depth investment, financing, consulting and operational management experience gained across the media and entertainment sector. Patrick McKenna, Duncan Reid and Patrick Bradley are members of the Manager's investment team for IMAC and the Ingenious Music and Live VCTs.

## **INGENIOUS ENTERTAINMENT VCT 1 & 2**

### **Patrick McKenna (53)– Chief Executive, Ingenious Media Holdings plc**

Patrick is one of the leading figures in the creative industries and is the founder and Chief Executive of Ingenious Media. He started his career in the accountancy profession and was a Partner in Deloitte before becoming Chairman and Chief Executive of The Really Useful Group.

Patrick is currently Chairman of the Young Vic Theatre, Hat Trick Productions and Stage Three Music and is a trustee of the British Council and NESTA. He is also a member of the Film Business Academy Board, part of the Cass Business School and is actively engaged with the evaluation and selection of media projects proposed for funding by the investment vehicles operated by the Ingenious Group.

### **Duncan Reid (51) – Commercial Director, Ingenious Media Holdings plc**

Duncan qualified as a chartered accountant at Deloitte & Touche, where he worked as a tax specialist in the media and entertainment group. In 1990, he joined Patrick McKenna at The Really Useful Group and became Finance Director of the Really Useful Theatre Company where he was responsible for the financial performance of the group's concerts and arena tours. In 1997 he became Chief Financial Officer of Nottingham Forest Football Club, prior to the football club's flotation. Duncan joined the Ingenious Media group in 1998. In addition to his role as head of Ingenious Investments, Duncan is the Ingenious Group's Commercial Director where he has overseen the investment of £5 billion in specialist media funds.

### **Paul Bedford (52)**

Paul qualified as a chartered accountant in 1981 specialising in the entertainment field. Paul moved into commerce in 1988, being appointed financial controller of the SPZ Group which comprised recording (ZTT Records), music publishing (Perfect Songs), studio and equipment hire (Sarm Studios), producer management and theatrical interests. He was rapidly appointed to the role of Finance Director and the Group enjoyed commercial success with the likes of Seal, Gabrielle and Mark Morrison. Paul joined Ingenious in 2000 and has been responsible for providing specialist financial solutions for rapidly growing entities in the music sector, such as Simon Fuller's 19 Entertainment Limited. Paul is a member of the investment team for the music and live event VCTs managed by Ingenious Ventures.

### **Patrick Bradley (49)**

Before joining Ingenious Media, Patrick had spent over ten years in senior operating positions within major media companies including Polygram, Universal Pictures, @ Entertainment and UPC Media. He was also General Counsel to media investment company Ilchester Investments, a media investment company co-founded by Alain Levy and David Munns. Patrick's particular focus has been on the investment and management of Ingenious Ventures LP and, more recently, IMAC as a member of the Manager's investment team and the investment team for the music and live event VCTs. Patrick is a Non-Executive Director of Stage Three Music (which is an investee company of Ingenious Ventures LP).

## **INGENIOUS ENTERTAINMENT VCT 1 & 2**

### **PART 3 - THE BOARDS**

The VCTs have the following Directors, all of whom are non-executive, and who are responsible for overseeing the investment policy of their respective VCTs and who will have overall responsibility for their respective VCT's affairs and compliance with the Listing Rules. The Directors are, with the exception of Patrick McKenna, independent of the Manager and other VCTs managed by the Manager.

#### **INGENIOUS ENTERTAINMENT VCT 1**

##### **Chairman – David Munns (58)**

David joined EMI in 1972 and held progressively more senior marketing roles, including Senior Creative Director. In 1987, David joined Polygram was promoted to the position of Senior Vice President – Pop Marketing at Polygram International. At Polygram, David worked with such artists as The Cure, the Bee Gees, Andrew Lloyd Webber and Van Morrison. In 2001, David joined EMI as its Worldwide Vice-Chairman and has recently left to consult for leading media and entertainment companies. David has also managed Bon Jovi and is Chairman of the Music Industry Trust.

##### **Patrick Anthony McKenna (53)**

Patrick is the Chief Executive of Ingenious Media Holdings plc and Chairman of Ingenious Ventures (see Part 2 for his biography).

##### **Keith Turner (74)**

Keith acts as a legal and business consultant to a number of media entertainment businesses primarily involved in theatre ownership in London and venue marketing and promotion throughout the United Kingdom. He started his career as a solicitor specialising in the commercial sector of theatre, film and music. Between 1969 and 1974 he was the first legal director of Polygram UK as well as Director of Legal and Business Affairs for the Robert Stigwood Group between 1971 and 1978. From 1986 until 1998 he was the Legal and Business Affairs Director of The Really Useful Group.

#### **INGENIOUS ENTERTAINMENT VCT 2**

##### **Chairman – Bob Storer (62)**

Bob became a Partner in the media and entertainment firm of solicitors Harbottle & Lewis in 1974. For many years he was the Head of the Film, Television and Theatre Department and for the last 8 years combined that role with that of Senior Partner of the firm. He became a Consultant to Harbottle & Lewis in August 2007. Bob has represented many of the leading players in film and television production and financing mainly in the UK but also internationally.

##### **Patrick Anthony McKenna (53)**

Patrick is the Chief Executive of Ingenious Media Holdings plc and Chairman of Ingenious Ventures (see Part 2 for his biography).

##### **Lionel Martin (59)**

Lionel is a Chartered Accountant and a consultant to Martin Green Ravden LLP, an accounting and business consultancy firm, which specialises in the media, entertainment and sports industries. Lionel founded the leading accountancy firm in 1980 advising on all areas of business and taxation for artists and corporates in the music and theatre industries. Clients have included promoters, record and music publishing companies leading artistes and sportsmen. He currently acts as consultant to several media and property companies. Lionel also previously acted as director of Ingenious Music VCT 2 plc, which is currently in the process of returning capital to shareholders.

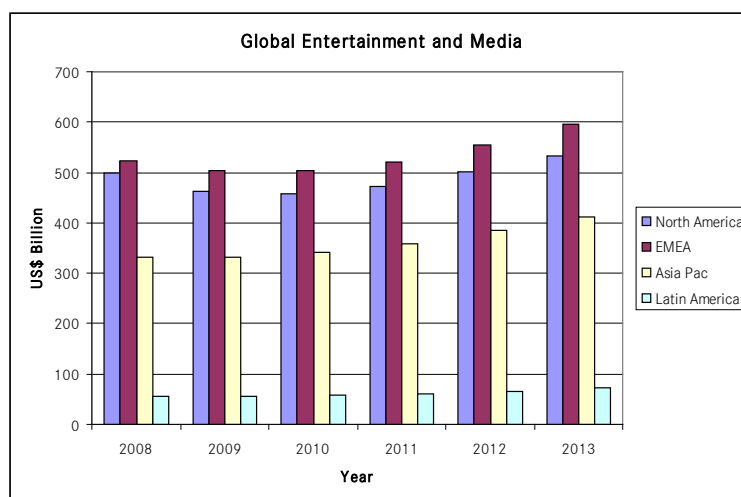
## PART 4 - THE MARKET FOR LIVE EVENTS AND ENTERTAINMENT CONTENT

### 1. Trends and Growth

Ingenious Ventures believes that there are several key and complementary trends creating attractive and timely investment opportunities in live events and entertainment content<sup>1</sup>.

- Consumers are changing their media consumption habits. In particular, live entertainment which represents a unique and aspirational experience is increasingly appealing to consumers and commands premium prices.
- Advertisers are seeking new ways to reach audiences as television audiences are becoming fragmented and are finding other ways to consume media. Advertisers are increasingly looking to engage their audiences through association with premium content and live events.
- The growth of broadband internet and high speed mobile networks enables niche content to be channelled directly to interested consumer segments, giving rise to what has been called the “long tail” phenomenon.
- Technological advances and regulatory changes have created enhanced opportunities for live events and entertainment content to be exploited across a number of platforms and, therefore, create scaleable revenue opportunities for the owners of these rights.

It has been projected that the UK entertainment and media market will expand from approximately £86 billion in 2009 to £98 billion in 2013, growing at a compound annual rate of 1.3%<sup>2</sup>. On a global basis, the entertainment and media market has been projected to expand from approximately £1.35 trillion in 2009 to £1.61 trillion in 2013, equivalent to a 2.7% compound annual growth rate<sup>3</sup>.



Source: PwC: Global Entertainment and Media Outlook 2009-2013

1 See responsibility statement at paragraph 5(e) of Part 8.

2 PwC: Global Entertainment and Media Outlook 2009-2013.

3 Ibid.

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### 2. The Market for Compelling Content

The proliferation in distribution channels and media platforms is increasing opportunities for companies that have the capability to create and access premium entertainment content. Successful content can originate in any entertainment subsector and be presented to audiences in a number of other platforms making it highly scaleable.

For example, 19 Entertainment created and introduced the *Pop Idol* TV show in the UK, and then sold the programme format to more than 30 countries worldwide, recreating it in the US as *American Idol*. TV sales represent just one element of the revenues generated from the exploitation of the Idol property: revenues are also generated from music, sponsorship and merchandise, telephony, videogames and tours. There has been a significant increase in the number of recent successful exports of UK television programme formats: in addition to *Pop Idol*: notable examples have been *Who Wants to Be a Millionaire?*, *Strictly Come Dancing* and *Supernanny*. Television properties have also been spun-off into live events – in particular the proliferation of specialist television channels has led to a new generation of branded lifestyle exhibitions (such as *Grand Designs Live* at the NEC).

