Contents

Financial Summary
for the year ended 31 May 2006

	31 May 2006	31 May 2005 (restated)**
Net assets	**£30,165,000**	**£30,264,000**
Net asset value per share	**96.8p**	**96.8p**
Revenue return after tax	**£442,000**	**£495,000**
Revenue return per share*	**1.4p**	**2.4p**
Total return per share*	**1.4p**	**2.7p**
Dividends paid	**1.45p**	**–**
Proposed dividend	**1.25p**	**1.45p**
Cumulative dividends paid and proposed	**2.70p**	**–**

*Based on a weighted average of 31,240,517 shares in issue during the period (2005: 20,396,980).

**Comparative figures have been extracted from the statutory accounts for the period ended 31 May 2005 and have been restated in accordance with FRS21 in respect of declared dividends and FRS26 in respect of the valuation of quoted investments and the treatment of investments as at fair value through profit and loss as disclosed in note 1.

Eclipse VCT plc ('Eclipse' or 'Fund') is a Venture Capital Trust ('VCT') and the investments are managed by Octopus Investments Limited formerly named Octopus Asset Management Limited ('Octopus' or 'Manager'). Eclipse was launched in April 2004 and raised over £30.7 million (£29.7 million net of expenses) through an offer for subscription. It invests primarily in unquoted and AIM-quoted companies and aims to deliver absolute returns on its investments.

Chairman's Statement

I am pleased to present the final results for the year to 31 May 2006. This is the second year of Eclipse and I am delighted to report on the progress made by the fund manager, Octopus Investments, in building the investment portfolio.

Background

Eclipse was one of the most successful VCTs launched in 2004 by funds raised, raising over £30 million by December 2004. Since then, the Manager has added a number of experienced fund managers to its team of investment professionals and has also launched three further Eclipse funds (Eclipse 2, 3 and 4), raising over £76 million in aggregate. These successful fund launches should benefit shareholders in Eclipse VCT as they will enable the Manager to invest up to £4 million per company (i.e. £1 million from each of the four VCTs). This will allow the Manager to invest in more developed, lower–risk companies than typical VCTs.

Net Asset Value per share ('NAV')

The NAV at 31 May 2006 was 96.8p. During the year to 31 May 2006, eighteen further investments were made in unquoted and AIM-quoted companies, meaning that at the end of the period under review, Eclipse had a portfolio of 28 investments in qualifying companies, representing 50% of the Fund by net assets. The unquoted companies have been valued in accordance with International Private Equity and Venture Capital ('IPEVC') guidelines and, with the exception of three investments which have increased in value, are all held at cost as this is deemed to be the fair value of the investments held. As set out in the IPEVC guidelines, valuations of unquoted investments are usually not changed for at least twelve months from the date of investment unless the investee company has performed significantly behind plan (in which case the investment is written down in value), or we have participated in a follow-on fundraising for the company. The investment in The Capital Pub Company 2 was written up at the time of the interim results to reflect our participation in a follow-on fundraising which occurred at a higher valuation than the original investment. We are also pleased to report that our investments in Gyro Group and Covion, two of the Fund's earlier investments, have also been written up in value to reflect the strong performance of the underlying businesses.

The overall value of the portfolio of AIM investments was £4,267,000, representing an increase of 9% compared with a cost of £3,923,000.

The Manager reports that it is pleased with the portfolio that has been created and believes that a number of further investments should experience uplifts in value in due course. Further information on portfolio holdings can be found in the Manager's review.

Dividend

In line with our commitment to maximise tax-free dividends to shareholders, the Directors propose a dividend of 1.25p per share to be paid on 6 November 2006 shareholders on the register on 13 October 2006.

The Fund is still at a comparatively early stage in its investment cycle and dividends are largely derived from interest earned on the un-invested cash held in money market securities. As the Fund makes investments the level of cash declines, therefore reducing the distributable reserves in the period. This has had the impact of reducing the proposed dividend for the year to 31 May 2006 by 0.2p. In the medium-term our aim is to produce a regular tax-free income stream for shareholders. As such we will realise profits on holdings where we believe they have reached fair value.

Share Price and Buy-Back Facility

Eclipse has a share buy-back facility, proposing to buy-back shares at no more than a 10% discount to the prevailing NAV. This should assist the marketability of the shares and help prevent the shares from trading at a wide discount to NAV.

The Fund's mid market share price currently stands at 80p compared to the NAV of 96.8p. This is primarily due to the small number of transactions which took place when the Fund was in a closed period and, therefore, unable to utilise its buy back facility.

In the period under review, Eclipse repurchased 99,715 shares at an average price of 87p. Shareholders should note that if they sell their shares within three years of the original purchase they forfeit any income tax relief obtained. If you need to sell your shares, please contact Octopus on 020 7710 2800.

Non-executive Directors' fees

During the period a review of Directors' fees was undertaken. As a result of this and the additional work required as the Fund matures, it has been proposed that the Chairman and non-executive Directors' fees be increased to £17,500 and £13,500 respectively.

While the Articles of Association allow the Directors to determine their remuneration up to an aggregate limit of £75,000, your Board feels that in order to maintain the level of transparency with which the Fund has previously been managed, approval of this increase should be put to a shareholder vote at the Annual General Meeting.

Chairman's Statement (continued)

VCT Qualifying Status

As you may be aware, Eclipse must be 70% invested in qualifying companies by 31 May 2007 in order to comply with VCT regulations. At 31 May 2006, Eclipse was approximately 50% invested (by net assets) in qualifying holdings. Four further investments have been made since the year end, which increases the investment level to approximately 59%.

The Directors will continue to monitor the Fund's progress towards meeting HM Revenue and Customs conditions for VCT approval and have retained PricewaterhouseCoopers LLP, one of the UK's leading firms of accountants, to advise in this area. In light of the current deal flow, we are confident that Eclipse will meet the relevant conditions by its deadline of 31 May 2007.

Outlook

The challenge for all venture capital funds is to attract a strong flow of attractive investment opportunities. The specific challenge for Eclipse VCT is to ensure that it has invested 70% of the funds raised in VCT qualifying companies by May 2007. I am pleased to say that the Fund is ahead of target in this respect and expects to be nearer to 80% invested by this date.

The early signs from the portfolio are very encouraging and I expect to be able to update you on specific progress in the coming months.

Viscount Cobham
Chairman
11 September 2006

Investment Manager's Review

Personal Service

At Octopus, we pride ourselves not only on our team's track record but also on our personalised customer service. We believe in open communication and our regular updates are designed to keep you involved and informed.

If you have any questions about this review, or if it would help to speak to one of the fund managers, please do not hesitate to contact us on 020 7710 2800.

Introduction

We are pleased with the progress made by the Fund since launch. During the twelve months to 31 May 2006 the Fund invested a further £7.5 million in eighteen companies bringing the total invested by Eclipse VCT to almost £14 million. A further four investments have been made since the year end.

Qualifying Status

VCTs have three years to invest 70% of the money raised into qualifying companies. We're pleased to report that, at 31 May 2006, two years through the three year period, Eclipse was 50% invested (by net assets) in qualifying companies. With the additional investments made since the end of the period, the proportion of the Fund invested has increased to 59%.

Review of Investments

At 31 May 2006, the Eclipse portfolio comprised investments in 15 AIM-quoted and 13 unquoted companies. The remainder of the Fund has been invested in money market securities.

Once we have made an investment, we take an active approach in monitoring its performance. This includes regular meetings with management teams and, in the case of most unquoted investments, attending board meetings of the portfolio companies. We are keen to invest in additional rounds of funding in portfolio companies, where we are familiar with the qualities of the management team and where the performance has been closely monitored.

Portfolio Activity

During the year, the Fund made sixteen new and two follow-on investments. These investments are discussed below.

Lilestone Holdings Ltd
Branded consumer goods
In September 2005, Eclipse invested £470,000 alongside other Octopus managed funds and a syndicate of third party investors in the acquisition and funding of Lilestone plc, the holding company for the Myla brand. Myla is a luxury brand selling premium priced lingerie together with bedroom accessories to style and fashion conscious women.

