

# ECLIPSE VCT 2

## UNAUDITED INTERIM REPORT

FOR THE PERIOD ENDED 31 JULY 2007





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## Financial Highlights

	Six months to 31 July 2007	Six months to 31 July 2006	Year to 31 January 2007
Net assets	£22,645,000	£17,684,000	£21,537,000
Net return after tax	£1,309,000	£266,000	£4,119,000
Net asset value per share	121.9p	95.2p	115.9p
Cumulative dividends since launch	2.25p	1.25p	2.25p

**Eclipse VCT 2 plc (“Eclipse 2”, “Fund” or “Company”) is a venture capital trust (“VCT”) which aims to provide shareholders with attractive tax-free dividends and long-term capital growth.**

Eclipse 2 invests primarily in unquoted and AIM-quoted companies and aims to deliver absolute returns on its investments. Eclipse 2 was launched in January 2005 and raised £18.4 million by the time the offer closed in June 2005, to invest alongside Eclipse VCT plc, which launched in April 2004 and raised £30.7 million. The Investment Manager is Octopus Investments Limited (“Octopus” or “Manager”). Octopus has subsequently raised a further £58.2 million in a twin fund, Eclipse VCT 3 plc and Eclipse VCT 4 plc.

Eclipse 2 co-invests with these three other Eclipse funds which are all managed by the same investment team at Octopus. This means that Eclipse 2 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.

The table below shows the movement in NAV per share and lists the dividends that have been paid since the launch of Eclipse 2:

Period Ended	NAV	Dividend	NAV + cumulative dividends
31 July 2005	95.0p	–	95.0p
31 January 2006	95.0p	1.25p	96.3p
31 July 2006	95.2p	–	96.5p
31 January 2007	115.9p	1.00p	118.2p
31 July 2007	121.9p	–	124.2p

# Chairman's Statement

I am pleased to present the interim results for the six months to 31 July 2007 which indicates continued progress by the Manager in building a diversified investment portfolio in line with the original investment objectives.

## Results Review

In the six months to 31 July 2007, the Net Asset Value ("NAV") per share increased 5.2% to 121.9p. The Manager realised a profit of over £1.9 million in the period from the disposal, either wholly or partially, of a number of investments. Consequently, the Board has declared an interim dividend of 3p per share to be paid on 14 November 2007 to shareholders on the register on 12 October 2007. The total return to shareholders, before payment of this dividend, is 24.2%. This is before taking into account the 40% upfront tax relief received by initial subscribers.

To enable distributions of capital profits to shareholders, the Board took the decision to revoke the investment company status on 24 July 2007.

## Investment Portfolio

During the period, six new investments and several follow-on investments were made totalling nearly £2.5 million. The Fund reduced its holding in Tanfield Group plc, realising a profit of £276,000, and fully disposed of the investment in Worthington Nicholls plc, crystallising a profit of £315,000. Of particular significance was the Fund's investment in James Harvard International Limited. This was also sold during the year generating a significant profit for the Fund, as it received 2.3 times the original amount invested thus representing a compound annual return of 98%.

Within the portfolio we also have a further £3.4 million of unrealised profit on our investments. Further information on the holdings in the portfolio can be found in the Investment Manager's review.

## Share Price

The Company's mid market share price currently stands at 97p compared to the NAV of 121.9p. This is primarily due to the low level of secondary market activity in Eclipse 2 shares. In order to address the difference between the NAV and share price, Octopus is working towards developing strategies to increase liquidity in the market by stimulating trade in VCT shares in the secondary market.

## VCT Qualifying Status

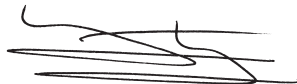
Eclipse 2 must be 70% invested in qualifying companies by 31 January 2008, and maintain this level on a day by day basis thereafter in order to comply with VCT regulations. The Board continues to monitor the Fund's progress towards meeting and maintaining HM Revenue and Customs conditions for VCT approval and have retained PricewaterhouseCoopers LLP, one of the UK's leading firms of accountants, to advise in this area.

## Chairman's Statement (continued)

At 31 July 2007, Eclipse 2 was 69.7% invested in qualifying holdings, which is ahead of the target set by the Manager. In light of the current deal flow we are confident that Eclipse 2 will meet the relevant VCT regulations by its deadline of 31 January 2008. Since the half year end the percentage of qualifying holdings has increased to 73.3%.

### Outlook

The Board's focus is to continue to generate capital growth. As the fund becomes fully invested the challenge for the Manager will be the realisation and timing of gains from a relatively illiquid portfolio to support the development of an attractive tax-free dividend profile whilst also releasing funds for new investment. It is encouraging that we have already seen a healthy realised return from several investments and the diversified nature of the portfolio should assist the Manager in achieving its dividend objective.