*Tomb Raider* was originated by Eidos as a console game. It then generated a successful franchise with further games for next generation consoles and was then released as a series of hit films grossing over \$400 million at the box office. In addition, films are increasingly launched alongside console games (*King Kong*) to maximize audience engagement with the property and thereby enhance revenues in both platforms. Successful “slow burning” films can be spun off to console games or mobile phone games (*Shaun of the Dead*).

Live content in the UK has grown in popularity with consumers and is attractive to brands and advertisers. The Directors believe that the following factors are likely to enhance performance and growth of the UK live events sector in the future:

- The build-up to the 2012 Olympic Games is likely to facilitate the expansion of the UK events market by stimulating growth of new venues and improvements to existing ones as well as focusing world attention on the UK and attracting tourism.
- Advertisers targeting specific consumer groups are finding that live events can be an effective way of connecting with the highly coveted 16 to 34 demographic.
- The penetration of the internet has enhanced the ability of event organisers to promote a live event to a wider potential market.

The Manager believes that the more valuable opportunities in live events lie where branded content is created which generate capital growth in addition to revenues, such as a music festival which can be sold (e.g. Creamfields, Bestival)<sup>4</sup>.

The UK is one of the world’s leading centres for content creation and is a significant exporter of media content. Content creators can increasingly access global territories through licensing and distribution mechanisms without substantial investment in infrastructure.

### 3. Investment Opportunity

The Ingenious Entertainment VCTs offer an exciting opportunity, with significant downside protection, to invest alongside one of the UK’s leading media investment specialists in a portfolio of companies that will engage in the production and exploitation of live events and premium entertainment content.

Investors in the VCTs will benefit from the following competitive advantages enjoyed by the Manager:

- deep industry relationships and contacts;

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<sup>4</sup> See responsibility statement at paragraph 5(e) of Part 8.

## **INGENIOUS ENTERTAINMENT VCT 1 & 2**

- a thorough understanding of the economics and commercial structures of a wide range of sectors within the live events and entertainment industries, including film, television and theatre; and
- advanced technical skills in structuring transactions to take advantage of valuable new rights opportunities brought about by technological and regulatory change.

The Manager will use its experience, industry relationships and financial acumen to identify, and secure rights to, the most attractive entertainment and media content. The VCTs will focus on high quality content, which would be difficult to secure without the Manager's skill and well-developed network. The Manager's proven experience across the media and entertainment sectors should also enable the VCTs to implement such investments on advantageous commercial terms, with the objective of securing a participation in both revenues and the potential growth in brand value of a project.

## **PART 5 - OPERATIONAL MANAGEMENT, FEES AND COSTS**

### **1. Operational Management**

Each Board has delegated investment decisions to the Manager but retains overall responsibility for the VCTs' affairs (including the determination of their investment policy and compliance with the Listing Rules and the Act).

Each VCT entered into management agreements with Ingenious Ventures Limited on 19 November 2007, which were novated to the Manager on 28 February 2008 (the "Management Agreements"), (as originally amended by deeds of variation dated 19 September 2008), and 11 November 2009 (the "Deeds of Variation"), the latter of which which are conditional on the approval of Shareholders at the General Meetings. Under the terms of the Management Agreements the Manager is responsible for managing the VCTs and their portfolio of assets on a discretionary basis (including the sourcing, selection and implementation of investments) but subject always to: (i) the overall supervision of the Directors and (ii) the investment policy set out in Part 1. Further details on the Management Agreements can be found in Part 9 of the Share Registration Document.

### **2. Fees Payable to Ingenious Investments**

Ingenious Investments has been appointed by the VCTs as promoter of the Offer. Ingenious Investments will be paid an arrangement fee by each VCT equal to 5.5% of the gross proceeds of the Offer received by each VCT, conditional on the approval of Shareholders at the General Meetings. This arrangement fee will be chargeable 20% against revenue and 80% against the capital reserves of each VCT.

### **3. Fees Payable to Ingenious Ventures**

Pursuant to the Management Agreements, the Manager will be paid the following by each VCT:

- annual portfolio management fees equal to 1.75% of its Net Asset Value (plus VAT if applicable in each case) plus any irrecoverable input tax associated with the performance of the management services. These fees will be payable quarterly in advance;
- performance-related incentive fees equal to 20% of cumulative distributions in excess of £1.05 per 'D' Share, 20% of cumulative distributions in excess of £1.05 per 'C' Share and 20% of cumulative distributions in excess of £1.05 per Ordinary Share; and
- an annual administration fee equal to £53,025, plus any irrecoverable input tax associated with the provision of the administrative services (adjusted annually in line with inflation).

As indicated above, the Manager will receive performance-related incentive fees from each of the VCTs. These incentive fees are designed to encourage strong performance both in terms of capital and income growth and, through this, the payment of dividends to Shareholders (which will be tax-free for Qualifying Investors).

### **4. Launch Costs and Commissions**

Ingenious Investments will be responsible for paying all the costs of the Offer including listing expenses and commissions payable to authorised financial intermediaries on successful Applications at 3% or 2.5% plus trail commission of 0.25% per annum for 5 years.

Authorised financial intermediaries may agree to waive all or part of their initial commission. In such circumstances, an Applicant's Application will (subject to there being sufficient 'D' Shares available under the Offer) attract an additional allotment of 'D' Shares at no greater cost to the VCTs or the Applicant (the "Waiver Shares"). The initial commission waived will be used to satisfy the purchase price of the Waiver Shares, which will be issued at the Offer Price. Entitlements to Waiver Shares will be rounded-down to the nearest whole number.

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Assuming that the Offer is fully subscribed (after use of the over-allotment facility, details of which are set out at paragraph 1 of Part 6) and that all Additional 'D' Shares (details of which are set out at paragraph 3 of Part 6) are issued, the maximum aggregate Net Proceeds will be approximately £18.9 million (£9.45 million per VCT) and the maximum total expenses of the Offer will be approximately £1.1 million (£0.55 million per VCT). As the costs of the Offer are fixed at 5.5% of the gross proceeds of the Offer, the maximum Net Proceeds (assuming that all Additional 'D' Shares are issued) will be 94.3p per 'D' Share if the over-allotment facility is fully utilised and 94.2p if the over-allotment facility is not utilised.

### 5. Annual Running Costs

Assuming that the Offer is fully subscribed and that all Additional 'D' Shares are issued (details of which are set out at paragraph 3 of Part 6), it is anticipated that the annual running costs of each VCT will amount to no more than 3% of its Net Asset Value (excluding irrecoverable VAT).

The annual running costs will include the portfolio management and administration fees payable to Ingenious Ventures (see paragraph 3 above), accounting and administration fees, Directors' fees, professional advisers' fees (such as for audit, taxation and legal advice), directors' and officers' insurance premiums, fees of the sponsors and registrars and receiving agents as well as the costs of communicating with Shareholders. Such annual running costs will exclude the Manager's performance-related incentive fee outlined in paragraph 3 above.

These annual running costs of each VCT are capped at 3.5% of the Net Asset Value (excluding irrecoverable VAT) with any excess being met by the Manager.

### 6. Reporting and Investment Valuations

Each VCT's annual report and accounts will be made up to 31 December of each year and will be sent to Shareholders. The first annual reports and accounts expected to be sent to D Shareholders will be in respect of the trading period to 31 December 2010. Shareholders will also receive unaudited half-year reports.

Quoted investments will be stated at bid prices and discounted, where necessary, to reflect any lack of liquidity. In valuing unquoted investments, the VCTs will adopt procedures which ensure compliance with the International Private Equity and Venture Capital Valuation Guidelines published by the BVCA. Such investments will be carried at fair value in accordance with relevant accounting standards.

### 7. Dividend Policy

The VCTs will seek to maximise distributions to Shareholders where possible in order to enable Shareholders to benefit from tax-free dividends. It is the VCTs' policy to distribute available cash from revenue received from its investments to Shareholders, subject to the availability of distributable reserves.

In any event, in order to qualify as a venture capital trust, each VCT cannot retain, in respect of any accounting period, more than 15% of the income it receives from shares and securities.

### 8. Liquidity and Share Buy-Backs

The Directors consider that the VCTs should have the ability to buy-back their 'D' Shares in the market in order to create additional liquidity for 'D' Shareholders. The Act provides that public companies may do so out of distributable profits or out of the proceeds of a fresh issue of shares made for the purposes of such purchase.

Accordingly, subject to court approval, each VCT intends to cancel its share premium account created on the issue of the 'D' Shares under the Offer and to establish a new special reserve which may be used to finance 'D' Share buy-backs. Shareholder approval will be sought at the General Meetings and it is anticipated that the cancellation will be carried out within 12 months of the date on which the Offer finally closes.

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Having established the special reserve, the VCTs will operate a discount policy for repurchasing 'D' Shares which will be determined by the Board from time to time at its discretion but is expected to be in line with other VCT discount policies in the market.

Although the Directors believe that 'D' Shareholders who may wish to sell their 'D' Shares to the VCTs in the future should be able to do so, prospective Applicants should be aware that this may not always be possible or appropriate.

The Boards intend to provide liquidity from the VCTs to enable 'D' Shareholders to realise their investment after five years should they wish to do so.

### **9. Taxation and HM Revenue & Customs Approval**

The Directors intend to conduct the affairs of the VCTs so that they satisfy the conditions for approval as venture capital trusts and so that such approval will be maintained. HM Revenue & Customs has granted each of the VCTs provisional approval as a venture capital trust. The VCTs intend to comply with section 274 ITA and have retained PricewaterhouseCoopers LLP to advise on taxation matters on an ongoing basis (including in relation to each VCT's status as a venture capital trust).

