

# ECLIPSE VCT 2

ANNUAL REPORT AND ACCOUNTS  
FOR THE PERIOD ENDED 31 JANUARY 2006



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## Financial Summary

### for the period ended 31 January 2006

	<b>31 January 2006</b>
Net assets	£17,650,000
Net revenue return after tax	£255,000
Revenue return per share*	2.20p
Net asset value per share	95p
Total return per share*	–
Dividend per share	1.25p

\*based on a weighted average of 11,576,195 shares in issue in the period

Eclipse VCT 2 plc ('Eclipse VCT 2') is a Venture Capital Trust ('VCT') and is managed by Octopus Asset Management Limited ('Octopus or Manager'). Eclipse VCT 2 was launched in January 2005 and raised over £18.4 million (£17.7 million net of expenses) through an offer for subscription. It invests primarily in unquoted and AIM listed companies and aims to deliver absolute returns on its investments.

## Chairman's Statement

I am pleased to present the first annual report to shareholders in Eclipse VCT 2.

### Fund Raising

Eclipse VCT 2 was launched in January 2005 as a follow on to the Eclipse VCT which was launched in 2004, raising over £30 million. Eclipse VCT 2 enjoyed similar support, raising £18.4 million by 30 June 2005.

Since then your Manager, Octopus, has launched two further Eclipse funds (Eclipse VCT 3 and Eclipse VCT 4), raising a further £58.3 million. Eclipse VCT 2 co-invests with these three other Eclipse funds which are all managed by the same investment team at Octopus. This is viewed as a benefit as it means they will not only be able to invest in a wider range of opportunities but also in larger and more developed companies than are typically available to a single VCT. Each of the Eclipse funds will invest in deals pro-rata to their respective fund size.

### Investment Portfolio

Eclipse VCT 2 has made good progress in its first year. At 31 January 2006, Eclipse VCT 2 had made 14 investments totalling £5.6 million in unquoted and AIM listed companies, representing 32% of the Fund (by net asset value), which is ahead of the internal target set by the Manager.

Of the investments made to date, 6 are AIM listed investments, which are effectively unchanged in value as at 31 January 2006. The 8 unquoted investments have been valued in accordance with British Venture Capital Association ('BVCA') guidelines and are all held at cost. As set out in the BVCA 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.

When fully invested, we expect the portfolio to be spread across 20 to 30 investments and the total amount invested into any one sector and any one company will, for diversification purposes, be limited to a maximum of 20% and 10% of the Fund respectively. Further information on portfolio holdings can be found in the Investment Manager's Review.

### Net Asset Value ('NAV') per share

The pre-dividend NAV of the Fund was £17.6 million, equivalent to 95p per share (flat since launch).

It is too early in the investment cycle to make a meaningful comment on the performance of the Fund to date but, as already noted, progress has been made in developing the portfolio across a range of sectors.

### Dividend

In line with our commitment to maximise tax-free dividends to shareholders, the Directors propose to pay a dividend of 1.25p per share to be paid on 25 May 2006 to shareholders on the register on 5 May 2006.

As the Fund is at an early stage in its investment cycle, dividends are derived from income from money market securities. In the medium-term, we aim to produce a regular tax-free income stream for shareholders and, as such, we will realise profits for distribution on holdings which we believe have reached a fair value.

### Share Price and Buy-Back Facility

Eclipse VCT 2 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 98p compared to the NAV of 95p. In the period under review, Eclipse VCT 2 repurchased 16,276 shares at a price of 95p. 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 Asset Management on 020 7710 2800.

### VCT Qualifying Status

As you may be aware, Eclipse VCT 2 must be 70% invested in qualifying companies by 31 January 2008 in order to comply with VCT regulations. At 31 January 2006, Eclipse VCT 2 was approximately 32% invested (by net asset value) in qualifying holdings, which is in line with the required run rate to meet the 70% target by year three.

The Directors will continue to monitor the Fund's progress towards meeting Her Majesty's 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 would expect Eclipse VCT 2 to meet the relevant conditions by its deadline of 31 January 2008.

## Chairman's Statement (continued)

### Co-investment scheme

The Board is proposing to introduce a co-investment scheme for Eclipse VCT 2 plc. This will require members of the Octopus team to invest directly (on identical terms to the fund) into the ordinary shares of portfolio companies (except in the case of investments into AIM, OFEX or the Main Market of the London Stock Exchange or where investments are structured entirely as ordinary shares). This co-investment structure, which has been introduced by several of the leading VCT players in the UK, is designed to ensure that Octopus continues to attract and retain the very best fund managers in the market.

As part of this proposal, the Board believes it is right that Octopus should increase the level of tax-free dividends payable to shareholders before the performance related incentive fee becomes payable. The Board is proposing that this is changed from 40p to 45p.

The Board has decided to seek shareholder approval for the introduction of the co-investment scheme at the forthcoming Extraordinary General Meeting.

### Outlook

As with all VCT funds the challenge is for the Manager to see a good range of quality investment opportunities so it can be suitably selective in the investment decisions whilst meeting the investment target to meet the VCT regulations. The progress towards meeting these objectives in this first period is encouraging. The investment team at Octopus continues to see a steady pipeline of investment opportunities and expects the healthy investment rate to continue in the current year.

In future reports I would expect to give fuller news on the portfolio as the investment profile matures.

Marc Vlesing  
Chairman  
21 April 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.*

### **Review of Investments**

We are pleased with the progress made by the Fund since launch. Since the interim report, the Fund has invested a further £4.7 million bringing the total invested to £5.6 million. Since 31 January 2006, the Fund has invested £962,000 in four further investments.