Marc Vlessing  
Chairman

25 September 2007

## 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.*

### Portfolio Review

We are pleased to report substantial progress across the portfolio over the last 6 months, generating a healthy uplift in the net assets of the Company. During the period to July 2007 a further £2.5 million was invested in six new and several follow-on investments. This takes the total invested by Eclipse 2 in unquoted and AIM quoted investments to nearly £12.5 million since launch. The remaining funds are invested in money market securities awaiting investment in suitable qualifying opportunities.

	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 July 2007 (£'000)	% equity held by Eclipse 2 VCT	% equity held by other funds managed by Octopus
<b>Unquoted Investments</b>					
Luther Pendragon Limited	1,000	720	1,720	17.5%	17.5%
Plastics Capital Limited	800	479	1,279	9.2%	11.5%
Covion Limited	429	630	1,059	4.9%	9.6%
NPI Media Group Limited	955	–	955	8.1%	41.9%
Perfect Pizza Limited	800	–	800	10.5%	23.8%
Gyro International Limited	451	226	677	1.5%	16.1%
T4 Holdings Limited	659	–	659	7.5%	31.9%
First Sports Group Limited	985	(385)	600	18.5%	21.5%
CSL DualCom Limited	582	–	582	6.4%	33.6%
Lilestone Holdings Limited	579	–	579	10.7%	18.0%
The Kendal Group Limited	576	–	576	5.7%	10.2%
Adrenalin Design Limited	550	–	550	6.7%	36.2%
Audio Visual Machines Limited	454	–	454	7.2%	37.8%
Sweet Cred Holdings Limited	410	–	410	3.1%	21.4%
The Capital Pub Company 2 plc	350	–	350	1.2%	7.0%
Promotion Space Limited	202	–	202	3.7%	23.5%
Red-M Group Limited	300	(225)	75	2.2%	7.2%
Blanc Brasseries Holdings plc	62	–	62	0.7%	2.6%
<b>Total unquoted investments</b>	<b>10,144</b>	<b>1,445</b>	<b>11,589</b>		

## Investment Manager's Review (continued)

AIM-quoted investments	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 July 2007 (£'000)	% equity held by Eclipse 2 VCT	% equity held by other funds managed by Octopus
Tanfield Group plc	172	1,233	1,405	0.2%	2.5%
Hexagon Human Capital plc	431	149	580	1.7%	9.8%
CBG Group plc	310	53	363	1.6%	12.6%
InterQuest plc	171	171	342	1.0%	3.2%
Healthcare Locums plc	150	117	267	0.3%	0.6%
Hasgrove plc	200	50	250	0.9%	7.9%
Pressure Technologies plc	135	44	179	0.8%	4.5%
Vertu Motors plc	150	25	175	0.3%	2.9%
Autoclenz Holdings plc	206	(41)	165	1.6%	11.2%
Brulines (Holdings) plc	92	30	122	0.3%	2.3%
Cohort plc	85	32	117	0.2%	1.6%
Concateno plc	60	51	111	0.1%	0.7%
BBI Holdings plc	53	42	95	0.1%	2.4%
Invocas plc	50	6	56	0.2%	1.1%
<b>Total AIM-quoted investments</b>	<b>2,265</b>	<b>1,962</b>	<b>4,227</b>		
<b>Total investments</b>	<b>12,409</b>	<b>3,407</b>	<b>15,816</b>		

### Review of Investments

At 31 July 2007, the Eclipse 2 portfolio comprised investments in 18 unquoted and 14 AIM-quoted companies. The unquoted investments are in ordinary shares with full voting rights as well as loan note securities. The AIM-quoted investments are in ordinary shares also with full voting rights.

During the period, two investments were disposed of; James Harvard International Limited and Worthington Nicholls plc crystallising a total profit of £1.6 million. James Harvard was particularly successful generating a 133% return for the Fund, equivalent to a compound annual return of 98%.

In addition, profits were taken in Tanfield Group plc of £276,000, and at the year end, we held shares valued at £1.4 million compared with an initial cost of £172,000.

A summary of these realisations is shown below:

Realisations	Initial investment date	Cost of investment realised (£'000)	Proceeds of investment (£'000)	Total Profit (£'000)
James Harvard International Limited	30 November 2005	1,000	2,331	1,331
Worthington Nicholls plc	12 June 2006	243	558	315
Tanfield Group plc	26 May 2005	40	316	276
		<b>1,283</b>	<b>3,205</b>	<b>1,922</b>

## Investment Manager's Review (continued)

### New Investments

During the period, the Fund made six new investments. These investments are set-out below:

#### Hexagon Human Capital plc

<b>Investment date:</b>	February 2007
<b>Cost:</b>	£431,000
<b>Valuation:</b>	£579,892

Hexagon Human Capital plc is the UK's leading provider of interim executive management and one of the UK's leading executive search businesses. We originally invested in Hexagon in December 2006 to finance the acquisition of BIE, the UK's largest interim management firm, alongside £10m from Barclays Bank. The company subsequently floated successfully on AIM in February 2007.