### **10. Conflicts and Co-Investment**

Ingenious Ventures and other members of the Ingenious Group act and will continue to act as the investment manager and/or investment adviser to various other new and existing clients. In particular, Ingenious Ventures currently acts as the investment manager of the Ingenious Music VCTs, the Ingenious Live VCTs, Ingenious Ventures LP and IMAC and may act as the investment manager of new venture capital trusts and/or funds in the future. Investment opportunities may therefore arise that are suitable for the VCTs and one or more of those other clients (both current and future). The Manager will ensure that any suitable investment opportunities are allocated fairly between the VCTs and such other clients of the Ingenious Group and/or the Manager in accordance with the conflicts and independence policies of the Ingenious Group from time to time. For example, the Manager may prioritise a particular venture capital trust client in order to ensure that it meets applicable qualification requirements under venture capital trust legislation. To the extent that both the Ingenious Entertainment VCTs and the Ingenious Live VCTs desire to invest in the same commercial opportunity, they will be given the opportunity to co-invest on terms to be reasonably negotiated.

The Ingenious Entertainment VCTs will always co-invest on equal terms pro rata to the capital in each VCT. The individual amounts that are invested by each VCT will be split equally between the monies that were raised in the original Ordinary Share offer, 'C' Ordinary Share offer and those raised in the Offer.

Where the VCTs intend to invest in a company in which one or more of the other venture capital trusts that are managed by Ingenious Ventures have already invested or intend to invest, the investment will be approved by the Directors who are independent of the Manager unless the investment is made either at the same time and on the same terms or in accordance with a pre-existing agreement between the VCTs and the Manager.

Ingenious Media and its subsidiaries are, and will continue to be, active investors in, and advisers to, entities and individuals in the media and entertainment sector. There may be circumstances in the future, therefore, where Ingenious Media, its subsidiaries and/or managed funds (including one or more of those referred to above) might enter (or propose to enter) into contracts, transactions, arrangements or investments with the VCTs or may otherwise be directly or indirectly interested in contracts, transactions, arrangements with, or investments by, the VCTs. Such circumstances (if they occur) will be managed in accordance with any requirements under applicable laws and regulations and in accordance with the conflicts and independence policies of the Ingenious Group from time to time.

## PART 6 - DETAILS OF THE OFFER

### 1. 'D' Share Offer and Over-Allotment Facility

The Offer, which is being made to the public by each VCT, is for up to 10,000,000 'D' Shares, in aggregate, comprising up to 5,000,000 'D' Shares in each VCT at the Offer Price (save where an Applicant pays an effective discounted offer price as a result of making an early Application as set out in paragraph 3 below). The Offer Price is payable in full on application and represents a premium of 99p over the nominal value of the 'D' Shares. The maximum gross proceeds of the Offer, assuming that all Additional 'D' Shares are issued and the Offer is fully subscribed, but the over-allotment facility referred to below is not utilised, is £9,950,000 before fees and expenses.

The Directors, at their discretion, if the Offer proves to be materially over-subscribed and they consider that demand from investors is strong enough, may extend the amount of the Offer by means of an over-allotment facility to include up to a further 5,000,000 'D' Shares in each VCT (totalling 10,000,000 in aggregate) under an authority already available to them. The over-allotment facility may be utilised whilst the Offer remains open.

The money raised from the Offer will form a separate pool of capital that will be invested alongside new investments made out of the funds raised from the VCTs' original Ordinary Share issue in November 2007 and the 'C' Share issue in September 2008.

The Offer will open at 8.00 am on 17 November 2009 and will close at 3.00 pm on 3 April 2010 or, if earlier, the date on which the Offer is fully subscribed, or fully subscribed after use of the over-allotment facility if the Directors so elect. The Offer may be extended beyond 3 April 2010 to 3.00 pm on 30 July 2010 or to such earlier date after 3 April 2010 as the Directors may subsequently resolve, at their sole discretion, to close the Offer provided that the Offer has not been fully subscribed, or has not been fully subscribed after use of the over-allotment facility if the Directors so elect. The Offer is not underwritten.

The Offer will not be revoked in respect of 'D' Shares that have been admitted to the Official List and to trading on the London Stock Exchange. The results of the Offer will be announced through a regulatory information service either by 5.00 pm on 3 April 2010 or, if the Offer has been extended beyond this date, by 5.00 pm on 30 July 2010.

The 'D' Shares, on Admission, will rank *pari passu* in all respects and will rank in full for all dividends and other distributions thereafter declared, made or paid on the 'D' Share capital of the VCTs.

### 2. Minimum Net Proceeds and Co-Capitalisation

The Offer will not proceed unless the Minimum Net Proceeds have been raised by 31 March 2010. If the Minimum Net Proceeds have not been raised by this date, Application monies which have been received will be returned without interest by cheque sent through the post at the Applicant's risk to the address stated in the Applicant's Application Form. The level of the Minimum Net Proceeds can only be varied through the issue of a supplementary prospectus.

An Applicant's Application (along with any entitlement to Additional 'D' Shares) will be divided equally between the VCTs.

### 3. Applications for 'D' Shares

Successful Applicants who apply for 'D' Shares before 8 January 2010 (or such later date as the Directors may resolve) will be entitled to 25 Additional 'D' Shares (or such higher amount as the Directors subsequently resolve) for every 1,000 'D' Shares subscribed for under the Offer (pro rated for any part thereof).

Successful Applicants who apply for 'D' Shares between 9 January 2010 and 5 February 2010 (or such later date as the Directors may resolve) will be entitled to 16 Additional 'D' Shares (or such higher amount as the Directors subsequently resolve) for every 1,000 'D' Shares subscribed for under the Offer (pro rated for any part thereof).

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By way of example, an Applicant who applies for £10,000 of 'D' Shares before 8 January 2010 and who is entitled to Additional 'D' Shares will be allotted 10,250 'D' Shares in total, representing an effective discounted offer price per 'D' Share of £97.6.

Entitlements to Additional 'D' Shares will be rounded-down to the nearest even number. An Applicant's Additional 'D' Shares will be divided equally between each VCT.

Early Applications will be favoured and, accordingly, in the event that the Offer is over-subscribed, 'D' Shares (including any Additional 'D' Shares) will be allotted on a "first come, first served" basis (subject only to the overriding discretion of the Directors in the allocation of 'D' Shares to Applicants). So far as the VCTs are aware, save in respect of possible subscriptions for shares representing not more than 5% of the net asset value or market capitalisation of each VCT, major Shareholders and the Directors do not intend to subscribe in the Offer and no person intends to subscribe for more than 5% of the Offer.

If the Offer is over-subscribed, or over-subscribed after use of the over-allotment facility if the Directors so elect, an Applicant's Application may be accepted for fewer 'D' Shares than the number actually applied for. The number of 'D' Shares applied for by an Applicant must be a multiple of two, failing which the VCTs reserve the right to round-down the number of 'D' Shares applied for to the nearest even number. In either of these cases, the balance of the amount paid on application will be returned, without interest, by cheque sent through the post at the Applicant's risk to the address stated in the Applicant's Application Form. To the fullest extent permitted by law, Applications are irrevocable.

### **4. Minimum and Maximum Investment**

The minimum Application per Applicant is £3,000. An Applicant may subscribe for as many 'D' Shares as he or she may wish subject to the maximum aggregate number of 'D' Shares being offered pursuant to the Offer. There is no maximum investment but Applicants are advised that the maximum investment on which income tax relief can be claimed per Qualifying Investor is £200,000 in any one tax year. A person may make multiple Applications, each of which will be treated as a separate Application by the VCTs.

### **5. Settlement, Dealings and Share Certificates**

An application will be made for the 'D' Shares issued under the Offer to be admitted to the Official List and to be traded on the London Stock Exchange within 10 Business Days of allotment. 'D' Shares subscribed for in respect of the 2009/2010 tax year will be allotted between 1 January 2010 (at the earliest) and 3 April 2010 (at the latest). In the event that the Offer is extended, 'D' Shares subscribed for in respect of the 2010/2011 tax year will be allotted between 6 April 2010 (at the earliest) and 6 August 2010 (at the latest). Subject to the foregoing, the Directors may allot 'D' Shares at such times throughout the period of the Offer and in such amounts as they deem, at their absolute discretion, to be appropriate. The 'D' Shares will be issued in registered form, will be freely transferable and will rank *pari passu* amongst themselves for all dividends and other distributions which may be declared, paid or made by the VCTs in respect of the 'D' Shares. All of the 'D' Shares, which will be issued pursuant to the provisions of the Act and the Articles, will have equal voting rights.

It is intended that definitive share certificates and tax certificates will be posted to 'D' Shareholders within 14 Business Days of the date of Admission of the relevant 'D' Shares. Prior to despatch of definitive share certificates, any transfers of 'D' Shares will be certified against the register of members of the VCTs. No temporary documents of title will be issued.

Successful Applicants will be notified of the total number of 'D' Shares issued to them by receipt of their respective share certificate(s). Dealings in the 'D' Shares may commence prior to such notification but only if the 'D' Shares in question have been admitted to the Official List and to trading on the London Stock Exchange.

### **6. Crest**

The VCTs will apply for the 'D' Shares to be admitted to Crest and it is expected that the 'D' Shares will be so admitted, and eligible for settlement in Crest, from their respective dates of Admission. Accordingly, those successful Applicants who wish to take advantage of the ability to trade the 'D' Shares in uncertificated form, and who have access to a Crest account, may arrange with their Crest sponsor or directly with Crest to convert their holdings into "dematerialised" form once their 'D' Shares have been issued and allotted to them in certificated form.