Belgravium Technologies plc
Information Technology
Eclipse invested £45,000 in the AIM flotation of Belgravium in October 2005. Belgravium designs, develops and installs real time data capture systems aimed at the logistics, fuel distribution and airline industries.

Abcam plc
Healthcare
Eclipse invested £89,000 in the AIM flotation of Abcam in October 2005. Abcam is an internet based company focussed on the development and distribution of high quality antibodies to universities, research institutes and pharmaceutical companies.

Healthcare Locums plc
Recruitment in healthcare industry
In November 2005, Eclipse invested £300,000 in the AIM flotation of Healthcare Locums ('HCL'). HCL is a specialist player in the healthcare staffing market, targeting the niche markets for the supply of temporary doctors, GPs, social workers and other healthcare professionals.

The Kendal Group Ltd
Branded consumer goods
Eclipse invested £1 million alongside Eclipse VCT 2 in a £1.6 million funding round for The Kendal Group in November 2005. The majority of the funding is being used to support the growth of the swim equipment, swimwear and active wear brands, Zoggs and PureLime.

Plastics Capital Ltd
Niche plastics engineering business
In November 2005, Eclipse invested £1 million as part of an £11 million transaction to support the acquisition of two companies by Plastics Capital. Part of the funding was also provided from Eclipse VCT 2. Plastics Capital was set up to build a group of niche plastics manufacturing companies, each with a strong market position and good cash generation characteristics.

Investment Manager's Review (continued)

James Harvard International Ltd
Recruitment in the pharmaceutical and IT sectors
Eclipse invested £1 million in November 2005 in James Harvard. This was part of a £2.5 million investment by Octopus managed funds to support an acquisition in November 2005. James Harvard is one of the leading recruitment agencies in the growing European clinical trials market.

Luther Pendragon Ltd
PR services
In November 2005, Eclipse invested £1 million as part of a £2 million investment by Octopus managed funds in the management buy-out of Luther Pendragon. Luther provides a fully integrated corporate public relations service specialising in 'issues management'.

Autoclenz Holdings plc
Valeting services to automotive retailers
In December 2005, Eclipse invested £337,500 in the AIM flotation of Autoclenz. The company, founded in 1990, is the UK's leading provider of valeting services to automotive retailers, auction houses, rental companies and car supermarkets. Autoclenz floated on AIM in December 2005, having previously been a subsidiary of Yule Catto, the chemical company.

Red-M Group Limited
Information Technology
Eclipse invested £500,000 in a £5.4 million funding round led by Pi Capital. Red-M provides software products and services for the wireless market and designs, deploys and manages wireless networks across the spectrum of commercially used radio frequencies for blue chip clients. The company was formed in April 2005 by the merger of Cellular Design Services, a wireless consulting services provider, and Red-M Communications, a vendor of wireless security probes and monitoring software.

Cohort plc
Business Services
Eclipse invested £101,000 in the AIM flotation of Cohort in February 2006. Cohort was incorporated to acquire Systems Consultants Services ('SCS'), a UK based company providing training support and equipment trials to the defence sector. The market for technical services, outside of the recently privatised Government agency Qinetiq, is largely fragmented but has been consolidating. Cohort's strategy is to acquire complementary technical services companies and position them alongside the fast-growing SCS business.

Ovum plc
Information Technology
In March 2006, Eclipse invested £112,000 in the AIM flotation of Ovum. Ovum is a leading information, communication and technology research consultancy. The company acts as a source of industry data, knowledge and expertise on the commercial impact of technology, regulatory and market changes. This data is packaged into detailed research documents and distributed through a range of bespoke and tailored products. Current clients include IBM, BT, and Vodafone as well as Government bodies such as the Department of Trade and Industry.

Perfect Pizza Limited
Pizza home delivery
In March 2006 Eclipse invested £1.1 million alongside the other Eclipse funds in the £7 million management buy-in of Perfect Pizza from Papa Johns, the US parent company. Perfect Pizza is the third largest home delivery pizza business in the UK with 114 franchised stores.

Invocas plc
Insolvency practitioner
In March 2006 Eclipse invested £60,000 in the AIM flotation of Invocas. The company is the leading provider of personal insolvency solutions in Scotland with a 16% share of the Protected Trust Deed market. Invocas has been profitable and cash generative for the past seven years. Demand in Scotland for Protected Trust Deeds, which help individuals who are having difficulty servicing their debt, grew by 14% in 2005 and is expected to grow by 20% in 2006.

Blanc Brasseries Holdings plc
Restaurant operator
Eclipse invested £103,000 in April 2006 in a £6 million private placement funding round for Blanc Brasseries, which owns the Le Petit Blanc chain of quality restaurants. The business was acquired from Loch Fyne Restaurants (LFR) and will continue to be managed by the LFR management team, which successfully built up this chain to around 30 restaurants.

Investment Manager's Review (continued)

BBI Holdings plc
Diagnostics
In May 2006, Eclipse invested £64,000 in BBI Holdings. BBI is an AIM-quoted developer and manufacturer of diagnostic tests. The company derives income from the manufacture and supply of gold colloids, bespoke product development for third parties and the manufacture of diagnostic tests for industry partners. The funding provided by Eclipse and other investors was used to fund the acquisition of Alchemy Laboratories Ltd, a Dundee based company with operations in similar fields to BBI.

Portfolio Valuation

At 31 May 2006, the Fund's portfolio comprised investments in 28 companies with a total cost of £13.9 million and a carrying value of £14.9 million. The Fund also held £14.8 million in cash and money market securities awaiting investment in qualifying holdings.

Unquoted investments	**Investment at Cost £'000**	**Unrealised appreciation/ depreciation £'000**	**Carrying Value £'000**
Gyro International Limited	1,000	370	1,370
Perfect Pizza Limited*	1,125	–	1,125
Covion Limited*	844	224	1,068
The Kendal Group Limited*	1,024	–	1,024
Plastics Capital Limited*	1,000	–	1,000
Reading Room Limited	1,000	–	1,000
James Harvard International Limited*	1,000	–	1,000
Luther Pendragon Limited*	1,000	–	1,000
Capital Pubs Company 2 plc*	600	20	620
Red-M Group Limited*	500	–	500
Lilestone Holdings Limited*	470	–	470
TDX Group limited	400	–	400
Blanc Brasseries Holdings plc*	104	–	104
	10,067	614	10,681
AIM-quoted investments			
Cello Group plc	750	165	915
The Tanfield Group plc*	500	138	638
Zetar plc	237	231	468
Augean plc	500	(90)	410
Autoclenz Holdings plc*	338	(23)	313
Healthcare Locums plc*	300	11	311
InterQuest plc*	341	(43)	298
Tissue Science Laboratories plc	246	(30)	216
fountains plc	240	(100)	140
Abcam plc*	89	40	129
Cohort plc*	101	15	116
Ovum plc*	112	(2)	110
Invocas plc*	60	36	96
BBI Holdings plc*	64	10	74
Belgravium plc*	45	(12)	33
	3,923	344	4,267
	13,990	958	14,948

*It is a requirement that the Managers disclose the full extent of its interest in any investment which also is invested in by other funds managed by Octopus. Further details are provided on page 12 of this report.

Investment Manager's Review (continued)

Ten Largest Holdings

The Kendal Group Limited

The Kendal Group is the holding company for the Zoggs and PureLime brands.

Zoggs is a leading swim equipment and swimwear brand, founded in Australia and well known for its swim goggles and flotation aids. It has recently introduced swimwear to the range. Further information is available at www.zoggs.com

PureLime is a ladies fitness and active wear brand, originally from Denmark. Further information is available at www.purelime.com

The company has a high proportion of sales through fitness centres and swimming pool locations and is starting to gain distribution through retail outlets such as Tesco and Early Learning Centre. The Zoggs brand has a significant presence in Australia and plans to grow through licensing in other countries. Overall, sales of the Zoggs brand grew by approximately 17% in 2005.

Further information can be found at the company's website, www.thekendalgroup.com.