Of the fourteen investments held by the Fund at 31 January 2006, six were in AIM listed companies and eight were in unquoted companies. We expect that approximately 20% of the Fund will be invested in AIM listed companies once fully invested.

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.

In keeping with our patient and low risk approach, the remainder of the Fund is invested in money market securities.

### **Qualifying Status**

VCTs have three years to invest 70% of their money into qualifying companies. We're pleased to say that, at 31 January 2006, one third of the way through the three year period, Eclipse VCT 2 was 32% invested (by net asset value) in qualifying companies, ahead of our target.

### **Portfolio Activity**

Since the interim report the Fund has made ten further investments, seven of which are detailed in the "Ten Largest Holdings" section of this report. The three smaller investments are outlined below.

#### **Belgravium Technologies plc**

##### *Information Technology*

Eclipse VCT 2 invested £22,500 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*

The Fund invested £44,000 in the AIM flotation of Abcam in October 2005. Abcam is an internet based company focused 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 VCT 2 invested £150,000 in the AIM flotation of Healthcare Locums. Healthcare Locums is a specialist player in the healthcare staffing market, targeting the market for the supply of temporary doctors, GPs, social workers and other healthcare professionals.

## Investment Manager's Review (continued)

### Portfolio of Investments

	Investment at Cost	Unrealised appreciation/ depreciation	Carrying Value
	£'000	£'000	£'000
<b>Unquoted investments</b>			
Luther Pendragon Limited	1,000	–	1,000
James Harvard International Limited	1,000	–	1,000
Plastics Capital Limited	800	–	800
The Kendal Group Limited	576	–	576
Covion Limited	429	–	429
The Capital Pub Company 2 plc	350	–	350
Red-M Group Limited	300	–	300
Lilestone Holdings Limited	280	–	280
	4,735	–	4,735
<b>AIM-listed investments</b>			
The Tanfield Group plc	250	(3)	247
Autoclenz Holdings plc	206	–	206
InterQuest plc	171	(48)	123
Healthcare Locums plc	150	19	169
Abcam plc	44	20	64
Belgravium Technologies plc	22	8	30
	843	(4)	839
<b>Total</b>	<b>5,578</b>	<b>(4)</b>	<b>5,574</b>

### Ten Largest Holdings

#### Luther Pendragon Limited

Luther provides a fully integrated corporate public relations service specialising in 'issues management', which involves developing communications strategies to combat 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](http://www.luther.co.uk).

<i>Investment date</i>	<i>30 November 2005</i>
<i>Equity held</i>	<i>19.2%</i>
<i>Cost</i>	<i>£1,000,000</i>
<i>Valuation</i>	<i>£1,000,000</i>
<i>Valuation basis</i>	<i>Cost (New Investment)</i>

<i>Audited financial information</i>	<i>December 2004</i>
	<i>£'000</i>
<i>Sales</i>	<i>5,458</i>
<i>Profit before taxation</i>	<i>759</i>
<i>Retained profit</i>	<i>251</i>
<i>Net assets</i>	<i>1,500</i>

#### 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.

Further information can be found at the company's website [www.jamesharvard.com](http://www.jamesharvard.com).

<i>Investment date</i>	<i>30 November 2005</i>
<i>Equity held</i>	<i>10.9%</i>
<i>Cost</i>	<i>£1,000,000</i>
<i>Valuation</i>	<i>£1,000,000</i>
<i>Valuation basis</i>	<i>Cost (New Investment)</i>

*First Audited financial information Due December 2005*

## Investment Manager's Review (continued)

### 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 ball bearing components.

<i>Investment date</i>	<i>30 November 2005</i>
<i>Equity held</i>	<i>9.5%</i>
<i>Cost</i>	<i>£800,000</i>
<i>Valuation</i>	<i>£800,000</i>
<i>Valuation basis</i>	<i>Cost (New Investment)</i>

<i>Audited financial information</i>	<i>March 2005</i>
	<i>£'000</i>
<i>Sales</i>	<i>750</i>
<i>Profit before taxation</i>	<i>275</i>
<i>Retained profit</i>	<i>257</i>
<i>Net assets</i>	<i>826</i>

### The Kendal Group Limited

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

Zoggs is a leading swimming equipment and swimwear brand, founded in Australia and well known for its swimming goggles and flotation aids. It has recently introduced swimwear to the range. Further information is available at [www.zoggs.com](http://www.zoggs.com).

PureLime is a ladies fitness and active wear brand, originally from Denmark. Further information is available at [www.purelime.com](http://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. The Zoggs brand has a significant presence in Australia and plans to grow through licensing in other countries.

Further information can be found at the company's website, [www.thekendalgroup.com](http://www.thekendalgroup.com).

<i>Investment date</i>	<i>18 November 2005</i>
<i>Equity held</i>	<i>6.4%</i>
<i>Cost</i>	<i>£576,000</i>
<i>Valuation</i>	<i>£576,000</i>
<i>Valuation basis</i>	<i>Cost (New Investment)</i>

<i>Audited financial information</i>	<i>December 2004</i>
	<i>£'000</i>
<i>Sales</i>	<i>8,157</i>
<i>Profit before taxation</i>	<i>28</i>
<i>Retained loss</i>	<i>(2)</i>
<i>Net assets</i>	<i>1,300</i>

## Investment Manager's Review (continued)

### 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 £16 million, making it the fastest growing business in the Thames Valley region in 2004 (source: BDO). Covion also came fourth in the Fast Track 100 survey of the fastest growing companies in the UK (October 2005) and 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](http://www.covion.co.uk).