### PART 7 - TAX BENEFITS FOR THE INVESTOR

The following is only intended as a general summary of the current UK tax legislation concerning: (i) the conditions to be met by the VCTs in order for them to be treated as venture capital trusts; and (ii) the UK tax position for investments into venture capital trusts by Qualifying Investors and is based on the VCTs' understanding of current law and practice. Potential Applicants are strongly recommended to consult a professional adviser regarding this Part 7 and, in particular, their personal tax position and the consequences of an investment in a venture capital trust.

#### 1. Approval

In order to obtain venture capital trust status, a company must be approved by HM Revenue & Customs as a venture capital trust. HM Revenue & Customs has granted the VCTs provisional approval as venture capital trusts under section 274 ITA and has confirmed that, following the Offer, the VCTs will retain such provisional approval. Full unconditional approval should follow pending satisfaction of the conditions set out below. Tax reliefs are granted during the provisional approval period provided that full unconditional approval is ultimately obtained.

To obtain full unconditional approval, the conditions summarised below must be satisfied in relation to the accounting period of a venture capital trust which is current when the application for approval is made or its next accounting period and must continue to be satisfied throughout the life of the venture capital trust:

- the venture capital trust's income must be derived wholly or mainly from shares and securities;
  - no holding in a company (other than a venture capital trust or a company which would, if its shares were listed, qualify as a venture capital trust) by the venture capital trust may represent more than 15% by value of the venture capital trust's total investments;
  - the venture capital trust must not retain more than 15% of the income derived from shares or securities in any accounting period; and
- the venture capital trust must not be a close company. The company's ordinary share capital must be quoted on the London Stock Exchange throughout the accounting period following that in which the application for approval is made.
  - The following conditions also have to be satisfied by no later than the beginning of the venture capital trust's accounting period which commences no more than three years after provisional approval takes effect and must continue to be satisfied throughout the life of the venture capital trust:
    - at least 70% by value of its investments is represented by shares and securities comprising Qualifying Investments; and
    - at least 30% by value of the venture capital trust's Qualifying Investments must be represented by holdings of ordinary shares which carry no present or future preferential rights to dividends or to an Investee Company's assets on its winding-up, and no present or future right to be redeemed.

In addition, at least 10% of its total investment in any Qualifying Company must be held in ordinary shares which carry no preferential rights.

Qualifying Investments comprise shares or securities (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) issued by unquoted trading companies that exist wholly or mainly for the purpose of carrying on one or more qualifying trades. The definition of a qualifying trade excludes dealing in property, shares, securities, commodities or futures. It also excludes banking, insurance, receiving royalties or licence fees (except where the Qualifying Company creates the intellectual property on which the royalties or licence fees are received), leasing, the provision of legal and accounting services, farming and market gardening and forestry.

Qualifying Investments are limited to investments of up to £1 million per Investee Company in any one tax year or in any six month period straddling two tax years. A Qualifying Investment can also be made in a company which is a parent company of a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades, one of which is carried on wholly or mainly in the United Kingdom. An Investee Company may not receive subscriptions of more than £2 million from Venture Capital Trusts, Enterprise Investment Schemes or the Corporate Venturing Scheme in any 12 month period. It must also have fewer than 50 full time (or equivalent) employees

at the time of investment. An Investee Company's gross assets must not exceed £7 million immediately prior to the venture capital trust's investment and £8 million immediately thereafter. Neither a venture capital trust nor any other company may control an Investee Company.

The Government has announced that for funds raised after 5 April 2010, at least 70% by value of Qualifying Investments must be in 'equity'. Legislation defining 'equity' is due to be introduced in Finance Bill 2010.

Companies whose shares are traded on AIM are treated as unquoted companies for the purposes of eligibility as a Qualifying Investment. Unquoted company shares that subsequently become listed may still be regarded as a Qualifying Investment for a further five years following listing, provided all other conditions are met.

### 2. Venture Capital Trust Taxation

A venture capital trust is exempt from corporation tax on chargeable gains. There is no restriction on the distribution of realised capital gains by a venture capital trust although this is subject to the requirements of company law and the Articles. The VCTs will be subject to corporation tax on their income (excluding dividends received from UK companies) after deduction of attributable expenses.

### 3. Individual Tax Reliefs

Individuals must be aged 18 years or over and subscribe for 'D' Shares in their own name in order to be a Qualifying Investor and obtain the tax reliefs outlined below.

#### Income Tax

An investor subscribing up to £200,000 in any tax year for new shares in a venture capital trust will be entitled to claim income tax relief on the investment in the tax year in which the investment is made currently at the rate of 30%. However, this relief will be withdrawn if either the shares are disposed of within five years or an investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount that reduces the investor's income tax liability to nil.

An investor who subscribes for, or acquires ordinary shares in a venture capital trust will not be liable for

UK income tax on dividends paid by the venture capital trust in respect of investments up to a maximum of £200,000 in any one tax year.

#### Obtaining Your Income Tax Relief

Each VCT will issue each 'D' Shareholder with a tax certificate which should be used to claim the above income tax relief. Individuals can claim their relief either by obtaining an adjustment to their PAYE tax code or through self assessment. In each case, 'D' Shareholders should contact their Tax Office in order to inform them of their investment in the VCTs.

Dividends received on shares acquired in venture capital trusts (on investments of up to £200,000 per tax year) are not required to be shown on a Shareholder's self assessment tax return.

#### Capital Gains Tax

A disposal by an investor of shares in a venture capital trust (whether acquired by subscription for new shares or by subsequent acquisition) will not give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax. This relief is limited to disposals of ordinary shares acquired within the limit of £200,000 in any tax year.

### 4. Loss of Reliefs

If a company fails to obtain full approval as a venture capital trust, it will be treated as if it was never entitled to exemption from corporation tax on chargeable gains and therefore all chargeable gains it has realised will be subject to corporation tax. Additionally, the withdrawal of venture capital trust status may (depending upon the timing of such withdrawal) result in:

- income tax becoming payable on dividends paid by the company in the accounting period in which venture capital trust status is withdrawn, or on any previous payments of dividends if venture capital trust status is treated as never having been obtained;
- repayment of the 30% income tax relief on subscriptions for new venture capital trust shares and interest on overdue tax becoming payable; and
- any gain arising on a disposal of the shares becoming liable to capital gains tax (and losses on the shares would be allowable losses for capital gains tax purposes).

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### **5. Transfers Between Spouses**

A transfer of shares in a venture capital trust between spouses is not deemed to be a disposal and therefore all tax reliefs will be retained.

### **6. General**

The 30% income tax relief on investment is not available to a subsequent purchaser of 'D' Shares as this relief is only available to subscribers under the Offer.

Investments in the 'D' Shares will not qualify for reliefs under the Inheritance Tax Act 1984 (as amended).

The Government has announced that for funds raised after 5 April 2010, at least 70% by value of Qualifying Investments must be in 'equity'. Legislation defining 'equity' is due to be introduced in the Finance Bill 2010.

### **7. Stamp Duty and Stamp Duty Reserve Tax**

The VCTs have been advised that no stamp duty or stamp duty reserve tax will be payable on the issue of the shares issued under the Offer.

### PART 8 - ADDITIONAL INFORMATION

#### 1. The VCTs

- (a) Entertainment 1 and Entertainment 2 were incorporated in England and Wales on 10 October 2007 as public companies limited by shares with the names “Ingenious Entertainment VCT 1 plc” and “Ingenious Entertainment VCT 2 plc” and registered numbers 6395011 and 6395025 respectively. Each VCT operates, and the ‘D’ Shares will be created, under the Act (and the regulations made under the Act). The registered address of the principal place of business of both VCTs is 15 Golden Square, London, W1F 9JG. The telephone number of the principal place of business of each VCT is 020 7319 4000.
- (b) The ISIN number of the Entertainment 1 ‘D’ Shares will be GB00B598LZ10 and the ISIN number of the Entertainment 2 ‘D’ Shares will be GB00B59YCM000. The Shares are ordinary shares of 1p each and ‘D’ shares of 1p each.
- (c) On 16 October 2007, each VCT gave notice to the Registrar of Companies of its intention to carry on business as an investment company under section 266 of the Companies Act 1985. Each VCT will carry on its business in accordance with its Memorandum and Articles.
- (d) On 12 November 2007, the Registrar of Companies issued each of the VCTs with a certificate under section 117 of the Companies Act 1985 entitling the VCTs to commence business and borrow.
- (e) The VCTs do not assume responsibility for withholding tax at source on dividends.
- (f) The Company Secretary of Entertainment 1 and Entertainment 2 is Sarah Cruickshank of 15 Golden Square, London, W1F 9JG.
- (g) The Offer will be promoted by Ingenious Investments which is authorised and regulated by the FSA.
- (h) The advisers to the VCTs are as follows:
  - (i) solicitors and sponsor: Howard Kennedy, 19 Cavendish Square, London, W1A 2AW;
  - (ii) auditors: Grant Thornton UK LLP, Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP;

- (iii) reporting accountants: Shipleys LLP, 10, Orange Street, Haymarket, London, WC2H 7DQ;
- (iv) taxation: PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH; (iv) investment manager: Ingenious Ventures, 15 Golden Square, London W1F 9JG, (authorised and regulated by the FSA).
- (v) The net asset value per Ordinary Share of each VCT as at 30 June 2009 was 94.6 per share and the net asset value per ‘C’ Share of each VCT as at 30 June 2009 was 92.9 per share.