Investment date	*18 November 2005*
Equity held	*10.2%*
Cost	*£1,024,456*
Valuation	*£1,024,456*
Valuation basis	*Cost (New Investment)*
Dividends/Interest received during the year	*Nil*
Last Audited Accounts	*December 2005*
Net Assets	*£1,375,000*
Loss before taxation	*£(727,000)*

Gyro International Limited

Gyro, which was founded in 1991, provides an integrated suite of marketing services including brand strategy, direct marketing, web marketing and event management. The company focuses primarily on technology and financial services companies, and clients include Sony, Sun Microsystems, Orange and Deutsche Bank.

Gyro has offices in London, Geneva, Stockholm, Amsterdam, New York and San Francisco and has recently opened in Dublin and Hamburg. Revenues have grown from £11 million in 2004 to more than £17 million in 2005 and Gyro was ranked the number one B2B agency in the UK in 2005. Sales continue to grow strongly in the current financial year.

The company has performed well since our investment and, based on strong trading results, the carrying value has been increased.

Further information can be found at the company's website, www.gyrogroup.com.

Investment date	*10 February 2005*
Equity held	*10.6%*
Cost	*£1,000,000*
Valuation	*£1,370,000*
Valuation basis	*Earnings multiple*
Dividends/Interest received during the year	*£11,000*
Last Audited Accounts	*October 2005*
Net Assets	*£21,000*
Profit/(loss) before taxation:	*£707,000*

Investment Manager's Review (continued)

Reading Room Limited

Reading Room designs, develops and maintains websites for its clients. The company is known for its integrated approach to digital communications, media and marketing and has a broad client base including GlaxoSmithKline, Ernst and Young, and the trainline.com. Reading Room recently won a prestigious award for the best charity website for Cancer Research UK to add to a long list of similar awards.

Reading Room has offices in London, Manchester and Sydney and has increased its staffing level from 53 to 87 since our investment.

Further information can be found at the company's website www.readingroom.com.

Investment date	*7 April 2005*
Equity held	*26.7%*
Cost	*£1,000,000*
Valuation	*£1,000,000*
Valuation basis	*Cost*
Dividends/Interest received during the year	*£46,000*
Last Audited Accounts	*April 2005*
Net Assets	*£1,600,000*
Profit/(loss) before taxation	*£80,000*

Plastics Capital Limited

Plastics Capital was set up to build a group of niche plastics manufacturing companies, each with a strong market position and good cash generation characteristics. The group currently comprises three separate businesses with factories located in Knaresborough, Leicester, Dartford and Poole with an aggregate turnover in excess of £15 million.

The first company acquired was Bell Plastics, which manufactures plastic mandrels for use in the manufacturing process for high pressure hoses. Our funding was used to acquire Trimplex, a company that manufactures creasing matrices for cardboard box manufacturing, and BNL, which manufactures plastic bearing components.

Investment date	*30 November 2005*
Equity held	*11.8%*
Cost	*£1,000,000*
Valuation	*£1,000,000*
Valuation basis	*Cost (New Investment)*
Dividends/Interest received during the year	*Nil*
Last Audited Accounts	*March 2005*
Net Assets	*£826,000*
Profit/(loss) before taxation	*£68,000*

James Harvard International Limited

James Harvard is one of the leading recruitment agencies in the growing, but fragmented, European clinical trials market. The funds raised were used to acquire EXCO, thereby extending the range of functional areas covered by James Harvard as well as providing access to a broader range of clients. Since completion of our investment, JHI has made a further modest acquisition, ASA Medical, from Hotgroup.

Further information can be found at the company's website www.jamesharvard.com.

Investment date	*30 November 2005*
Equity held	*10.9%*
Cost	*£1,000,000*
Valuation	*£1,000,000*
Valuation basis	*Cost (New Investment)*
Dividends/Interest received during the year	*£9,000*
Last Audited Accounts	*December 2004*
Net Assets	*£550,000*
Profit/(loss) before taxation	*Not available*

Investment Manager's Review (continued)

Luther Pendragon Limited

Luther provides a fully integrated corporate public relations service specialising in 'issues management', which involves developing communications strategies to combat any potential risks to a client's reputation or to influence public perception to achieve a strategic goal. The company was established in 1992 and has grown to 45 partners and staff. The company has a range of public sector and blue chip private sector clients from a range of industries.

Further information can be found at the company's website www.luther.co.uk.

Investment date	*30 November 2005*
Equity held	*19.2%*
Cost	*£1,000,000*
Valuation	*£1,000,000*
Valuation basis	*Cost (New Investment)*
Dividends/Interest received during the year	*Nil*
Last Audited Accounts	*December 2005*
Net Assets	*£1,921,000*
Profit/(loss) before taxation	*£702,000*

Perfect Pizza Limited

Perfect Pizza is the third largest pizza delivery business in the UK with 114 franchised stores throughout the country. The home delivery pizza market is expected to continue to be a growth area as a result of the long-term trend away from home cooking.

Further information can be found at the company's website www.perfectpizza.co.uk.

Investment date	*8 March 2006*
Equity held	*15.4%*
Cost	*£1,125,000*
Valuation	*£1,125,000*
Valuation basis	*Cost (New Investment)*
Dividends/Interest received during the year	*£23,000*

First audited financial information will be available for the period to 31 March 2006

Covion Limited

Covion provides a full range of support services, including cleaning, security and maintenance work for clients such as LogicaCMG, Sara Lee and Anglian Windows.

The company has annualised sales of more than £20 million, making it the fastest growing business in the Thames Valley region in 2004 (source: BDO). Covion came fourth in the Sunday Times Fast Track 100 (October 2005) and was rated the 39th fastest growing in Europe. Two founder directors, David Steventon and Frank Rodrigues, have also received an Entrepreneur of the Year award sponsored by Ernst & Young.

Further information can be found at the company's website www.covion.co.uk.

Investment date	*27 May 2005*
Equity held	*10.1%*
Cost	*£844,083*
Valuation	*£1,068,000*
Valuation basis	*Earnings Multiple*
Dividends/Interest received during the year	*Nil*
Last Audited Accounts	*December 2004*
Net Assets	*£728,000*
Profit/(loss) before taxation	*£329,000*

Investment Manager's Review (continued)

Cello Group plc

Cello Group was created as a vehicle to identify and acquire well-established media services companies operating in niche markets. In October 2004, the company's flotation on AIM raised £15 million in order to acquire three businesses and provide working capital. Cello has subsequently made a number of further acquisitions.

Further information can be found at the company's website www.cellogroup.co.uk.

Investment date	*9 November 2004*
Equity held	*2.3%*
Cost	*£750,000*
Valuation	*£877,000*
Valuation basis	*Bid price*
Dividends/Interest received during the year	*Nil*
Last Audited Accounts	*December 2004*
Net Assets	*£33,500,000*
Profit/(loss) before taxation	*£1,300,000*

The Capital Pub Company 2 plc

Capital Pub Company 2 plc is the latest pub investment vehicle set up by David Bruce, who has a long and successful track record in the brewing and leisure industry. Bruce has set up and successfully sold a number of similar companies, including the Firkin and Slug and Lettuce chains of pubs.

More than £16 million has been raised for the company which is developing a portfolio of freehold public houses in the Greater London area. These are unbranded, un-themed and have no tie to a particular brewery. To date, ten sites have been acquired and more are in the pipeline.

Further information can be found at the company's website www.capitalpubcompany2.com.

Investment date	*31 January and 30 June 2005*
Equity held	*3.7%*
Cost	*£599,500*
Valuation	*£619,500*
Valuation basis	*Latest round of finance*
Dividends/Interest received during the year	*Nil*
Last Audited Accounts	*September 2005*
Net Assets	*£10,500,000*
Profit/(loss) before taxation	*£68,000*

Recent Transactions

Since the end of the period under review, we have completed 4 further investments, one of which was a follow-on investment:

CSL Dualcom Limited
Eclipse invested £857,000 alongside the other Eclipse funds to finance the £6 million management buy out of CSL Dualcom. CSL is a leading supplier of dual path alarm signalling devices.