#### Sweet Cred Limited

<b>Investment date:</b>	March 2007
<b>Cost:</b>	£410,000
<b>Valuation:</b>	£410,000

Sweet Cred sells a wide range of products which combine sweets with toys that are themed around the five cartoon characters in the Sweet Cred gang. The range is sold through distribution partners in Europe, the US and the Middle East. In the UK, distribution is through the main wholesalers and retail distribution through the major multiple retailers, motorway service stations and leading toyshop chains. In March 2007 Octopus committed £5m to fund working capital relating to the orders pipeline. £3m was drawn down at completion, with the balance to be provided against achievement of milestones.

#### Promotion Space Limited

<b>Investment date:</b>	April 2007
<b>Cost:</b>	£201,894
<b>Valuation:</b>	£201,894

Promotion Space works directly with major brands who wish to access consumers in shopping centres. It also works with shopping centres to generate revenue by organising promotional activities. Octopus provided £1.5m of funds to develop an organic Retail Merchandising Unit (RMU) business within major shopping centres and also to follow a buy and build strategy.

## Investment Manager's Review (continued)

### CBG Group plc

<b>Investment date:</b>	June 2007
<b>Cost:</b>	£309,850
<b>Valuation:</b>	£362,591

Based in Manchester, CBG Group plc is a corporate general insurance, risk management and financial services intermediary. The company offers a range of services principally in the area of Commercial Insurance, Business Risk Management, Healthcare and Employee Benefits. In addition it offers a Private Client solution to individuals centred on wealth management and asset protection.

### Pressure Technologies plc

<b>Investment date:</b>	July 2007
<b>Cost:</b>	£135,000
<b>Valuation:</b>	£179,100

Pressure Technologies is the holding company of Chesterfield Special Cylinders ("CSC"). CSC designs, manufactures and offers testing and refurbishment services for a range of speciality high pressure, seamless steel gas cylinders for global energy and defence markets. The business has been conducted under the "Chesterfield" brand which is a long established name in the cylinders and specialised pressure vessel market.

### T4 Holdings Limited

<b>Investment date:</b>	July 2007
<b>Cost:</b>	£659,330
<b>Valuation:</b>	£659,330

T4 is based in London and, through subsidiaries Ad Barriers and Ad Gates, is the leading provider of advertising solutions on railway station gates and car park ticket equipment. T4 has a blue chip advertising customer base including Visa, Fox (The Simpsons), M&S, Bank of Scotland and Costa Coffee.

## Investment Manager's Review (continued)

### Recent Investments

Since the end of the period under review, we have completed three new qualifying investments, and three follow-on investments:

#### ***Cantono plc***

Eclipse 2 invested £300,000 in Cantono plc. Cantono is a provider of Managed IT Services and hosting solutions for small to medium sized organisations. The typical client base ranges from 100-1,000 users. Cantono provides a range of services from individual applications to fully managed IT environments. The services are backed by robust service level agreements, expert technician, and a high level of customer service.

#### ***Northern Bear plc***

Eclipse 2 invested £200,100 in Northern Bear plc. Northern Bear is a building services group based in North East England. It provides central strategic and financial functions for a group of otherwise autonomous companies, each of which provides products and/or services to the construction industry and house builders.

#### ***The Grill Group***

Eclipse 2 invested £992,000 (as part of a total investment of £4 million from funds managed by Octopus) in The Grill Group. The Group has two restaurant brands: Smollenskys, with nine Bar & Grill and Burgershack sites in London, and Le Frog Bistros with eight restaurants in the Midlands and North West. The investment strategy includes the operational turnaround of Smollenskys during the first twelve months, followed by the roll-out of both restaurant brands.

#### ***NPI Media Group Limited***

Eclipse 2 fund invested a further £174,000 as part of an additional £1 million investment by funds managed by Octopus.

#### ***CSL DualCom Limited***

Eclipse 2 has invested a further £75,000 as part of a £390,000 round used to finance the purchase of shares from the original vendor of the business.

#### ***Plastics Capital Limited***

On 31 August 2007 Eclipse 2 invested £394,000 as part of a £3 million fund raising to finance the acquisition of Channel, a manufacturer of creasing matrix and leading competitor of existing subsidiary Trimplex.