#### 2. Share Capital and Resolutions

- (a) The authorised share capital of each VCT on incorporation was £350,000 divided into:
  - (i) 30 million ordinary shares of 1p each (of which one Ordinary Share was issued, nil paid, to the subscriber to the Memorandum, Ingenious Holdings Limited); and
  - (i) 50,000 redeemable preference shares of £1 each.
- (b) On 10 October 2007, Ingenious Investments was issued 50,000 redeemable preference shares of £1 each in each VCT paid up in cash as to one quarter so as to enable the VCTs to obtain certificates under section 117 of the Companies Act 1985. On 30 April 2008 the redeemable preference shares were redeemed by each of the VCTs out of the proceeds of the Ordinary Share offer and the unissued share capital thereby created was automatically sub-divided into, and re-designated as, Ordinary Shares.
- (c) At the General Meetings resolutions will be proposed:
  - (i) to create a class of ‘D’ Shares of 1p each in the capital of the Companies;
  - (ii) to authorise the Directors, in accordance with section 551 of the Act, to allot ‘D’ Shares up to a maximum nominal amount of £200,000 to such persons and upon such conditions as the Directors may determine, such authority to expire on 15 December 2014;
  - (iii) to empower the Directors (pursuant to section 571(1) of the Act) to allot (or make offers of agreements to allot) equity securities (as defined in section 560 of the Act) for cash

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as if section 561 of the Act did not apply to the allotment. This power is limited to the allotment of 'D' Shares in connection with:

- (1) the Offer (including the over-allotment facility);
- (2) an offer for securities by way of rights to the holders of 'D' Shares and other persons entitled to participate therein for cash in proportion (as nearly as may be) to the holders of such 'D' Shares; and
- (3) otherwise than pursuant to (1) and (2) above, up to 10% of the issued share capital of each VCT from time to time,

and shall expire on 15 December 2014.

- (iv) subject to the approval of the High Court of Justice, to authorise each VCT generally and unconditionally to cancel its share premium account created on the issue of 'D' Shares; and
  - (v) that each VCT will be authorised pursuant to section 701 of the Act to make one or more market purchases of Shares, which authority is limited to 14.99% of the issued 'D' share capital of each VCT following the close of the Offer. The price paid must not be less than 1p per 'D' Share nor more than 5% above the average of the middle market prices shown in the quotations for a 'D' Share in the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase of the 'D' Share. The authority, unless renewed or revoked prior to such time will expire on the earlier of 18 months from the passing of the resolution and the conclusion of each VCT's next annual general meeting.
  - (vi) to amend the Articles to reflect the rights attaching to the 'D' Shares, to include new provisions consequential to the provisions of the Companies Act 2006 coming into force and to extend the date on which Shareholders vote as to whether the VCTs should continue as venture capital trusts.
- (d) Each VCT is subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the Act will apply to the balance of the unissued share capital of each VCT which is not subject to the disapplication referred to in paragraph 2(c) (iii) above.

### 3. Share Rights

The following is a summary of rights attached to the 'D' Shares, which are contained in the Articles, as proposed to be amended at the General Meetings:

#### (i) Voting Rights

Every 'D' Shareholder present in person, by proxy or by a duly authorised representative (in the case if a corporation) has one vote on a show of hands and one vote for every 'D' Share of which he is the holder on a poll. The VCTs themselves are prohibited (to the extent specified by the Act) from exercising any rights to attend or vote at meetings in respect of any 'D' Shares held by it as treasury shares.

#### (ii) Dividends

The holders of 'D' Shares are entitled to receive in that capacity such dividends as the Directors may resolve to pay out of net assets attributable to the 'D' Shares and from income received and accrued which is attributable to the 'D' Shares;

Subject to the Act and the provisions of all other relevant legislation, the VCTs may by ordinary resolution declare dividends in accordance with the respective rights of members but no such dividend shall exceed the amount recommended by the directors. If, in the opinion of the directors, the profits of the VCTs available for distribution justify such payments, the directors may pay fixed dividends payable on any shares of the VCTs with preferential rights, half-yearly or otherwise, on fixed dates and from time to time pay interim dividends to the holders of any class of shares. Subject to any special rights attaching to or terms of issue of any shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. No dividend shall be payable to the VCTs themselves in respect of any shares held by it as treasury shares.

#### (iii) Distribution of Assets on Winding Up

On a winding-up or on a return of capital, the net assets of each VCT attributable to the 'D' Shares (including any income and/or revenue arising from or relating to such assets) less such proportion of the VCT's liabilities (including fees and expenses of liquidation or return of capital) as may reasonably be allocated ("D' Share Surplus") will be divided amongst the holders of 'D' Shares pro rata

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according to their holdings of 'D' Shares and the net assets of each VCT (including any income and/or revenue arising from or relating to such assets) less the VCT's liabilities (including the fees and expenses of liquidation or return of capital) less the 'D' Share Surplus will be divided amongst the holders of Ordinary Shares and 'C' Ordinary Shares pro rata according to their holdings.

### (iv) Variation of Rights

The rights or privileges attached to any class of shares of either of the VCTs may (unless otherwise provided by the terms of the issue of the shares of that class) be varied or abrogated with the consent in writing of the holders of three-fourths in nominal amount of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class, but not otherwise.

### (v) Transfer of Shares

All shares in the VCTs may be transferred by a transfer in any usual or common form or any form acceptable to the directors and permitted by the Act and the FSA. The directors may decline to register a transfer of a share which is:

- (1) not fully paid or on which the VCTs have a lien provided that such discretion may not be exercised in such a way as to prevent dealings in shares of that class from taking place on an open and proper basis; or
- (2) not lodged duly stamped at the registered office of the VCTs or at such other place as the directors may appoint; or
- (3) (except where a certificate has not been issued) not accompanied by the certificate of the share to which it relates or such other evidence reasonably required by the directors to show the right of the transferor to make the transfer; or
- (4) in respect of more than one class of share; or
- (5) in the case of a transfer to joint holders of a share, the number of joint holders to whom the share is to be transferred exceeds four.

### (vi) Restriction on the Distribution of the VCTs' Capital Profits

At any time when the VCTs have given notice in the prescribed form (which has not been revoked) to the registrar of companies of their intention to carry on business as an investment company, distribution of the VCTs' capital profits shall be prohibited, except for the purpose of redeeming or purchasing their own shares in accordance with sections 160 and 162 of the Act.

### (vii) Pre-emption Rights

There are no rights of pre-emption under the Articles in respect of transfers of issued 'D' Shares.

A summary of further provisions in the Articles is set out in paragraph 3 of Part 10 of the Share Registration Document.

## 4. Venture Capital Trust Compliance

- (a) A venture capital trust must satisfy the FSA that its directors and any investment managers have sufficient and appropriate experience in the management of assets on a scale and type in which the venture capital trust proposes to invest. A venture capital trust's board of directors must be able to demonstrate that it will act independently of any investment manager of the venture capital trust. A majority of the board must not be directors, employees, partners, officers, or professional advisers of or to, the investment manager or any other company in the same group as the investment manager or any other investment entity which they manage. In order to obtain venture capital trust status, a company must be approved by HM Revenue & Customs. The conditions which must be satisfied to obtain such status are set out in paragraph 1 of Part 7. Should the VCTs' (or a VCT's) venture capital trust status be lost under section 274 ITA, then the FSA will be notified as soon as possible.
- (b) The VCTs have retained Pricewaterhouse Coopers LLP to advise on taxation matters on an ongoing basis (including in relation to each VCT's venture capital trust status).
- (c) The VCTs are not required to be regulated by the FSA. However, each VCT intends to seek advance approval from HM Revenue & Customs with the aim of ensuring that they comply with the venture capital trust legislation.

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### 5. General

#### (a) Working Capital

Entertainment 1 is of the opinion that it has sufficient working capital for its present requirements (that is, for at least the 12 months following the date of this Prospectus). Entertainment 2 is of the opinion that it has sufficient working capital for its present requirements (that is, for at least the 12 months following the date of this Prospectus).

#### (b) Capitalisation and Indebtedness

As at the date of this Prospectus, the capitalisation and indebtedness of Entertainment 1 is as follows:

	£
Indebtedness	22,910
Shareholders' equity:	
Share capital	10,205,011
Reserves	(178,675)
Total	10,003,415

As at the date of this Prospectus, the capitalisation and indebtedness of Entertainment 2 is as follows:

	£
Indebtedness	22,910
Shareholders' equity:	
Share capital	10,205,011
Reserves	(177,528)
Total	10,004,573

As at the date of this Prospectus, the capitalisation and indebtedness of Entertainment 1 C share is as follows:

	£
Indebtedness	0
Shareholders' equity:	
Share capital	2,810,596
Reserves	(75,247)
Total	2,735,349

As at the date of this Prospectus, the capitalisation and indebtedness of Entertainment 2 is as follows:

	£
Indebtedness	0
Shareholders' equity:	
Share capital	2,810,596
Reserves	(75,271)
Total	2,735,325

#### (c)

#### (d) Information Sourced from Third Parties

Each VCT confirms that where information has been sourced from a third party this information has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

#### (e) Investor Profile

The profile of a typical investor for whom the VCTs are designed is a UK income tax payer who is aged 18 years or over with an investment range of between £3,000 and £200,000 per tax year and who is seeking to participate in the opportunities to produce and exploit commercial media products and media content on the basis set out in the Prospectus. Such an investor will typically be attracted to a fund specialising in the media and entertainment sector as opposed to a more general investment fund and may include retail, institutional and sophisticated investors and high net-worth individuals.