Worthington Nicholls Group plc
The Fund invested £500,000 in the AIM flotation in June 2006 of Worthington Nicholls Group plc, the leading UK installer of air conditioning units in the hotel, retail and leisure markets. The company, which supplies over 50% (by number of rooms) of the 3* plus UK hotel market, is expected to achieve a profit before tax of £3.6 million on turnover of £25.0 million for the year ending September 2006.

First Sports Group Limited
In June 2006 Eclipse invested £1,000,000 alongside Eclipse VCT 2 in a £2 million fundraising for First Sports Group ('FSG'). FSG provides and manages retail solutions within sports and leisure clubs. The company's clients include Esporta, Holmes Place and David Lloyd. As well as managing more than 20 pro-shops, FSG has developed a stand alone unmanned retail display unit, from which customers can buy sports goods, paying at the club reception.

Lilestone Holdings Limited
A further investment of £313,000 was made in Lilestone, owner of the Myla brand, as part of a £1.6 million funding round from current shareholders to support the company's growth plans. The fundraising included an investment of £800,000 by an overseas retail group. The investment was made at a small premium to the valuation that was established in the first round.

Investment Manager's Review (continued)

Summary of investments made by other funds managed by Octopus Investments Limited

It is a requirement that the Managers disclose the full extent of its interest in any investment which also is invested in by other funds managed by Octopus. Details of these are shown below.

	% equity held by Eclipse VCT	% equity held by other funds managed by Octopus
Abcam plc	0.15	0.46
Augean plc	0.42	1.15
Autoclenz Holdings plc	2.60	10.25
BBI Holdings plc	0.29	4.80
Belgravium plc	0.32	1.28
Blanc Brasseries Holdings plc	1.24	2.06
Capital Pubs Company 2 plc	3.70	4.50
Cello Group plc	2.25	3.86
Cohort plc	0.28	1.59
Covion Limited	10.10	5.20
fountains plc	1.29	2.62
Healthcare Locums plc	0.88	1.03
InterQuest plc	2.14	2.24
Invocas plc	0.19	1.07
James Harvard International Limited	10.90	16.00
Luther Pendragon Limited	19.20	19.20
Ovum plc	0.49	2.77
Perfect Pizza Limited	15.40	9.10
Plastics Capital Limited	11.80	9.50
Red-M Group Limited	4.40	2.65
The Kendal Group Limited	10.22	5.86
The Tanfield Group plc	1.04	4.87
Tissue Science Laboratories plc	0.50	0.50
Zetar plc	1.12	1.18

If you have any questions on any aspect of your investment, please call one of the team on 020 7710 2800.

Simon Rogerson
Chief Executive

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Details of Directors

Viscount Cobham (58 – Chairman) (The Honourable Christopher Lyttelton succeeded to the title of Viscount Cobham on 13 July 2006) is currently Deputy Chairman of Smith & Williamson. He has overall responsibility for the company's fund management division which employs 350 staff and has over £7 billion under management. Prior to leading the buy-out of NCL Investments in 1986, he spent 16 years with Wood Gundy, then a leading Canadian investment banking firm. Prior to his departure, his role at Wood Gundy was as Director of their UK and Middle Eastern Operations. Viscount Cobham was also elected to the Board of The Securities and Futures Authority in 1996 and remained a board member until 2001.

Matthew Cooper (39 – Director) is the chairman of Octopus Investments Limited, the Investment Manager of Eclipse VCT. Prior to joining Octopus, Matt was the Principal Managing Director of Capital One (Bank) Europe plc where he was responsible for all aspects of the company's strategic direction and day-to-day operations in Europe. He led the UK portion of the business from start-up to two million customers, generating revenues of over £275 million and employing over 2,000 people.

Roger Penlington (59 – Director) qualified as a management accountant with Ford Motor Company Limited before moving into senior general management with Air Call Plc and Avis Rent-a-Car Limited. He then founded the Heathrow Business Centre, which was sold to Thomas Cook Limited. In 1987, Roger joined HSBC Private Equity as Investment Director, responsible for sourcing, leading and managing venture capital investments. In 1995, he joined Guinness Mahon Development Capital as a Director, responsible for deals between £250,000 and £2 million. In May 1998, Roger was a member of the management team which acquired ProVen Private Equity from Guinness Mahon Group Limited.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 May 2006.

Activities and status

The principal activity of the Company is investing in UK smaller companies. The Company is an investment company as defined in s266 of the Companies Act 1985, and has been granted provisional approval as a Venture Capital Trust by the Inland Revenue and has been listed on the London Stock Exchange since June 2004.

The Chairman's Statement, on page 3, includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 5 to 12. The Directors have managed the affairs of the Company with the intention of maintaining its status as an approved Venture Capital Trust for the purposes of S842AA of the Income and Corporation Taxes Act 1988. The Company was not at any time up to the date of this report a close company within the meaning of S414 of the Act.

Results and dividend

	Year ended 31 May 2006 £'000	Period ended 31 May 2005 £'000
Net profit attributable to shareholders	441	558
Appropriations:		
Final dividend proposed – 1.25p per share (2005 – 1.45p per share)	390	453

The proposed final dividend will, if approved by shareholders, be paid on 6 November 2006 to shareholders on the register on 13 October 2006.

Directors

According to the register of Directors' interests, the Directors of Eclipse VCT plc during the year and their interests in the issued ordinary shares of 10p were as follows:

	Ordinary shares of 10p each At 31 May 2006	Ordinary shares of 10p each At 1 June 2005
Viscount Cobham (Chairman)	31,500	31,500
Mr M Cooper	10,500	10,500
Mr R Penlington	10,500	10,500

There have been no changes in the Directors' share interests between 31 May 2006 and the date of this report.

Viscount Cobham retires by rotation and being eligible, offers himself for re-election. The Board has considered provision A.7.2 of the Combined Code 2003 and believes Viscount Cobham continues to be effective and demonstrate commitment to his role. They, therefore, recommend re-election at the forthcoming Annual General Meeting.

Brief biographical notes on the Directors are given on page 14.

Financial risk management objectives and policies

As a venture capital trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of quoted and unquoted UK companies which meet the relevant criteria for venture capital trusts.

Further details of the Company's risk management policies are provided in note 18 to the financial statements.

Directors' and officers' liability insurance

The Company has, as permitted by s310(3) of the Companies Act 1985, maintained insurance cover on behalf of the Directors and Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Creditor payment policy

The Company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. The Company does not follow any code or standard with regard to creditor payment practice. At 31 May 2006 there were no trade creditors (2005: £nil).

Management

Octopus acts as investment manager to the Company. The principal terms of the Company's management agreement with Octopus are set out in Notes 3 & 19 to the financial statements. Mr M Cooper is a Director of Octopus.

Directors' report (continued)

Open offers and offers for subscription
No shares were allotted during the year to 31 May 2006 (2005: 31,297,191 shares were allotted).

Purchase and cancellation of own shares
During the period, the Company purchased 99,715 shares for cancellation at an average price of 87p per share (2005: 28,411 shares at a price of 95p per share).

Fixed assets
Movements in fixed asset investments during the year are set out in Note 9 to the financial statements.

International financial reporting standards
As the Company is not part of a group it is not mandatory for it to comply with international financial reporting standards. The Company does not anticipate that it will voluntarily adopt the international financial reporting standards.

Substantial shareholdings
So far as the Directors are aware, there were no individual shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

Annual General Meeting
Notice convening the 2006 annual general meeting of the Company and a form of proxy for those unable to attend that meeting can each be found at the end of this document.

Notwithstanding that the Company's Articles of Association permit the Directors to determine their remuneration up to an aggregate amount of £75,000, shareholders' approval is sought to an increase in the amounts paid to the Directors from £10,000 to £13,500 and to the Chairman from £12,000 to £17,500. This will increase the total remuneration paid to Directors from £32,000 to £44,500, a 39% increase, and is proposed to bring levels into line with market practice.

Authority to permit the Directors to allot up to 10% of the existing share capital and for the Directors to disapply pre-emption rights is sought, although the Directors have no current intention of using such authority.

As mentioned in the Chairman's statement, shareholders are being asked to renew authority to purchase shares in the market for cancellation.

Independent auditor
Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with section 385 of the Companies Act 1985.