<i>Investment date</i>	27 May 2005
<i>Equity held</i>	5.2%
<i>Cost</i>	£429,000
<i>Valuation</i>	£429,000
<i>Valuation basis</i>	Cost (New Investment)

<i>Audited financial information</i>	December 2004
	£'000
<i>Sales</i>	10,297
<i>Profit before taxation</i>	329
<i>Retained profit</i>	127
<i>Net assets</i>	728

### 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 the Slug and Lettuce chains of pubs.

In total, more than £10 million was initially raised for the company which is developing a portfolio of freehold pubs in the Greater London area. These are unbranded, un-themed and have no tie to a particular brewery. To date, seven sites have been acquired and more are in the pipeline.

Further information can be found at the company's website [www.capitalpubcompany2.com](http://www.capitalpubcompany2.com).

<i>Investment date</i>	31 January and 30 June 2005
<i>Equity held</i>	2.1%
<i>Cost</i>	£350,000
<i>Valuation</i>	£350,000
<i>Valuation basis</i>	Latest round of finance

<i>Audited financial information</i>	September 2005
	£'000
<i>Sales</i>	1,518
<i>Profit before taxation</i>	68
<i>Retained profit</i>	45
<i>Net assets</i>	10,500

### Red-M Group Limited

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 ('CDS'), a wireless consulting services provider, and Red-M Communications, a vendor of wireless security probes and monitoring software.

Further information can be found at the company's website, [www.red-m.com](http://www.red-m.com).

<i>Investment date</i>	12 December 2005
<i>Equity held</i>	2.6%
<i>Cost</i>	£300,000
<i>Valuation</i>	£300,000
<i>Valuation basis</i>	Cost (New Investment)

<i>First audited financial information</i>	Due October 2006
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## Investment Manager's Review (continued)

### Lilestone Holdings Limited

Lilestone is the owner of the Myla brand of lingerie and bedroom accessories. The Company distributes through four owned retail units, a number of concessions, via mail order and wholesale.

Further information can be found at the company's website: [www.myla.com](http://www.myla.com).

<i>Investment date</i>	<i>8 September 2005</i>
<i>Equity held</i>	<i>9.3%</i>
<i>Cost</i>	<i>£280,000</i>
<i>Valuation</i>	<i>£280,000</i>
<i>Valuation basis</i>	<i>Cost (New Investment)</i>

*First audited financial information*      *Due July 2007*

### The Tanfield Group plc

Tanfield Holdings supplies assembly and technical engineering services and owns Smith Electric Vehicles, which manufactures zero emission vehicles for the dairy, airport and delivery markets.

Further information can be found at the company's website [www.tanfieldgroup.com](http://www.tanfieldgroup.com).

<i>Investment date</i>	<i>26 May 2005</i>
<i>Equity held</i>	<i>0.7%</i>
<i>Cost</i>	<i>£250,000</i>
<i>Valuation</i>	<i>£247,000</i>
<i>Valuation basis</i>	<i>Bid price</i>

*First audited financial information*      *Due December 2005*

### Autoclenz Holdings Plc

Autoclenz, founded in 1990, is the UK's leading provider of valeting services to automotive retailers, auction houses, rental companies and car supermarkets. The company has recently floated on AIM having previously been a subsidiary of Yule Catto, the chemical company.

The fastest growing division of Autoclenz is REACT, a Home Office approved specialist cleaning and decontaminating service. REACT carries out work on behalf of the emergency services, prison service and local authorities.

Further information can be found at the company's web site [www.autoclenz.co.uk](http://www.autoclenz.co.uk).

<i>Investment date</i>	<i>1 December 2005</i>
<i>Equity held</i>	<i>0.5%</i>
<i>Cost</i>	<i>£206,000</i>
<i>Valuation</i>	<i>£206,000</i>
<i>Valuation basis</i>	<i>Bid Price</i>

*First audited financial information*      *Due December 2006*

### Recent Transactions

Since 31 January 2006 Eclipse VCT 2 has invested in three AIM investments and in one unquoted investment.

#### Cohort plc

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 complimentary technical services companies and position them alongside the fast-growing SCS business.

Cohort is expected to achieve a profit before tax of £1.7 million on turnover of £18.3 million for the year ending April 2006.

#### Ovum plc

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.

## Investment Manager's Review (continued)

### Invocas plc

Invocas is the leading provider of personal insolvency solutions in Scotland with a 16% share of the Protected Trust Deed market. The company 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.

### Smart First Ltd (trading as Perfect Pizza)

In March 2006, Eclipse VCT 2 invested in Perfect Pizza, in a £7 million Management Buy-In. Perfect Pizza is the third largest pizza delivery business in the UK with 114 franchise 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.

### Summary of investments made by other funds managed by Octopus Asset Management Ltd

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

	equity held by Eclipse VCT 2	equity held by other funds managed by Octopus Asset Management
Abcam plc	0.1%	0.6%
Autoclenz Holdings plc	0.5%	11.3%
Belgravium Technologies plc	0.2%	1.4%
Covion Limited	5.2%	10.1%
Healthcare Locums plc	0.4%	1.5%
InterQuest plc	1.1%	3.4%
James Harvard International Ltd	10.9%	16.0%
Lilestone Holdings Ltd	9.3%	15.5%
Luther Pendragon Holdings Ltd	19.2%	19.2%
Plastics Capital Limited	9.5%	11.8%
Red-M Group Limited	2.6%	8.5%
The Capital Pub Company 2 plc	2.1%	6.2%
The Kendal Group limited	6.4%	11.5%
The Tanfield Group plc	0.7%	6.5%

### Outlook

The challenge for all venture capital funds is to attract a strong flow of good quality investment opportunities.