#### (f) Manager's Consent and Responsibility

The Prospectus contains statements of belief made by Ingenious Ventures as an expert, on pages 11 and 12, which are referenced to this paragraph 5(e). Such statements are included, in the form and context in which they appear, with the consent of Ingenious Ventures, who has authorised and takes responsibility for such statements of belief under rule 5.5.3(2)(f) of the Prospectus Rules. To the best of the knowledge and belief of Ingenious Ventures (which has taken all reasonable care to ensure that such is the case), such statements of belief are in accordance with the facts and do not omit anything likely to affect their import.

#### (g) Material Interests

Patrick McKenna is a director and is indirectly interested in the share capital of the Manager, Ingenious Investments and Ingenious Media Consulting Limited. The Manager is party to the Management Agreements and the Deeds of Variation and the Manager and Ingenious Investments are party to the offer agreement to which the VCTs are also party, further details of

which are stated in Part 9 of the Share Registration Document. Ingenious Media Consulting Limited may earn fees as disclosed in paragraph 5(f) of Part 10 of the Share Registration Document.

Except as stated in this paragraph (e), as at the date of this document, the Directors are not aware of any potential conflicts of interests between their duties to the VCT of which they are a Director and their private interests or other duties. There are no family relationships between the Directors as at the date of this document.

(h) Overseas Shareholders

No person receiving a copy of this Prospectus and/or the Application Form in any territory other than the UK may treat the same as constituting an invitation or offer to him or her to subscribe for or purchase 'D' Shares unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her and/or the Application Form could lawfully be used without contravention of any registration or other legal requirements.

It is the responsibility of any person outside the UK wishing to make an Application to satisfy himself or herself as to the full observance of the laws and/or regulations of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.

(i) Availability of Prospectus

Copies of this document, the Share Registration Document and the Summary are available for inspection only during normal business hours on any weekday at the UK Listing Authority's Document Viewing Facility at 25 The North Colonnade, London E14 5HS and may be obtained, free of charge, whilst the Offer remains open, from the VCTs' registered office or the offices of Ingenious Ventures, 15 Golden Square, London, W1F 9JG, (telephone number 0207 319 4000) and can be downloaded at [www.ingeniousvcts.co.uk](http://www.ingeniousvcts.co.uk).

## **PART 9 - TERMS AND CONDITIONS**

1. Save where otherwise stated, the terms used in the Application Form bear the same meaning as in Part 10.
2. For the purposes of this Part 9:
  - (a) an Application shall be deemed to be an application to subscribe for 'D' Shares in each VCT equal to one half of the number applied for in the Application Form in which case a reference to the "VCT" in this Part 9 shall mean Entertainment 1 and Entertainment 2.
3. The VCT reserves the right to treat as valid any Application not complying fully with the Terms and Conditions or Part 11 or which is not fully completed. In particular, but without limitation, the VCT may accept Applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the VCT to apply in accordance with these Terms and Conditions.
4. The VCT reserves the right to reject any Application (in whole or in part) or to accept any Application in part only. If any Application is not accepted, or if any contract created by acceptance does not become unconditional, or if any Application is accepted but for fewer 'D' Shares than the number originally applied for, then Application monies or the balance of the amount paid on application will be returned, without interest, by cheque sent through the post at the Applicant's risk to the address stated in the Applicant's Application Form.
5. The number of 'D' Shares applied for by an Applicant must be a multiple of two, failing which the VCTs reserve the right to round-down the number of 'D' Shares applied for to the nearest even number. In this case, the balance of the amount paid on application will be returned, without interest, to the Applicant in the manner set out in paragraph 4 above.
6. An Applicant may pay for his or her Application by cheque, banker's draft or telegraphic transfer submitted or made with the Application Form and payment will be deemed to have been made on receipt of cleared funds.
7. The Offer will not proceed unless the Minimum Net Proceeds are raised by 31 March 2010. If the Minimum Net Proceeds are not raised by this date,

application monies which have been received will be returned, without interest, to the Applicant in the manner set out in paragraph 4 above.

8. By completing and delivering an Application Form you (as the Applicant):
  - (a) irrevocably offer to subscribe for the number of 'D' Shares specified on your Application Form or any smaller even number for which such Application is accepted at the Offer Price subject to the provisions of the Prospectus, these Terms and Conditions, the Memorandum and the Articles;
  - (b) authorise your financial adviser (or whoever he or she may direct), SLC Registrars and/or the VCT to send a document of title for the number of 'D' Shares for which your Application is accepted, and/or a crossed cheque (or banker's draft) for any monies returnable, by post at your risk to your address as set out in your Application Form;
  - (c) agree that, in consideration of the VCT agreeing that it will not, prior to the Offer closing, offer any 'D' Shares for subscription to any persons other than as set out in this Prospectus, your Application cannot be revoked and that this paragraph constitutes a collateral contract which will become binding upon despatch by post or delivery by hand (as the case may be) of your Application Form duly completed to SLC Registrars, the VCT or to your financial adviser;
  - (d) represent and warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, or your telegraphic transfer fails to clear, you will not be entitled to receive a share certificate for the 'D' Shares applied for or to enjoy or receive any rights or distributions in respect of such 'D' Shares unless and until you make a payment in cleared funds for such 'D' Shares and such payment is accepted by the VCT (which acceptance shall be in its absolute discretion and which may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of, or in connection with, the failure of your remittance to be honoured on first presentation) and that, at any time prior to such unconditional acceptance by the VCT, the VCT may (without prejudice to its other rights) treat the agreement to issue and allot 'D' Shares as

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- void and may issue and allot such 'D' Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such 'D' Shares (other than return of late payment);
- (e) agree that all cheques and bankers' drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance or telegraphic transfer and the completion of any verification of identity required by the Money Laundering Regulations 2007 (as amended) and that such monies will not bear interest;
  - (f) undertake to provide satisfactory evidence of identity in such reasonable time (in each case to be determined in the absolute discretion of the VCT, Ingenious Investments, SLC Registrars and/or Howard Kennedy) in order to ensure compliance with the Money Laundering Regulations 2007 (as amended);
  - (g) agree that, in respect of those 'D' Shares for which your Application has been received and processed and not rejected, acceptance of your Application shall be effected by the VCT instructing SLC Registrars to enter your name(s) on the register of members of the VCTs;
  - (h) agree that all documents in connection with the Offer and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;
  - (i) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of and fully understood all information, terms and conditions and representations contained therein;
  - (j) confirm that (save for advice received from your financial adviser) in making such Application you are not relying on any information and/or representation other than that or those contained in the Prospectus (or any supplementary prospectus which may be issued) and that, accordingly, you agree that no person responsible solely, jointly or severally for the Prospectus (or any supplementary prospectus which may be issued) will have any liability for any such other information and/or representation (including, without limitation, for any advice received from your financial adviser);
  - (k) agree that all Applications, acceptances of Applications and contracts resulting therefrom under, or connected with, the Offer shall be governed by, and construed in accordance with, English law and that you submit to the jurisdiction of the English courts and agree that nothing shall limit the right of the VCT to bring any action, suit or such proceedings arising out of, or in connection with, any such Applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
  - (l) irrevocably authorise the VCT, Ingenious Investments, SLC Registrars and/or Howard Kennedy (or any person authorised by one of them), as your agent, jointly and severally to do (or arrange to be done) all acts and things deemed necessary and/or desirable in the agent's absolute and unfettered discretion in order to effect the registration of any 'D' Shares subscribed for by you in your name and irrevocably authorise the same to approve, execute and deliver any document required in order to give full effect to the above and, without limitation, to enter your name(s) on the register of members of the VCT; agree to provide the VCT with any information which it may request in connection with your Application or to comply with the requirements of section 274 ITA, the Venture Capital Trust Regulations 1995 and/or any other relevant legislation (as amended or replaced from time to time);
  - (m) represent and warrant that, in connection with your Application, you have observed and complied with the laws and regulations of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your Application in any territory and that you have not taken any action including the making of your Application which will or may result in the VCT, the Manager or Howard Kennedy (or any of their respective directors, officers, employees or agents) acting in breach of the regulatory or legal requirements of any territory in connection with the Offer or your Application;
  - (n) represent and warrant that you are over 18 years of age;