By order of the Board

C L Whitten FCIS
Secretary
11 September 2006

Directors' remuneration report

Introduction
This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 May 2006.

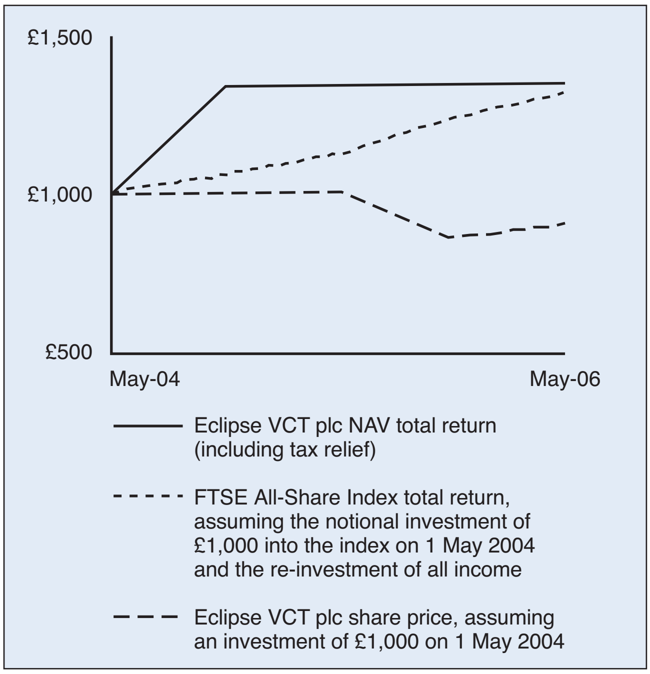
Consideration by the Directors of matters relating to Directors' remuneration
The Board as a whole considers Directors' remuneration and has not appointed a separate committee in this respect. The Board has not sought advice or services from any person in respect of its consideration of Directors' remuneration during the year (although the Directors expect from time to time to review the fees against those paid to the boards of directors of other Venture Capital Trusts).

Statement of the Company's policy on Directors' remuneration
The Board consists entirely of Non-Executive Directors, who meet at least four times a year and on other occasions as necessary, to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will serve for, at least, a period of three years. All Directors will retire at the first General Meeting after election and thereafter one third of all Directors will be subject to retirement by rotation at subsequent Annual General Meetings. Re-election will be recommended by the Board but dependent upon shareholder vote.

Each Director received a letter of appointment. A Director may resign by notice in writing to the Board at any time. None of the Directors is entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chairman of the Board to be paid higher fees than the other Directors in recognition of his more onerous role. The policy is to review these rates from time to time, although such review will not necessarily result in any changes.

Company performance
The graph below compares the share price of Eclipse VCT over the period from May 2004 to May 2006 with the total return from a notional investment in the FTSE All-Share index over the same period. This index is considered to be the most appropriate broad equity market index for comparative purposes. The share price has fallen during the year which is typical while the investment process takes place in the early stages of the VCT's life.



Directors' emoluments

Amount of each Director's emoluments (information subject to audit)

Annual rate of Directors' fees	**Year ended 31 May 2006**	**Period ended 31 May 2005**
Viscount Cobham (Chairman)	£12,000	£12,000
Mr M Cooper	£10,000	£10,000
Mr R Penlington	£10,000	£10,000
Total	£32,000	£32,000

It is proposed that from 1 June 2006, in recognition of the market rates for similar posts, the fees payable to the Chairman and Directors should increase to £17,500 and £13,500 respectively.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no long-term incentive schemes, share option schemes or pension schemes in place. No other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors.

By Order of the Board

C L Whitten FCIS
Secretary
11 September 2006

Shareholder Information

The Company

Eclipse VCT plc is a Venture Capital Trust managed by Octopus Investments. Eclipse was launched in April 2004 and raised over £30.7 million through an offer for subscription. The objective of Eclipse VCT is to invest in a diversified portfolio of UK smaller companies in order to generate capital growth over the long-term.

Venture Capital Trusts ('VCT')

VCTs were introduced by the UK Government in 1995 to encourage individuals to invest in UK smaller companies. The Government achieved this by offering VCT investors a series of very attractive tax benefits.

You are entitled to 40% income tax relief on your Eclipse VCT investment provided you hold your shares for three years. This means that if you invested £10,000 in Eclipse, you are entitled to £4,000 of income tax relief. In addition, as the value of a VCT's investments rise, profits can be paid out to investors as a stream of tax-free income.

Eclipse VCT has been provisionally approved as a VCT by the Inland Revenue. In order to maintain its approval the Company must comply with certain requirements on a continuing basis. Within three years from the date of provisional approval at least 70% of the Company's investments must comprise "qualifying holdings" of which at least 30% must be in eligible ordinary shares. A "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted Company (including companies quoted on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment.

Financial Calendar

The Company's financial calendar is as follows:

30 October 2006	–	Annual General Meeting
6 November 2006	–	2006 final dividend paid
February 2007	–	Interim report for six months to 30 November 2006 published
November 2007	–	Final dividend and preliminary results for year to 31 May 2007 announced; annual report and financial statements published

Share Price and Buy-Back Facility

The Company's mid-market share price currently stands at 80p and, as is normal with a VCT in its early stages, there have been very few transactions. We will be asking shareholders at the annual general meeting to renew the Board's powers to purchase shares in the market for cancellation. Eclipse has a share buy-back facility, proposing to buy-back shares at no more than a 10% discount to the prevailing NAV. This should assist the marketability of the shares and help prevent the shares from trading at a wide discount to NAV.

In the period under review, Eclipse repurchased 99,715 shares at 87p. Shareholders should note that if they sell their shares within three years of original purchase they forfeit any tax relief obtained. If you need to sell your shares, for whatever reason, please contact Octopus Investments on 020 7710 2800.

The Company's share price is published daily in the Financial Times. The Company's FTSE classification is "Investment Companies".

Corporate governance

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in section 1 of the Combined Code on Corporate Governance published by the UK Listing Authority in July 2003, except that, as all the Directors are non-executive, it is not considered appropriate to appoint a Remuneration Committee (B2.1) and that due to the size of the Board and the nature of the Company's business, appraisal and performance evaluation processes have not been put in place (A1.3 and A6.1)

Board of Directors

The Company has a board of three non-executive Directors, two of whom are considered to be independent. Matthew Cooper is not considered to be independent due to his role as Chairman of the Company's investment manager. The Board meets regularly on a quarterly basis, and on other occasions as required, to review the investment performance and monitor compliance with the investment policy laid down by the Board. The Board has a formal schedule of matters specifically reserved for its decision.

During the year the following were held:

4 full board meetings	***2 Audit Committee meetings***
All directors attended all meetings with the exception of Matthew Cooper who was unable to attend one of those meetings.	All Members attended

Additional meetings were held as required to address specific issues including considering recommendations from the investment manager, share issues and repurchases. A brief biographical summary of each Director is given on page 14.

The Company's Articles of Association require that one third of Directors should retire by rotation each year and seek re-election at the annual general meeting and that Directors appointed by the board should seek re-appointment at the next annual general meeting. All Directors are required to submit themselves for re-election at least every three years. This practice was followed during the year under review.

The Board has appointed two committees to make recommendations to the Board in specific areas:

Audit Committee:

Mr R Penlington (Chairman)
Viscount Cobham

The Audit committee deals with matters relating to audit, financial reporting and internal control systems. The committee meets as required and has direct access to Grant Thornton UK LLP, the Company's auditors. The committee met twice in relation to the year ended 31 May 2006 and reviewed the operational systems and controls.

The audit committee reviews the nature and extent of non-audit services supplied by the external auditors of the Company, seeking to balance objectivity and value for money.

Nomination Committee:

Viscount Cobham (Chairman)
Mr M Cooper

The nomination committee considers the selection and appointment of Directors and makes recommendations to the board as to the level of Directors' fees. The committee meets as required and did not meet during the period.

Internal control

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of internal controls. The purpose of these controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives. The Board regularly reviews financial results and investment performance with its investment managers.

Corporate governance (continued)

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments. Quoted investments are held in Crest. Octopus regularly reconciles the client asset register with the physical documents. Secretarial matters were delegated to Celia L Whitten of Woodside Secretaries Limited.