At Octopus, we have spent a considerable amount of time and effort over the last few years in establishing and developing our network of deal introducers. The number and the quality of the investment opportunities we are currently seeing is testament to this hard work and we are confident that we will build an attractive portfolio of investments for Eclipse VCT 2. An additional benefit of subsequently launching Eclipse VCT 3 plc and Eclipse VCT 4 plc is that we now have more flexibility from an investment standpoint. For example, the Eclipse funds can now invest up to £4 million per company (i.e. four times the amount of a single VCT).

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

## Details of Advisers

<b>Investment Manager</b>	Octopus Asset Management Limited ('Octopus') 8 Angel Court London EC2R 7HP
<b>Secretary and Registered office</b>	Celia L Whitten FCIS 8 Angel Court London EC2R 7HP
<b>Solicitors</b>	Brown Rudnick Berlack Israels LLP 8 Clifford Street London W1S 2LQ
<b>Auditors and Taxation advisers</b>	Grant Thornton UK LLP 1 Westminster Way Oxford OX2 0PZ
<b>VCT status advisers</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Stockbrokers</b>	Brewin Dolphin Securities Limited 34 Lisbon Street Leeds LS1 4LX
<b>Bankers</b>	HSBC Bank Plc 31 Holborn London EC1N 2HR  UBS AG 1 Curzon Street London W1J 5UB
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Registered in England &amp; Wales</b>	Company number 5260491

## Details of Directors

**Marc Vlessing** (44 – Chairman) started his career as a corporate financier with County NatWest in 1984. In 1991, he set up Media Finance, a management consultancy business specialising in the media sector. In 1997 he became Chief Executive of Crescent Entertainment which ran a group of London theatres and cinemas, subsequently he became Chief Executive of First Call International, the UK's largest independent ticketing business. In October 2002 Marc was appointed as a non-executive Director of ProVen Growth and Income VCT plc. He is currently a principal in Pocket, a developer which helps people on low to moderate incomes own their first home

**Matthew Cooper** (38 – Director) is the chairman of Octopus Asset Management Limited, the Investment Manager of Eclipse VCT 2. 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 2 million customers, generating revenues of over £275 million and employing over 2,000 people.

**David Lambert** (50 – Director) has over 20 years' experience of private equity investment in smaller middle market UK companies. He was formerly Managing Director of Royal Bank Development Capital which comprised six offices across the UK focusing on private equity investments up to £10 million and was responsible for developing this business from its original inception in 1996 as the NatWest Pioneer Fund, commencing with a single office in Nottingham and an initial focus on investments up to £1 million. Prior to this he was a Director with NatWest Equity Partners, where he worked with Octopus' lead fund manager, Chris Allner. He is also a non-executive Director of Catapult Venture Managers Ltd.

## Directors' Report

The Directors present their report and the audited financial statements for the period from 15 October 2004 to 31 January 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 ('the Act'), has been granted provisional approval as a Venture Capital Trust by H M Revenue & Customs and has been listed on the London Stock Exchange since March 2005.

The Chairman's Statement, on page 3, includes a review of the Company's activities and future prospects. 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

	31 January 2006
Net profit attributable to shareholders for the period	£255,000
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Appropriations:	
Final dividend proposed – 1.25p per share	£232,000
<hr/>	

The proposed final dividend will, if approved by shareholders, be paid on 25 May 2006 to shareholders on the register on 5 May 2006.

### Directors

According to the register of Directors' interests, the Directors of Eclipse VCT 2 plc during the period and their interests in the issued ordinary shares of 10p were as follows:

	31 January 2006
Mr M Vlessing (Chairman) (appointed 21 December 2004)	5,250
Mr M Cooper (appointed 21 December 2004)	10,000
Mr D Lambert (appointed 21 December 2004)	21,000

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

All Directors retired in accordance with the Company's articles of association at the Annual General Meeting held on 13 April 2006 and were re-elected. Brief biographical notes on the Directors are given on page 12.

### 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 January 2006 there were no trade creditors.

### Management

Under the terms of an agreement dated 18 March 2005 the Company and Octopus Asset Management Ltd entered into a management agreement for an initial 5 year period which may be terminated by either party giving not less than 12 months notice. The Manager will provide investment management, accounting and administration services to the Company for a fee payable quarterly in advance on 1 February, 1 May, 1 August and 1 November, of an amount equal to 2.3 per cent of the net asset value of the Company.

In addition, the Management agreement contains the Manager's incentive fee arrangement. Commencing no earlier than the close of the 2007/08 financial year and in the event that distributions per share have reached 40p in aggregate and the performance value at that date exceeds 130p per share, the Manager will be entitled to an incentive fee equal to 20 per cent of the excess of such performance value over 100p per share.

As part of the co-investment proposals set out in the Chairman's statement and in the notice of the Extraordinary General Meeting, it is proposed that the threshold for distributions will increase to 45p before the incentive fee is payable.

The principal terms of the Company's management agreement with Octopus are set out in Notes 3 and 18 to the financial statements. Mr M Cooper is a Director of Octopus.

## Directors' Report (continued)

### Issue of own shares

During the period to 31 January 2006, the company issued a total of 18,600,924 shares in accordance with the offer for subscription dated 4 January 2005. Details of the issue of these shares are shown in note 11 to the financial statements.