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- (o) agree that the Manager, Howard Kennedy and Ingenious Investments are acting exclusively for the VCT in connection with the Offer and for no one else and that they will not treat you as their customer by virtue of such Application being accepted nor owe you any duties concerning the price of 'D' Shares or concerning the suitability of 'D' Shares;
  - (p) represent and warrant that, if you sign the Application Form on behalf of somebody else or a corporation, you have the authority to do so and such person will also be bound accordingly and will be deemed also to have given the consents, confirmations, representations, warranties and undertakings contained in these Terms and Conditions and in the Application Form and undertake to enclose a valid, legal and binding power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
  - (q) represent and warrant that you are not subscribing for the 'D' Shares using a loan which would not have been given to you, or not given to you on such favourable terms, if you had not been proposing to subscribe for the 'D' Shares;
  - (r) represent and warrant that the 'D' Shares are allotted to you for bona fide investment purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax (note that obtaining tax reliefs given under the venture capital trust legislation does not, of itself, constitute tax avoidance);
  - (s) represent and warrant that you are not a US Person or resident of Canada, Japan, Australia or any other jurisdiction where the Offer cannot lawfully be made and that you are not applying on behalf of, or with a view to, the offer, sale or delivery, directly or indirectly, to, or for the benefit of, any US person or resident of Canada, Japan, Australia or any other jurisdiction where the Offer cannot lawfully be made;
  - (t) represent and warrant that the information contained in the Application Form is true, accurate and not misleading in any respect; and
  - (u) will not reproduce or distribute this Prospectus and/or the Application Form in whole or in part and that you will not disclose any of their content or any information therein for any purpose other than your considering an investment in the 'D' Shares.
9. No person receiving a copy of the Prospectus or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements.
  10. The 'D' Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States. In addition, the VCT has not been and will not be registered under the United States Investment Company Act of 1940 (as amended). No Application will be accepted if it bears an address in, or appears to have been posted from within, the United States.
  11. Your Application is addressed to the VCT. The rights and remedies of the VCT under the Terms and Conditions are in addition to any rights and remedies which would otherwise be available to the VCT and the exercise or partial exercise of one will not prevent the exercise of others.
  12. The dates and times referred to in these Terms and Conditions may be altered by the VCT with the agreement of Howard Kennedy without prior notice.
  13. Authorised financial intermediaries who, acting on behalf of their clients, return valid Application Forms will be paid commission on the amount payable in respect of the 'D' Shares allocated for each such Application Form. Authorised financial intermediaries may agree to waive all or part of their commission in respect of an Application by completing the relevant part of box number 3 of the Application Form. If this is the case, then such Application will be treated as an Application to apply for the number of 'D' Shares stated in box number 1 of the Application Form together with a number of Waiver Shares (subject to there being sufficient 'D' Shares available under the Offer) equivalent to the amount of commission waived at £1 per 'D' Share. Financial intermediaries should keep a record of Application Forms submitted

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bearing their stamp to substantiate any claim for their commission. Any entitlements to Waiver Shares may be rounded-down to the nearest even number.

14. It is a condition of the Offer that, in order to ensure compliance with the Money Laundering Regulations 2007 (as amended), Ingenious Investments and/or SLC Registrars are entitled to require, at their absolute discretion, verification of identity from any Applicant lodging an Application Form including, without limitation, any person who either: (i) tenders payment by way of a telegraphic transfer or by cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant; or (ii) otherwise appears to Ingenious Investments or SLC Registrars to be acting on behalf of some other person. Pending the provision of evidence satisfactory to Ingenious Investments and/or SLC Registrars as to the identity of the Applicant or any person on whose behalf the Applicant appears to be acting, Ingenious Investments and/or SLC Registrars may, in their absolute discretion, retain an Application Form lodged by an Applicant and the cheque or other remittance relating thereto and SLC Registrars may not enter the Applicant on the register of members or issue any share certificates in respect of such Application. The VCT reserves the right, in its absolute discretion, for it, Ingenious Investments and/or SLC Registrars to reject any Application in respect of which Ingenious Investments and/or SLC Registrars consider(s) that, having requested verification of identity, it (they) has (have) not received evidence of such identity satisfactory to it (them) by such time as was specified in the request for verification of identity or in any event within a reasonable period. Neither the VCT, Ingenious Investments and/or SLC Registrars will be liable to any person for any loss whatsoever and howsoever incurred as a result of the exercise of Ingenious Investments' and/or SLC Registrars' discretion to determine whether the verification of identity is required and, if so, whether such verification has been appropriately evidenced by the Applicant. In the event of an Application being rejected in any such circumstances, the VCT reserves the right in its absolute discretion to terminate any contract of issue and allotment relating to, or constituted by, such Application Form (in which event the money payable or paid in respect of the Application will be returned, without interest, at the sole risk of the Applicant) and to endeavour to procure other subscribers for the 'D' Shares in question (but

in each case without prejudice to any rights the VCT may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid).

15. Part 11 forms part of these Terms and Conditions.

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### PART 10 - DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

#### **Act**

The Companies Act 2006 (as amended from time to time) and legislation derived therefrom.

#### **Additional 'D' Shares**

Has the meaning given to it in paragraph 3 of Part 6.

#### **Admission**

Admission of 'D' Shares to the Official List and to trading on the London Stock Exchange.

#### **Applicant**

A person who makes an Application whether by lodging an Application Form or otherwise in accordance with the Terms and Conditions.

#### **Application**

An application for subscription of 'D' Shares under the Offer.

#### **Articles**

The articles of association of Entertainment 1 and/or Entertainment 2 (as the case may be).

#### **Business Day**

Any day (excluding Saturdays and Sundays) on which clearing banks are open in London for general banking business.

#### **'C' Share(s)**

'C' ordinary share(s) of 1p each in the capital of each VCT.

#### **'C' Shareholders**

Holders of 'C' Shares from time to time.

#### **Crest**

The system for paperless settlement of trades in listed securities of which Euroclear UK & Ireland Limited is the operator.

#### **'D' Share(s)**

'D' ordinary share(s) of 1p each in the capital of each VCT.

#### **'D' Shareholders**

Holders of 'D' Shares from time.

#### **Directors and Boards**

The directors and boards of each of the VCTs.

#### **Entertainment 1**

Ingenious Entertainment VCT 1 plc.

#### **Entertainment 2**

Ingenious Entertainment VCT 2 plc.

#### **FSA**

Financial Services Authority or the FSA acting in its capacity as competent authority for the purposes of Part VI FSMA.

#### **FSMA**

Financial Services and Markets Act 2000 (as amended from time to time).

#### **General Meetings**

The general meetings of the VCTs to be held on 16 December 2009 (and any adjournment thereof) convened by a notice contained in a circular to shareholders dated 16 November 2009.

#### **Group and Ingenious Group**

Ingenious Media and its subsidiaries.

#### **Ingenious and Ingenious Media**

Ingenious Media Holdings plc.

#### **Ingenious Investments**

Ingenious Media Investments Limited.

#### **Investee Company**

Companies in which the VCTs intend to invest and which will be formed to engage in the production and exploitation of premium media content and live events.

#### **ITA**

Income Tax Act 2007 (as amended from time to time)

#### **Listing Rules**

The Listing Rules issued by the FSA under the section 73A(2) FSMA (as amended from time to time).

#### **Manager or Ingenious Ventures**

Ingenious Ventures, a trading division of Ingenious Asset Management Limited (a wholly owned subsidiary of Ingenious Media).

#### **Memorandum**

The Memorandum of Association of Entertainment 1 or Entertainment 2 (as the case may be).

#### **Minimum Net Proceeds**

£1,842,750, being gross proceeds in respect of Valid Applications for 2 million 'D' Shares less the 5.5% arrangement fee payable to Ingenious Investments set out in Part 5.

### **Net Asset Value**

The value of a VCT's assets less all liabilities, excluding contingent liabilities, at any time.

### **Net Proceeds**

The gross proceeds of the Offer less the 5.5% arrangement fee payable to Ingenious Investments set out in Part 5.

### **Offer**

The VCTs' offer to the public for the subscription of up to 5,000,000 'D' Shares in each VCT, totalling up to 10,000,000 'D' Shares in aggregate, also including an over-allotment facility of up to a further 5,000,000 'D' Shares in each VCT totalling up to a further 10,000,000 'D' Shares in aggregate at the Directors' discretion if demand is strong from investors, as set out in this document.

### **Offer Price**

100p per 'D' Share.

### **Official List**

The Official List maintained by the FSA.

### **Ordinary Share(s)**

Ordinary shares of 1p each in the capital of each VCT.

### **Ordinary Shareholders**

Holders of Ordinary Shares from time to time.

### **Prospectus**

Together, this document, the Summary and the Share Registration Document together setting out, amongst other things, the terms and conditions of the Offer (as such documents may be supplemented from time to time).

### **Prospectus Rules**

The rules known as the prospectus rules made under section 84 FSMA (as amended from time to time).

### **Qualifying Company**

An unquoted company carrying on a trade wholly or mainly in the United Kingdom which satisfies certain other conditions as defined in chapter 4 of Part 6 ITA and which meets the criteria to be a qualifying holding for the purpose of that schedule.

### **Qualifying Investment**

An investment by a venture capital trust in a Qualifying Company.

### **Qualifying Investor**

An individual who is aged 18 years or over and subscribes for Shares in their own name.

### **Share(s)**

Ordinary Shares 'C' Shares and 'D' Shares as the context requires.

### **Share Registration Document**

The Registration Document that, together with this document and the summary, constitutes the Prospectus.

### **Shareholders**

Holders of 'D' Shares and/or Ordinary Shares from time to time as the context requires.

### **SLC Registrars**

David Venus & Company Limited, trading as SLC Registrars, the VCTs' registrar and receiving agent.

### **Summary**

The Summary that, together with this document and the Share Registration Document, constitutes the Prospectus.

### **Terms and Conditions**

The terms and conditions of the Offer set out in Part 9.

### **VAT**

Value added tax as provided for in the Value Added Tax Act 1994 (as amended from time to time) and any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of, or in addition to, value added tax) or elsewhere.

### **VCT and VCTs or Ingenious Entertainment VCTs**

Each of Entertainment 1 and/or Entertainment 2 as the context requires.

### **Venture Capital Trust**

A capital trust as defined by section 259 ITA.

### **Waiver Shares**

Has the meaning given to it in paragraph 4 of Part 5.

In this Prospectus (and unless the context otherwise requires), a reference to a time of day is to the time of day in London, a reference to a page or Part is to a page or part of this Prospectus and a reference to "£" or "p" is to the lawful currency of the United Kingdom.