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control systems. As part of this process an annual review of the internal control systems is carried out in accordance with the Turnbull guidelines for internal control. The Board does not consider it necessary to maintain a separate internal audit function.

Risk management

The Company invests its funds primarily in UK smaller companies, which by their nature may entail a higher degree of risk than investments in larger listed companies. The Directors aim to limit this risk through careful selection of a spread of investments.

Octopus carries out management of liquid funds in accordance with the policy guidelines laid down and regularly reviewed by the Board. In general the guidelines require that uninvested cash will be held in money market securities. The Company has no borrowing facilities nor has it entered into derivative transactions.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice.)

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

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

Going concern

After making the necessary enquiries, the Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. The Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Corporate governance (continued)

Relations with shareholders

Shareholders have the opportunity to meet the Board at the AGM. In addition to the formal business of the AGM, the Board is available to answer any questions a shareholder may have.

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 8 Angel Court, London, EC2R 7HP. Alternatively, the investment managers are happy to answer any questions you may have and can be contacted on 020 7710 2800.

Compliance statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting year. The preamble to the Combined Code does, however, acknowledge that some provisions may have less relevance for investment companies. With the exception of the limited items outlined below, the company has complied throughout the accounting year to 31 May 2006 with the provisions set out in Section 1 of the Combined Code.

1. New directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise.

2. Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its committees, the individual directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise.

3. The Company has two independent Directors, Viscount Cobham and Mr Roger Penlington, as defined by the Combined Code issued in July 2003. Mr Cooper holds directorships of other companies with the same investment manager and with the investment manager itself. The Board considers that all directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code.

4. The Company does not have a chief executive officer or senior independent director. The Board does not consider this necessary for the size of the company.

5. The Company does not conduct a formal review as to whether there is a need for an internal audit function. The Directors do not consider that an internal audit would be an appropriate control for a venture capital trust.

6. The non-executive directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.

7. The company has no major shareholders so shareholders are not given the opportunity to meet any new non-executive directors at a specific meeting other than the annual general meeting.

Report of the Independent Auditor to the members of Eclipse VCT plc

We have audited the financial statements of Eclipse VCT plc for the year ended 31 May 2006 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement, and notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the financial summary, Chairman's statement, details of Directors, shareholder information, investment manager's review, Directors' report, the unaudited part of the Directors' remuneration report and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Report of the Independent Auditors to the members of Eclipse VCT plc (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 May 2006 and of its return for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements for the year ended 31 May 2006.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD

11 September 2006

The maintenance and integrity of the Octopus Investments Limited website is the responsibility of the Directors of that company: the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Income Statement

		Year to 31 May 2006			Period to 31 May 2005 (restated)		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	**9**	–	424	424	–	363	363
Income	**2**	1,028	–	1,028	901	–	901
Investment management fees	**3**	(174)	(524)	(698)	(123)	(370)	(493)
Other expenses	**4**	(308)	–	(308)	(168)	–	(168)
Return on ordinary activities before tax		**546**	**(100)**	**446**	610	(7)	603
Tax	**6**	(104)	99	(5)	(115)	70	(45)
Return on ordinary activities after tax		**442**	**(1)**	**441**	495	63	558
Basic and diluted return per share	**8**	1.4p	0.0p	1.4p	2.4p	0.3p	2.7p

- The total column of this statement is the profit and loss account of the Company
- All revenue and capital items in the above statement derive from continuing operations
- The accompanying notes are an integral part of the financial statements.
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market securities.

Reconciliation of movements in shareholders' funds

	31 May 2006 £'000	31 May 2005 £'000
Equity shareholders' funds as at 1 June 2005 as previously reported	29,911	–
Prior year adjustment:		
Adjustment in valuation of quoted investments to bid price	(100)	–
Proposed dividend not accounted for until declared and paid	453	–
As restated	30,264	–
Total gains and losses recognised in period	441	558
Shares purchased for cancellation	(87)	(27)
Net proceeds of share issue	–	29,733
Dividends recognised in period	(453)	–
Shareholders' funds at 31 May 2006	**30,165**	**30,264**

The accompanying notes are an integral part of the financial statements.

Balance Sheet

	Notes	as at 31 May 2006 £'000	as at 31 May 2006 £'000	as at 31 May 2005 (restated) £'000	as at 31 May 2005 (restated) £'000
Fixed asset investments	9		14,948		6,722
Current assets					
Investments	9	13,657		23,299	
Debtors	10	448		148	
Cash at bank		1,157		167	
		15,262		23,614	
Creditors: amounts falling due within one year	11	(45)		(72)	
Net current assets			15,217		23,542
Net assets			30,165		30,264
Called up equity share capital	12		3,117		3,127
Share premium	13		–		26,603
Special distributable reserve	13		26,516		–
Capital redemption reserve	13		13		3
Capital reserve realised	13		(725)		(300)
Capital reserve unrealised	13		787		363
Revenue reserve	13		457		468
Total equity shareholders' funds			30,165		30,264
Net asset value per share	**14**		96.8p		96.8p

The statements were approved by the Directors on 11 September 2006 and are signed on their behalf by:

Viscount Cobham
Chairman

The accompanying notes are an integral part of the financial statements.

Cash flow statement

	Notes	Year to 31 May 2006 £'000	Year to 31 May 2006 £'000	Year to 31 May 2005 (restated)* £'000	Year to 31 May 2005 (restated)* £'000
Net cash (outflow)/inflow from operating activities	**15**		(436)		119
Financial investment:					
Purchase of investments	**9**	(7,631)		(6,359)	
Net cash outflow from financial investment			(7,631)		(6,359)
Management of liquid resources:					
Decrease/(increase) in cash funds			9,642		(23,299)
Taxation			(45)		
Equity dividends paid			(453)		–
Financing:					
Issue of own shares		–		30,802	
Share issue expenses		–		(1,069)	
Repurchase of own shares		(87)		(27)	
Total financing			(87)		29,706
Increase in cash resources	**17**		990		167

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

1. Accounting policies

The Company is required to comply with a number of new UK Financial Reporting Standards (FRSs) in presenting its financial statements for the year ended 31 May 2006. These standards have been introduced as part of the process of converging UK standards with International Financial Reporting Standards (IFRS). The financial information provided in the audited results for the period ended 31 May 2005 has been prepared on a consistent basis with the accounting policies as disclosed in the Company's annual report and accounts for the period ended 31 May 2005 except for such changes as are required by the new FRSs. These changes arise from the adoption of FRS21 "Events after the Balance Sheet Date" and FRS26 "Financial Instruments: Measurement". The adoption of FRS 25 "Financial Instruments: Disclosure and Presentation" has only impacted upon the disclosures within the financial statements and has had no impact upon the balances therein. The adoption of FRS 20 "Share based payments", FRS 22 "Earnings per share", FRS 23 "The effects of changes in foreign exchange rates", FRS 24 "Financial reporting in hyper-inflationary economies" and FRS 28 "Corresponding amounts" has not impacted upon the financial statements.

The nature and effect of these changes are explained below and the comparative figures for the period ended 30 May 2005 have been restated accordingly.

Under FRS21, dividends to shareholders are accounted for in the period in which they are declared and approved at the Annual General Meeting. Therefore, the dividend of £453,000 that was shown as proposed in the 2005 Report and Accounts has been added back to the profit and loss account and deducted from creditors in the comparative figures for the period ended 31 May 2005, and has been recognised as paid in the year to 31 May 2006.

Under FRS26, quoted investments are valued at bid price rather than mid-market price. The effect of this is to decrease the valuations at which such investments are stated in the balance sheet and to decrease the unrealised gains on investments shown in the capital column of the income statement. This change resulted in a reduction of £100,000 in the valuation of fixed asset investments at 31 May 2005 and a corresponding decrease in the unrealised revaluation reserve at those dates.

The Company invests in financial assets with a view to profiting from their total return through income and capital growth. These investments are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy. Accordingly as permitted by FRS 26, the investments are designated as at fair value through profit and loss. Unrealised gains or losses on valuation are recognised through the profit and loss account.