Directors' report (continued)

### Purchase and cancellation of own shares

During the period, the Company purchased 16,276 shares for cancellation at a price of 95p per share.

### Fixed assets

Movements in fixed asset investments during the period are set out in the Investment Managers Review and Note 8 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 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

You will be aware that the Annual General Meeting of the Company was held on 13 April 2006 when the Directors were re-elected in accordance with the Company's Articles of Association. Notice convening an extraordinary general meeting of the Company to consider the remainder of the ordinary business of the Company and special business set out below together with a form of proxy for those unable to attend that meeting can each be found at the end of this document.

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.

Shareholders are also being asked to renew the buy back facility by renewing the authority to purchase shares in the market for cancellation. Authority is also being sought to cancel the Company's share premium account to allow the Company to utilise such reserve for this purpose rather than having to utilise other distributable reserves. This resolution if passed will require confirmation from the High Court.

As mentioned in the Chairman's statement, it is proposed that a co-investment scheme be established between the Company and Octopus which will allow participating employees of the manager to invest a total of 7.5 per cent of the amount invested in ordinary shares by the Company in each investment made (other than investments in companies quoted on AIM, OFEX or the Main Market of the London Stock Exchange or investments which are structured entirely as ordinary shares).

### Independent auditors

Grant Thornton UK LLP were appointed as auditors during the period to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985.

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

By order of the Board

C L Whitten FCIS  
Secretary  
21 April 2006

## Directors' Remuneration Report

### Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the period ended 31 January 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 period (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 retired at the first General Meeting after election and thereafter one third of all Directors will be subject to retirement by rotation and re-election by shareholders at subsequent Annual General Meetings following recommendation by the Board.

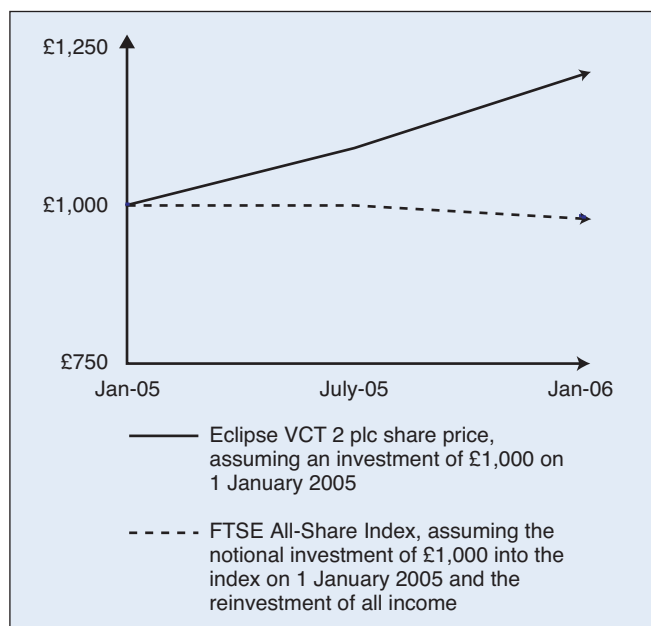
Each Director received a letter of appointment. A Director may resign by notice in writing to the Board at any time. None of the Directors are entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

	Date of Appointment	Annual rate of Directors' fees £
Mr M Vlessing (Chairman)	1 January 2005	15,000
Mr M Cooper	1 January 2005	10,000
Mr D Lambert	1 January 2005	12,000

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 enable 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 the Chairman's 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 total return (assuming all income is reinvested) to ordinary shareholders in the Company over the period from January 2005 to January 2006 with the total return from 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.



## Directors' emoluments

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

	Period ended 31 January 2006
	£
Mr M Vlessing (Chairman)	16,000
Mr M Cooper	10,000
Mr D Lambert	13,000
	<hr/>
	39,000

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 period to any of the current Directors.

By Order of the Board

C L Whitten FCIS  
Secretary  
21 April 2006

## Shareholder Information

### The Company

Eclipse VCT 2 plc ('Eclipse VCT 2') is a Venture Capital Trust ('VCT') managed by Octopus Asset Management Limited ('Octopus'). Eclipse VCT 2 was launched in January 2005 and raised over £18.4 million through an offer for subscription. The objective of Eclipse VCT 2 is to invest in a diversified portfolio of UK smaller companies in order to generate capital growth over the long term.

### Venture Capital Trusts

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. As a result of these tax benefits, more than 35,000 people invested over £500 million in VCTs in the 2004/05 tax year, taking the total invested between 1995 and 2005 to £2.1 billion (Source: Allenbridge).

During the tax years 2004/05 and 2005/06 investors were entitled to 40% income tax relief on an investment in a VCT provided shares were held for three years. This means that if you invested £10,000 in Eclipse VCT 2, you are entitled to £4,000 of income tax relief. In addition, as the value of a VCTs investments rise, profits can be paid out to investors as a stream of tax-free income.

Eclipse VCT 2 has been provisionally approved as a VCT by Her Majesty's Revenue & Customs. 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 listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment.

There were a number of changes in the Chancellor's budget announcement for 2006/07 that relate to VCTs. The main changes were:

- Upfront Income Tax relief reduced from 40% to 30%.
- Shares issued on or after the 6 April 2006 will have to be held for a minimum of 5 years to qualify for Income Tax relief (previously the required holding period was 3 years).
- Qualifying holdings of up to £1 million invested in any one year in new shares or securities in an unquoted Company (including companies listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £7 million prior to investment and £8 million after, (previously this had been £15 million. and £16 million respectively).