## **PART 11 - APPLICATION PROCEDURE AND GUIDE TO APPLICATION FORM**

### **1. Application Procedure**

- (a) Your Application must be made by means of the Application Form and should be accompanied by a cheque or banker's draft for the full amount of the Application money and drawn in sterling on an account held in the name of the Applicant at a UK clearing bank. Cheques or bankers' drafts must be made payable to "SLC Registrars re Ingenious Entertainment VCT 'D' class" and crossed "A/C Payee Only".
- (b) If you wish to make payment by internet or telegraphic transfer, then you should call SLC Registrars on 01372 467 308 in order to obtain a payment reference for your transfer along with the bank account details for the Offer. Please note that you will need to provide your name along with the number of Shares for which you intend to apply at the time of your call.
- (c) Please send your completed Application Form to SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey, KT10 9AD. A pre paid envelope has been enclosed for your convenience. If you are posting your Application Form, we advise you to allow two full Business Days for delivery.
- (d) Your Application Form must be received by no later than 3.00 pm on 3 April 2010 or, if the Offer is extended beyond that date, by no later than 3.00 pm on 31 July 2010 or such earlier date as the Directors may subsequently resolve, at their sole discretion, to close the Offer. The deadline for receiving Applications is subject to the Offer not being fully subscribed by an earlier date.
- (e) If the value of the Shares applied for is £10,000 or more (or is one of a series of linked applications the value of which exceeds £10,000), then payment should be made by means of a cheque drawn on a UK bank account in the name of the Applicant. If this is not possible and payment is made by:
- a cheque drawn by a third party;
  - a building society cheque; or
  - a banker's draft,
- then you should write the name, address and date of birth of the Applicant on the back of the third party cheque, building society cheque or banker's draft and:
- (i) if a cheque is drawn by a third party, you must ensure that the following documents are enclosed with the form (original documents will be returned by post at your risk):
- (f) verification of identity: a copy of your current and valid passport or driving licence certified as being a true copy by a solicitor or bank (please note that paper-style UK provisional licences are not acceptable); and
- (g) verification of address: an original bank or building society statement or utility bill which is no more than three months old (please note that a mobile telephone bill is not acceptable).
- (ii) if a building society cheque or banker's draft is used, the building society or bank must also endorse on the cheque or draft the name and account number of the person whose account is being debited.
- (h) If the value of the Shares applied for is £10,000 or more (or is one of a series of linked applications the value of which exceeds £10,000) and you are making payment by means of internet or telegraphic transfer, then you should provide the documents verifying your identity and address as set out in paragraphs (e)(i)(1) and (e)(i)(2) above.

### 2. Guide to the Application Form

Prior to making an investment decision, potential investors should carefully consider all of the information set out in this Prospectus and whether an investment in the VCTs is suitable for them in light of both this information and the financial resources available to them. Your attention is drawn, in particular, to the risk factors set out in on the second page. An investment in Shares involves a high degree of risk and may not be suitable for all investors. Potential investors should therefore seek advice from a stockbroker, accountant, fund manager or other independent financial adviser before making any decision to invest.

Potential investors are also recommended to consult a professional adviser regarding their personal tax position and the consequences of a venture capital trust investment.

#### Box 1 – Application and Amount Payable

Insert (in figures) the number of 'D' Shares for which you are applying and whether you are investing in the 2009/2010 tax year, 2010/2011 tax year (in the event that the Offer is extended), or both. The number of Shares for which you are applying should be a multiple of two and should be exclusive of any Additional Shares and/or Waiver Shares to which you may be entitled. Please note that the minimum Application is £3,000. Applicants should also note that the maximum investment on which tax reliefs on investments in venture capital trusts are available is currently £200,000 per tax year.

Payment may be made by cheque or banker's draft made payable to "SLC Registrars re Ingenious Entertainment VCT 'D' class" and crossed "A/C Payee Only" or by telegraphic transfer (please see above). Please attach your cheque or banker's draft to the Application Form.

#### Box 2 – Personal Details

Insert your full name and address using **BLOCK CAPITALS**. Applicants can only apply on their own behalf and in their own name, but, notwithstanding this rule, may subscribe through a nominee.

You must also give your own address and full postcode and daytime telephone number. Your telephone number will only be used in relation to a query regarding your Application Form.

#### Box 3 – Advisers' Details

If you are applying for Shares through your FSA authorised intermediary, then this box should be completed by that intermediary.

#### Box 4 – Dividend Instructions

Please insert the required details of the bank account to which you wish any dividend payments to be credited.

#### Box 6 – Confirmation

Please sign and date the form where indicated. The Application Form may be signed by someone else on your behalf if duly authorised to do so, but powers of attorney or a copy of such powers of attorney, duly certified as being a true copy by a solicitor or a duly authorised officer of a bank, must be enclosed for inspection and will be returned in due course.

This document is dated 16 November 2009.

**INGENIOUS** ENTERTAINMENT VCT 1 & 2

**PART 12 - APPLICATION FORM**

[SEE NEXT PAGE]

**APPLICATION FORM**Please print **CLEARLY** in **BLACK INK** and in **BLOCK CAPITALS****INGENIOUS ENTERTAINMENT VCT 1 & 2**

Ingenious Entertainment VCT 1 plc and Ingenious Entertainment VCT 2 plc

*(Incorporated in England & Wales under the Companies Act 1985 with registered numbers 6395011 and 6395025 respectively)*

Offer for subscription by the VCTs of up to 10,000,000 million 'D' Shares of 1p each comprising up to 5,000,000 million 'D' Shares of 1p each in each VCT at an issue price of 100p per ordinary share which is payable in full on application, together with an over-allotment facility of up to, in aggregate, a further 10,000,000 million 'D' shares of 1p each comprising 5,000,000 million 'D' shares of 1p each in each VCT at an issue price of 100p per 'D' Share. Capitalised terms not defined herein have the meanings given to them in part 10 of the Share Securities Note issued by the VCTs in relation to the Offer on 17 November 2009 (as may be supplemented from time to time). In the event of a conflict between the provisions of the Prospectus and this Application Form, the Prospectus shall prevail.

This Application Form, duly completed, together with your cheque or banker's draft (made payable to "SLC Registrars re Ingenious Entertainment VCT 'D' class" and crossed "A/C Payee Only") for the full amount payable on application should be sent to SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey, KT10 9AD so as to arrive no later than 3.00 pm on 3 April 2010 or, if the Offer is extended beyond that date, by no later than 3.00 pm on 30 July 2010 or such earlier date after 3 April 2010 as the Directors may resolve, at their sole discretion, to close the Offer.

**1. Application and Amount Payable**

2009/2010 tax year

Aggregate number of 'D' Shares:  @100p per 'D' Share   
*Even number only*

2009/2010 tax year

Aggregate number of 'D' Shares:  @100p per 'D' Share   
*Even number only*

Total

Total aggregate number of 'D' Shares:  Total payment enclosed

**2. Personal Details**Title: First Name(s) (in full): Date of birth:  /  / Surname: Nationality: Home address: Postcode: Home telephone: Home fax: Work telephone: Work fax: Mobile: Email: 

Correspondence address for newsletters and other documents (in addition to your home address above):

Postcode: 

If you do not consent to legal notices and other legal documents being sent to you via email or made available on the website [www.ingeniousvcts.co.uk](http://www.ingeniousvcts.co.uk) only, please tick here:

National Insurance No.:

3. Adviser's Details

Name of firm:  Firm FSA no.:

Address: (in full)

Postcode:

Contact details: (relevant individual)

Occupation:  FSA no:

Telephone:  Fax:

Mobile:  Email:

Please tick if you would like your correspondence to be copied to your adviser:

Advisor Commission Options

Please tick one of the following:

(a) 3.0% upfront commission

(b) 2.5% upfront plus annual trail commission of 0.25% for 5 years

Please insert the percentage commission to be waived (if any) and which will be used to satisfy an additional allotment of Waiver Shares to the Applicant named in Box 2.

We hereby confirm that the Applicant is a customer of our firm and, if applicable, we agree to waive our commission to the extent stated above.

4. Dividend Instructions

For future payment of dividends on 'D' Shares please provide us with details of the bank account you would like these paid into.

Name of account:

Account no.:  Sort code:

Bank name:

Bank address:

Postcode:

5. Data Protection

By providing personal information as part of your application and by signing this Application Form, you hereby confirm that you consent to the use of your personal information as follows. Except as stated below, Ingenious Investments and Ingenious Ventures will not make the personal information provided by you as part of your application available to any person or entity outside the Ingenious Group without your consent. This personal information will be stored on the database which is shared by Ingenious Investments and Ingenious Ventures and all of the companies within the Ingenious Group. This personal information may be used by Ingenious Investments, Ingenious Ventures and/or the Ingenious Group to send you details of new and existing products (including by e-mail) unless you notify Ingenious Investments and Ingenious Ventures in writing that it may not be used in this way. Ingenious Investments and Ingenious Ventures are registered under the data protection laws of the United Kingdom.

6. Confirmation

I confirm and declare that I have received, read and understood the Prospectus, the Terms and Conditions set out therein and this Application Form and further confirm my acceptance of the same.

I irrevocably offer to subscribe for the number of Shares stated above subject to the Articles, the Terms and Conditions and the provisions of the Prospectus.

I confirm that I understand that by signing this Application Form, I am giving all of the consents, confirmations, representations, warranties and undertakings required in this Application Form and in the Terms and Conditions.

Signature of Applicant:  Date:  /  /