Basis of accounting

The Company is an investment company as defined in s266 of the Companies Act 1985. The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable accounting standards in the UK and with the Statement of Recommended Practice "Financial statements and investment trust companies" issued in January 2003 and revised in December 2005.

Investments

Investments in AIM-listed companies are stated at bid prices. Previously the valuation of these investments was based at middle market prices. The effect on the comparative figures was a reduction in the net asset value of £100,000 at 31 May 2005. The comparative figures have been restated to reflect this change.

Unlisted investments are valued in accordance with the International Private Equity and Venture Capital ("IPEVC") valuation guidelines. The company's investments have been designated by the directors as being stated at fair value through profit and loss ("FVTPL") for the purposes of FRS 26. In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date. In the case of unquoted investments, fair value is established by using measurements of value such as price of recent investment, earnings multiple and net assets; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary.

Realised surpluses and deficits on the disposal of investments are taken to through the income statement to the realised capital reserve; unrealised surpluses and deficits are taken through the income statement to the unrealised capital reserve.

Current asset investments are shown at the lower of cost and net realisable value.

Income

Investment income includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable are brought into account on the ex-dividend date. Fixed returns on debt and money market securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

Expenses
All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue with the exception of the investment management fee, which has been charged 25% to the revenue account and 75% to the realised capital reserve to reflect, in the Directors' opinion, the expected long term split of returns in the form of income and capital gains respectively from the investment portfolio.

Taxation
Corporation tax payable is provided on taxable profits at the current rate. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting period.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Capital reserve – realised
The following are accounted for in this reserve:

a) gains and losses on the realisation of investments;
b) realised exchange differences of a capital nature;
c) expenses and finance costs, together with the related taxation effect, charges to this reserve in accordance with the above policies;
d) realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Capital reserve – unrealised
The following are accounted for in this reserve:

a) increases and decreases in the valuation of investments held at the year end;
b) unrealised exchange differences of a capital nature;
c) unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

Cash and liquid resources
Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

2. Income

	31 May 2006 £'000	31 May 2005 £'000
Interest receivable on bank balances and money market securities	947	893
Dividends received	11	4
Other income received	70	4
	1,028	901

3. Management fees

	31 May 2006		31 May 2005	
	Revenue £'000	Capital £'000	Revenue £'000	Capital £'000
Investment management fee	174	524	123	370

Octopus provides investment management and accounting and administration services to the Company under a management agreement which runs for a period of five years with effect from 25 May 2004 and may be terminated at any time thereafter by not less than twelve months' notice given by either party. The basis upon which the management fee is calculated is disclosed within note 19 to the financial statements.

4. Other expenses

	31 May 2006 £'000	31 May 2005 £'000
Accounting and administration services	105	74
Directors' remuneration	32	32
Auditors' remuneration – audit services	12	9
– non audit services	3	2
Legal and professional expenses	23	28
Other expenses	133	23
	308	168

Non-audit services relate to corporation tax compliance work and review of the interim announcement.

5. Directors' Remuneration

	31 May 2005 £'000	31 May 2005 £'000
Directors' emoluments		
Viscount Cobham (Chairman)	12	12
M Cooper	10	10
R Penlington	10	10
	32	32

None of the Directors received any other remuneration or benefit during the period. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the period was three (2005: 3).

6. Tax on ordinary activities

The corporation tax charge for the period was £5,000 (2005: £45,000).

Factors affecting the tax charge for the current period:
The current tax charge for the period differs from the standard rate of corporation tax in the UK (19%). The differences are explained below.

Current tax reconciliation:	May 2006 £'000	May 2005 £'000
Profit on ordinary activities before tax	446	703
Current tax at 19%	85	134
Unrealised gain on investment	(80)	(88)
Expenses not deductible for tax purposes	–	(1)
Total current tax charge	5	45

Due to the Company's status as a Venture Capital Trust, and its intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided any deferred tax on any capital gains arising on the revaluation of investments

7. Dividends

	31 May 2006 £'000	31 May 2005 £'000
Dividend paid in the current year relating to the previous period	453	–
Proposed final dividend 1.25p per share (2005: 1.45p per share)	390	453

8. Return per share

The revenue return per share is based on £442,000 (2005: £495,000) and on 31,240,517 (2005: 20,396,980) shares, being the weighted average number of shares in issue during the period.

There are no potentially dilutive capital instruments in issue and, therefore, no diluted return per share figures are relevant.

9a. Fixed asset investments

	Unquoted Investments 31 May 2006 £'000	Aim-quoted Investments 31 May 2006 £'000	Total Investments 31 May 2006 £'000
Valuation and Net book amount:			
Book cost as at 1 June 2005	3,545	2,814	6,359
Revaluation in the period	–	363	363
Valuation at 1 June 2005	3,545	3,177	6,722
Movement in the year:			
Purchases at Cost	6,522	1,109	7,631
Revaluation in period	614	(19)	595
Valuation at 31 May 2006	10,681	4,267	14,948

Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review on pages 5 to 12.

9b. Current asset investments

Current asset investments at 31 May 2006 comprised money market securities.

	31 May 2006 £'000
Money market securities at cost:	
Bonds	9,928
Floating rate notes	1,900
Open ended investment companies	2,000
Unrealised (loss)/gain on money market securities:	
Bonds	(227)
Money market funds	56
Valuation as at 31 May 2006	13,657

10. Debtors

	31 May 2006 £'000	31 May 2005 £'000
Prepayments and accrued income	448	148

11. Creditors: amounts falling due within one year

	31 May 2006 £'000	31 May 2005 £'000
Accruals	41	27
Corporation tax charge	4	45
	45	72

12. Share capital

	31 May 2006 £'000	31 May 2005 £'000
Authorised:		
Equity – 40,000,000 ordinary shares of 10p	4,000	4,000
Allotted and fully paid up		
Equity – 31,169,065 ordinary shares of 10p	3,117	3,127

On 27 September 2005, the Company repurchased 12,000 shares for cancellation at a price of 85p per share. On 2 March 2006 a further 67,315 shares were repurchased at a price of 85p per share and on 28 March 2006 a further 20,400 shares were repurchased at a price of 90 p per share. The total nominal value of the shares repurchased was £9,972 representing 0.32% of the issued share capital.

13. Reserves

	Share premium £'000	Special distributable Reserve £'000	Capital redemption reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
Balance as previously reported 31 May 2005	26,603	–	3	(300)	463	15
Adjustments as per FRS 21 and 26	–	–	–	–	(100)	453
As restated	26,603	–	3	(300)	363	468
Cancellation of share premium account	(26,603)	26,603	–	–	–	–
Share buy back	–	(87)	10	–	–	–
Management fee capitalised net of associated taxation	–	–	–	(425)	–	–
Net increase in unrealised appreciation	–	–	–	–	424	–
Return on activities after tax	–	–	–	–	–	442
Dividends	–	–	–	–	–	(453)
	–	26,516	13	(725)	787	457

The Special Distributable Reserve was created on 8 December 2005 following the cancellation of the Share Premium account in accordance with the High Court Approval obtained on 7 December 2005. The Special Distributable Reserve allows the Company to fund the buy-back of its ordinary shares and is a distributable reserve.

14. Net asset value per share

The calculation of net asset value per share as at 31 May 2006 is based on net assets of £30,165,000 (2005: £30,264,000) divided by the 31,169,065 (2005: 31,268,780 ordinary shares in issue at that date).

15. Reconciliation of net revenue before taxation to cash flow from operating activities

	31 May 2006 £'000	**31 May 2005 £'000**
Profit on ordinary activities before tax	446	603
Increase in debtors	(300)	(148)
Increase in creditors	14	27
Management fees charged to capital account	(524)	(370)
Decrease in capital value of investments	100	7
Unrealised loss on current asset investments	(172)	–
Net cash (outflow)/inflow from operating activities	(436)	119

16. Reconciliation of net cash flow to movement in net funds

	31 May 2006 £'000	**31 May 2005 £'000**
Increase in cash in year	990	167
Movement in liquid resources	(9,642)	23,299
Opening net funds	23,466	–
Closing net funds	14,814	23,466

17. Analysis of changes in net funds

	At 1 June 2005 £'000	Cashflows £'000	At 31 May 2006 £'000
Cash at bank	167	990	1,157
Current asset investments	23,299	(9,642)	13,657
	23,466	(8,652)	14,814

18. Financial instruments

Management of risk

As a Venture Capital Trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing in accordance with the Company's investment strategy.