These changes have no effect on the investment strategy of Eclipse VCT 2 or to your investment, made as shareholders during the 2004/05 and 2005/06 tax years. If you would like further information on the changes please contact Octopus Asset Management on 020 7710 2800.

### Financial Calendar

The Company's financial calendar is as follows:

24 May 2006	–	Extraordinary General Meeting
25 May 2006	–	2005 final dividend paid
October 2006	–	Interim report for six months to 31 July 2006 published
April 2007	–	Final dividend and preliminary results for year to 31 January 2007 announced; annual report and financial statements published
May 2007	–	2007 final dividend paid

### Share Price and Buy-Back Facility

At 31 March 2006 the Company's mid-market share price was 98p and, as is normal with a VCT in its early stages, there have been very few transactions. We will be asking shareholders at the Extraordinary General Meeting to renew the Board's powers to purchase shares in the market for cancellation. Eclipse VCT 2 has a share buy-back facility, committing 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, the Company repurchased 16,276 shares at 95p. 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 Asset Management on 020 7710 2800.

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

## Corporate Governance

The Company is committed to maintaining high standards in corporate governance and accordingly the Board confirms that the Company has taken the appropriate steps to enable it to comply with the level of corporate governance suitable to a venture capital trust as set out in the revised Combined Code on Corporate Governance published by the UK Listing Authority in July 2003. The Combined Code acknowledges that some provisions may have less relevance for investment companies and, in particular, consider some areas inappropriate to the size and nature of the business of the Company. Any provisions not complied with and the reasons therefore are outlined at the end of this report in the Compliance Statement.

### Board of Directors

The Company has a Board of three non-executive Directors, two of whom are considered to be independent to the Manager. Matthew Cooper is not considered to be independent due to his role as Chairman of the 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 and the agreement between the Company and the Manager sets out the matters over which the Manager has authority and limits beyond which Board approval must be sought.

The Manager has authority over the management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services. The main issues reserved for the board include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to the shareholders;
- the appointment, evaluation, removal and remuneration of the Manager;
- the performance of the Company, including monitoring of the discount of the net asset value and the share price; and
- monitoring shareholder profile and considering shareholder communications.

In relation to the period under review the following meetings were held:

4 full board meetings	1 audit committee meeting
All Directors attended all meetings with the exception of Matt Cooper who was unable to attend one of those meetings.	All Members attended

The Board met four times during the year to review investment performance and the Board or a committee of it met on other occasions to authorise investments, share issues and one repurchase. A brief biographical summary of each Director is given on page 12.

The Company's Articles of Association require that one third of the 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 therefore submit themselves for re-election at least every three years.

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

#### Audit committee:

Mr David Lambert (Chairman)  
Mr Marc Vlessing

The 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 once in relation to the year ended 31 January 2006. The meeting took place to consider the full year reports and to review 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:

Mr Marc Vlessing (Chairman)  
Mr David Lambert

The nomination committee considers the selection and appointment of Directors and makes recommendations to the Board as to the level of Directors' fees. The Board does not have a separate Remuneration Committee as the Company has no employees or executive Directors. The committee meets as required and did not meet during the period.

## Corporate Governance (continued)

### 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.

Octopus is engaged to carry out an administrative function and retains physical custody of the documents of title relating to investments. Octopus regularly reconciles the client asset register with the physical documents. Secretarial matters have been undertaken by Woodside Secretaries Limited.

The Directors confirm that they have established a continuing process throughout the period 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.

### Financial risk management objectives and policies

The Company is exposed to risks arising from the Company's operational and investment activities. Further detail can be found in note 17 to the financial statements.

### 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

Company law in the United Kingdom 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 for that period. In preparing those 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.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and detect fraud and other irregularities.

### 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.

### Relations with shareholders

The Board recognise the value of maintaining regular communications with shareholders. In addition to the formal business of the Annual General Meeting, an opportunity is given to all shareholders to question the Board and the investment managers on matters relating to the company's operation and performance. Proxy voting figures for each resolution are announced at all general meetings.

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, Octopus, the investment managers are happy to answer any questions you may have and can be contacted on 020 7710 2800.

## Corporate Governance (continued)

### Compliance statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting year. With the exception of the limited items outlined below, the Directors consider that the Company has complied throughout the period under review with the provisions set out in Section 1 of the Combined Code of Corporate Governance published by the UK Listing Authority in July 2003:

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, Mr Marc Vlessing and Mr David Lambert, as defined by the Combined Code issued in July 2003. Mr Matthew 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 due to the size of the Company.
5. The Directors do not consider that an internal audit would be an appropriate control for a company of this size and nature.
6. Due the size and nature of the Company, which has no employees and only three non-executive Directors, it is not considered appropriate to appoint a Remuneration Committee. Remuneration is reviewed in line with the policy outlined in the Directors remuneration report.
7. The Company has no major shareholders and accordingly 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 2 plc

We have audited the financial statements of Eclipse VCT 2 plc for the period ended 31 January 2006 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement and notes 1 to 18. 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 Company 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 and 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. 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 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 Company'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 parent company financial statements. The other information comprises only the financial summary, the 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 parent Company 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 auditor to the members of Eclipse VCT 2 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 January 2006 and of its result for the period then ended; and
- 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.

**GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS  
OXFORD**

21 April 2006

## Income statement

for the period ended 31 January 2006

	Notes	Period to 31 January 2006		
		Revenue £'000	Capital £'000	Total £'000
Unrealised loss on investments	8	–	(53)	(53)
Income	2	558	–	558
Investment management fees	3	(83)	(251)	(334)
Other expenses	4	(160)	–	(160)
<b>Return on ordinary activities before tax</b>		<b>315</b>	<b>(304)</b>	<b>11</b>
Tax on ordinary activities	6	(60)	48	(12)
<b>Profit/(loss) on ordinary activities after tax</b>		<b>255</b>	<b>(256)</b>	<b>(1)</b>
Earnings/(loss) per share	7	2.20p	(2.20)p	–

- 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 funds.

## Reconciliation of movements in shareholders' funds

	31 January 2006 £'000
Total losses recognised in period	(1)
Repurchase of ordinary share capital	(14)
Issue of redeemable non-voting preference shares	(50)
Redemption of redeemable non-voting preference shares	50
Net proceeds of share issue	17,665
<b>Shareholders' funds at 31 January 2006</b>	<b>17,650</b>

## Balance sheet

as at 31 January 2006

	Notes	£'000	31 January 2006 £'000
Fixed asset investments	8		5,574
Current assets			
Investments	8	9,408	
Debtors	9	190	
Cash at bank		2,509	
		12,107	
Creditors: amounts falling due within one year	10	(31)	
Net current assets			12,076
Net assets			17,650
Called up equity share capital	11		1,858
Share premium	12		15,807
Capital redemption reserve	12		2
Capital reserve realised	12		(203)
Capital reserve unrealised	12		(53)
Revenue reserve	12		239
Total equity shareholders' funds			17,650
<b>Net asset value per share</b>	<b>13</b>		95.0p

The statements were approved by the Directors on 21 April 2006 and are signed on their behalf by:

Marc Vlessing  
Chairman

## Cash flow statement

for the period ended 31 January 2006

	Notes	£'000	31 January 2006 £'000
Net cash outflow from operating activities	14		(160)
Financial investment:			
Purchase of investments	8	(5,578)	
Net cash outflow from financial investment			(5,578)
Management of liquid resources:			
Increase in cash funds			(9,408)
Financing:			
Issue of own shares		18,428	
Share issue expenses		(757)	
Repurchase of own shares		(16)	
Total financing			17,655
Increase in cash resources	15		2,509

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

## Notes to the financial statements

### 1. Accounting policies

#### 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.

#### Investments

Investments in AIM-listed companies are stated at bid price discounted where necessary to reflect lack of liquidity.

Unlisted investments are stated at Directors' valuation following the guidelines laid down by the British Venture Capital Association. The Directors' policy in valuing unlisted investments is to carry them at cost except in the following circumstances:

- a) where a company's under performance against plan indicates a diminution in the value of the investment a provision against cost is made as appropriate in bands of 25%.
- b) where a company is well established and profitable the shares may be valued by applying a suitable price earnings ratio to the Company's historic post tax earnings. The ratio used is based on a comparable listed company or sector but discounted by 25-50% to reflect marketability.
- c) where a value is indicated by a material arms length transaction by a third party in the shares of a company.

#### 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:

- a) expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate, and;
- b) 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, except otherwise required by FRS 19.

#### 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.



## 6. Tax on ordinary activities

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 of 19%. The differences are explained below.

Current tax reconciliation:	<b>31 January 2006</b>
	<b>£'000</b>
Profit on ordinary activities before tax	11
Current tax at 19%	2
Disallowable expenses and unrelieved losses.	10
<b>Total current tax charge</b>	<b>12</b>

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. Earnings/(loss) per share

The revenue return per share is based on profit from ordinary activities after tax of £255,000 and on 11,576,195 shares, being the weighted average number of shares in issue during the period.

The capital loss per share is based on net realised and unrealised capital losses for the period of £256,000 and on 11,576,195 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.

## 8a. Fixed asset investments

	<b>Unquoted investments</b>	<b>Aim-listed investments</b>	<b>Total investments</b>
	<b>31 January 2006</b>	<b>31 January 2006</b>	<b>31 January 2006</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Valuation and Net book amount:</b>			
Additions at Cost	4,735	843	5,578
Revaluation in the period	-	(4)	(4)
<b>Valuation at 31 January 2006</b>	<b>4,735</b>	<b>839</b>	<b>5,574</b>
Total investment held in equity shares	(1,559)	(839)	2,398
Total investment held in fixed income securities	(3,176)	-	3,176
	<b>(4,735)</b>	<b>(839)</b>	<b>5,574</b>

Further details of these investments are provided in the Investment Manager's Review.

## 8b. Current asset investments

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

	<b>31 January 2006</b>
	<b>£000</b>
Money market securities at cost:	
Bonds	7,007
Floating rate notes	1,200
Money market funds	1,250
Unrealised (loss)/gain on money market securities:	
Bonds	(65)
Money market funds	16
<b>Valuation as at 31 January 2006</b>	<b>9,408</b>

**9. Debtors**

	<b>31 January 2006</b>
	<b>£'000</b>
Prepayments and accrued income	190

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**10. Creditors: amounts falling due within one year**

	<b>31 January 2006</b>
	<b>£'000</b>
Accruals	19
Corporation tax	12
	<b>31</b>

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**11. Share capital**

	<b>31 January 2006</b>
	<b>£'000</b>
Authorised:	
Equity – 50,000,000 ordinary shares of 10p	5,000
Allotted and fully paid up	
Equity – 18,584,648 ordinary shares of 10p	1,858

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On incorporation 50,000 redeemable preference shares of 100p each were issued but were subsequently redeemed on floatation of the Company. On redemption these shares were redesignated and redenominated as 500,000 10p ordinary shares.