The Company's financial instruments may comprise:

- shares and securities in UK companies
- cash, liquid resources and short term debtors and creditors that arise from the Company's operations.

The Company has no derivative financial instruments and has no financial assets or liabilities for which hedge accounting has been used. Fixed assets are valued at fair value as determined by the Directors on the basis set out in the accounting policies. The fair value of certain unlisted investment has been calculated by reference to a multiples earning model which examines the price/earnings ratio. In determining these valuations, the industry sector ratios have been used, adjusted as necessary to take into account the associated risks on an individual investment basis.

At 30 May 2006 the fair value of the financial assets designated as fair value through profit and loss was £28,605,000 (2005: £30,021,000). During the course of the current year, there has been an unrealised appreciation of £424,000 (2005: £363,000) which has been credited to the unrealised capital reserve. The designation of the financial assets as at fair value through profit and loss is in accordance with the documented strategy of the Company.

The main risks arising from the Company's financial instruments are fluctuations in market price for quoted investments and fluctuations in valuations, including the issue of the going concern, for unquoted investments.

Market price risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions by way of price movements. The potential risk is continuously monitored by the investment manager and reported on a regular basis to the board.

Liquidity risk

The funds raised since incorporation are currently used to fund the Company's primary objective of investing in venture capital opportunities which accord with its investment strategy. Some 46% of these funds had been utilised in this investment process at 31 May 2006 and the remaining funds were primarily represented by cash and liquid resources shown as current asset investments in the balance sheet.

Interest rate risk

The Company finances its operations through share capital raised and retained profits including both realised and unrealised capital profits. At the period end and throughout the period, the Company had no liabilities that were subject to interest rate risk and had no borrowing facilities. The Company's financial assets are invested in short term money market funds (typically of one to three months duration) at fixed rates. The weighted average interest rate on such funds was approximately 4.4% during the period.

Credit risk

The company's principal financial asset is cash deposits. The credit risk associated with these cash deposits is limited as the counterparties have high credit ratings assigned by international credit-rating agencies.

Fair values of financial assets and liabilities

There was no material difference between the fair values of financial assets and liabilities and their book values at the balance sheet date.

19. Related party transactions

Matt Cooper, a non-executive Director of Eclipse VCT plc, is a Director of Octopus. Eclipse VCT plc has employed Octopus throughout the period as investment managers. Eclipse VCT plc has paid Octopus £698,000 in the period as a management fee and there is £nil outstanding at the balance sheet date. The management fee is payable quarterly in advance and is based on 2.0% of the net asset value calculated at annual intervals as at 31 May. Octopus also provides accounting and administrative services to the Company, payable quarterly in advance for a fee of 0.3% of the net asset value calculated at annual intervals as at 31 May. During the period £105,000 was paid to Octopus and there is £nil outstanding at the balance sheet date, for the accounting and administrative services.

In addition, Octopus is entitled to an annual performance related incentive fee in the event that performance criteria in relation to the increase in net assets, after adding back distributions, are exceeded. No performance fee is payable until after 31 May 2007.

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of Eclipse VCT plc will be held at 8 Angel Court, London, EC2R 7HP on 30 October 2006 at 3.00 p.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 31 May 2006 and the directors' and auditors' reports thereon.

2. To approve a final dividend of 1.25 pence per share.

3. To approve the Directors' Remuneration Report.

4. To approve an increase of £3,500 per annum in the remuneration of the Directors to £13,500 per annum and £5,500 per annum in the remuneration of the Chairman to £17,500 per annum with effect from 1 June 2006.

5. To re-elect Viscount Cobham as a director.

6. To re-appoint Grant Thornton UK LLP as auditors of the company and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass Resolution 7 as an Ordinary Resolution and Resolutions 8 and 9 as Special Resolutions:

7. AUTHORITY TO ALLOT RELEVANT SECURITIES
   THAT the directors be generally and unconditionally authorised in accordance with Section 80 of the Act to allot shares up to a maximum nominal amount of £311,690 (representing approximately 10% of the ordinary share capital in issue at today's date) this authority to expire at the later of the conclusion of the Company's annual general meeting next following the passing of this resolution and the expiry of 15 months from the passing of the relevant resolution (unless previously revoked, varied or extended by the company in general meeting but so that such authority allows the company to make Offers or agreements before the expiry thereof which would or might require relevant securities to be allotted after the expiry of such authority).

8. EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES
   To empower the Directors pursuant to Section 95(1) of the Act to allot or make offers or agreements to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority referred to in resolution 9 as if Section 89(1) of the Act did not apply to any such allotments and so that:

   (a) reference to allotment in this Resolution shall be construed in accordance with Section 94 of the said Act; and

   (b) the power conferred by this Resolution shall enable the company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power.

   And this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the annual general meeting of the company next following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this resolution.

9. AUTHORITY TO MAKE MARKET PURCHASES
THAT the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10p each in the company ("ordinary shares") provided that:

(a) the maximum number of ordinary shares so authorised to be purchased shall not exceed 14.99% of the present issued Ordinary share capital of the company;

(b) the minimum price which may be paid for an ordinary share shall be 10p;

(c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased;

(d) the authority conferred comes to an end at the conclusion of the next annual general meeting of the Company or upon the expiry of 15 months from the passing of this resolution, whichever is the later; and

(e) that the company may enter into a contract to purchase its ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.

By Order of the Board
C L Whitten FCIS
Secretary
11 September 2006

8 Angel Court
London
EC2R 7HP

NOTES

a) A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member.
b) A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the company, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to be received by no later than 48 hours before the time the annual general meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the annual general meeting.
c) Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company kept in accordance with Section 325 of the Companies Act 1985 and a copy of the Memorandum and Articles of Association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the Annual General Meeting, and for at least 15 minutes prior to the commencement of the meeting until its conclusion.

Proxy Form

Eclipse VCT plc

Annual General Meeting – 30 October 2006

I/We ....
(BLOCK CAPITALS PLEASE)

of ....
being a member of Eclipse VCT plc, hereby appoint

....
or failing him/her the Chairman of the meeting to be my/our proxy and vote for me/us on my/our behalf at the annual general meeting of the company to be held on 30 October 2006, notice of which was sent to shareholders with the directors' report and the accounts for the year to 31 May 2006, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting:

Resolution number		For	Against	Withheld
1.	To receive, consider and adopt the financial statements for the year to 31 May 2006	☐	☐	☐
2.	To approve a final dividend of 1.25p per share	☐	☐	☐
3.	To approve the Directors' Remuneration Report	☐	☐	☐
4.	To approve an increase in the remuneration of the Directors and Chairman to £13,500 and £17,500 respectively.	☐	☐	☐
5.	To re-elect Viscount Cobham as a director	☐	☐	☐
6.	To re-appoint Grant Thornton UK LLP as auditors and authorise the directors to determine their remuneration	☐	☐	☐
7.	To authorise the directors to allot shares (Ordinary Resolution)	☐	☐	☐
8.	To disapply Section 89(1) of the Companies Act 1985 (Special Resolution)	☐	☐	☐
9.	To authorise the directors to make market purchases of its own shares by utilising distributable reserves of the company (Special Resolution)	☐	☐	☐

Signed: .... Dated: 2006

NOTES

1. A member wishing to appoint a person other than the Chairman of the meeting as proxy should insert the name and address of such person in the space provided.
2. Use of the proxy form does not preclude a member from attending and voting in person.
3. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
4. If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.
5. To be valid, the proxy form must be received by the Registrars no later than 48 hours before the commencement of the meeting.

Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No MB122

Capita Registrars
Registrars for Eclipse VCT plc
Proxy Department
P O Box 25
Beckenham
Kent
BR3 4BR

First Fold

Second fold

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