During the period ended 31 January 2006, the Company issued 18,600,924 ordinary shares of 10p each for cash at premium of between 85p and 90p per share. The Company also repurchased 16,276 shares for cancellation at a price of 95p during the same period. The nominal value of the shares repurchased was £1,628 representing 0.09% of the issued share capital.

**12. Reserves**

	Share premium	Capital redemption reserve	Capital reserve realised	Capital reserve unrealised	Revenue reserve
	£'000	£'000	£'000	£'000	£'000
Premium on issue of ordinary shares	16,564	–	–	–	–
Share issue expenses	(757)				
Share buy back	–	2	–	–	(16)
Management fee capitalised net of associated taxation	–	–	(203)	–	–
Net decrease in unrealised appreciation	–	–	–	(53)	–
Revenue return on ordinary activities after tax	–	–	–	–	255
Value 31 January 2006	15,807	2	(203)	(53)	239

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**13. Net asset value per share**

The calculation of net asset value per share as at 31 January 2006 is based on net assets of £17,650,000 divided by the 18,584,648 ordinary shares in issue at that date.

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

	<b>31 January 2006</b>
	<b>£'000</b>
Return on ordinary activities before tax	11
Increase in debtors	(190)
Increase in creditors	19
	<hr/>
Net cash outflow from operating activities	(160)

**15. Reconciliation of net cash flow to movement in net funds**

	<b>31 January 2006</b>
	<b>£'000</b>
Increase in cash in year	2,509
Movement in liquid resources	9,408
Opening net funds	–
	<hr/>
Closing net funds	11,917

**16. Analysis of changes in net funds**

	<b>Cashflows</b>	<b>At 31 January 2006</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank	2,509	2,509
Current asset investments	9,408	9,408
	<hr/>	<hr/>
	11,917	11,917

**17. 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 main risks arising from the Company's financial instruments are market price risk, liquidity risk and interest rate risk. There is no exposure to foreign currency risk.

**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 32% of these funds had been utilised in this investment process at 31 January 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 realised 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 securities. The weighted average interest rate on such funds was approximately 4.4% during the period.

**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.

## 18. Related party transactions

Matt Cooper, a non-executive Director of Eclipse VCT 2 plc, is a Director of Octopus. Eclipse VCT 2 plc has employed Octopus throughout the period as investment managers. Eclipse VCT 2 plc has paid Octopus £334,000 (including £50,000 of irrecoverable VAT) 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 January. 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 January. During the period £50,000 (including £7,000 of irrecoverable VAT) 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 January 2008.

As part of the terms of engagement with Octopus, £757,000 was paid to Octopus in respect of the issue costs associated with the share capital issued during the period.

Notice is hereby given that an Extraordinary General Meeting of Eclipse VCT 2 plc will be held at 8 Angel Court, London EC2R 7HP on 24 May 2006 at 3.30 p.m. for the following purposes:

#### ORDINARY BUSINESS

1. To receive and adopt the financial statements for the period to 31 January 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 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 Resolutions 5 and 9 as an Ordinary Resolutions and Resolutions 6, 7 and 8 as Special Resolutions:-

##### 5. 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 £185,846 (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).

##### 6. 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 5 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.

##### 7. 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.

## 8. CANCELLATION OF SHARE PREMIUM ACCOUNT

That the sum standing to the credit of the share premium account be and is hereby cancelled.

## 9. CO-INVEST AGREEMENT

That the Directors be and are hereby authorised to enter into a co-investment agreement between the Company and Octopus Asset Management Limited ('the Manager') pursuant to which the Manager will procure that those of its employees participating in the scheme invest a total of 7.5 per cent of the amount invested in ordinary shares by the Company in each investment made (other than investments in companies quoted on AIM, OFEX or the Main Market of the London Stock Exchange or investments which are structured entirely as ordinary shares) (such co-investment shares to be held on behalf of Octopus employees by a nominee company controlled by the Manager and will be acquired and realised at the same time and on the same terms (in relation to the relevant securities) as Shares held by the Company, and all voting and other rights attributable to those shares will be exercised by the Manager in parallel with the shares held by the Company).

By Order of the Board  
C L Whitten FCIS  
Secretary  
21 April 2006

8 Angel Court  
London  
EC2R 7HP

## NOTES

- a) A member entitled to attend and vote at the Extraordinary 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 Extraordinary 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 Extraordinary 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 Extraordinary General Meeting, and for at least 15 minutes prior to the commencement of the meeting until its conclusion.

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# Proxy Form

## Eclipse VCT 2 plc Extraordinary General Meeting – 24 May 2006

I/We .....  
(INSERT NAME IN BLOCK CAPITALS PLEASE)

of .....  
(INSERT ADDRESS)

being a member of Eclipse VCT 2 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 Extraordinary General Meeting of the Company to be held on 24 May 2006, notice of which was sent to shareholders with the Directors' report and the accounts for the period to 31 January 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 period to 31 January 2006	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 1.25p per share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Grant Thornton UK LLP as auditors and authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors to allot shares (Ordinary Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To disapply Section 89(1) of the Companies Act 1985 (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to make market purchases of its own shares by utilising distributable reserves of the Company (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the cancellation of the Share Premium Account (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To approve the co-investment agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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.



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BUSINESS REPLY SERVICE  
Licence No MB122



**Capita Registrars  
Registrars for Eclipse VCT 2 plc  
Proxy Department  
P O Box 25  
Beckenham  
Kent  
BR3 4BR**

First Fold

Second fold



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