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

## Income Statement

	Six months to 31 July 2007			Six months to 31 July 2006			Year to 31 January 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of investments held at fair value	-	412	412	-	-	-	-	414	414
Unrealised gain on fair value of investments	-	1,096	1,096	-	276	276	-	3,804	3,804
Income	240	-	240	354	-	354	574	-	574
Investment management fees	(63)	(188)	(251)	(51)	(154)	(205)	(103)	(312)	(415)
Other expenses	(188)	-	(188)	(161)	-	(161)	(258)	-	(258)
<b>Profit/(loss) on ordinary activities before tax</b>	<b>(11)</b>	<b>1,320</b>	<b>1,309</b>	142	122	264	213	3,906	4,119
Taxation on profit on ordinary activities	-	-	-	(27)	29	2	(40)	40	-
<b>Profit/(loss) on ordinary activities after tax</b>	<b>(11)</b>	<b>1,320</b>	<b>1,309</b>	115	151	266	173	3,946	4,119
<b>Earnings/(loss) per share – basic and diluted</b>	<b>(0.1)p</b>	<b>7.1p</b>	<b>7.0p</b>	0.6p	0.8p	1.4p	0.9p	21.2p	22.2p

- 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 this half-yearly report
- 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

	Six months ended 31 July 2007 £'000	Six months ended 31 July 2006 £'000	Year to 31 January 2007 £'000
<b>Shareholders' funds at start of period</b>	<b>21,537</b>	17,650	17,650
Profit for the period	1,309	266	4,119
Cancellation of own shares	(15)	-	-
Dividends paid	(186)	(232)	(232)
<b>Shareholders' funds at end of period</b>	<b>22,645</b>	17,684	21,537



## Cash Flow Statement

	Six months to 31 July 2007 £'000	Six months to 31 July 2006 £'000	Year to 31 January 2007 £'000
Net cash inflow/(outflow) from operating activities	282	(26)	(2)
Financial investment:			
Purchase of investments	(2,025)	(3,104)	(6,461)
Sale of investments	3,205	–	787
Management of liquid resources:			
Increase/(decrease) in money market securities	(1,972)	2,365	4,623
Dividends paid	(186)	(232)	(232)
Financing:			
Repurchase of own shares	(15)	–	–
Management fees capitalised	(188)	(154)	(312)
<b>Increase/(decrease) in cash resources</b>	<b>(899)</b>	<b>(1,151)</b>	<b>(1,597)</b>

## Reconciliation of Net Cash Flow to Movement in Liquid Resources

	Six months to 31 July 2007 £'000	Six months to 31 July 2006 £'000	Year to 31 January 2007 £'000
Increase/(decrease) in liquid resources	1,073	(3,586)	(6,220)
Opening net liquid resources	5,697	11,917	11,917
<b>Net cash at 31 July/31 January</b>	<b>6,770</b>	<b>8,331</b>	<b>5,697</b>

## Reconciliation of Operating Profit before Taxation to Cash Flow from Operating Activities

	Six months to 31 July 2007 £'000	Six months to 31 July 2006 £'000	Year to 31 January 2007 £'000
Profit on ordinary activities before tax	1,309	264	4,119
Profit on disposal of fixed asset investments	(414)	–	(414)
(Increase)/decrease in debtors	258	(203)	(168)
Increase/(decrease) in creditors	19	35	(9)
Unrealised gain on fixed asset investments	(1,078)	(276)	(3,842)
Management fees capitalised	188	154	312
<b>Inflow/(outflow) from operating activities</b>	<b>282</b>	<b>(26)</b>	<b>(2)</b>

# Notes to the Interim Financial Statements

## 1. Basis of Preparation

The unaudited interim results which cover the six months to 31 July 2007 have been prepared in accordance with applicable accounting standards in the United Kingdom, to include an Income Statement, Statement of Changes in Equity, Balance Sheet and Cash Flow Statement.

As a result of the Directors' decision during the year, to enable distributions of capital profits to shareholders in due course, investment company status was revoked on 24 July 2007.

## 2. Publication of Non-Statutory Accounts

The unaudited interim results for the six months ended 31 July 2007 do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies.

## 3. Earnings per Share

The earnings per share at 31 July 2007 is based on earnings from ordinary activities after tax of £1,309,308 and on 18,580,785 shares (31 January 2007: £3,885,747 and 18,584,648 shares and 31 July 2006: £33,618 and 18,584,648 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.

## 4. Net Asset Value per Share

The calculation of net asset value per share is based on the net assets at 31 July 2007 and on 18,569,454 shares being the number of shares in issue at the same date (31 January 2007: 18,584,648 and 31 July 2006: 18,584,648).

## 5. Dividends

The interim dividend of 3p per share for the six months ending 31 July 2007 will be paid on 14 November 2007 to shareholders on register at the close of business on 12 October 2007.

6. Realised and unrealised gains and losses on fixed asset investments shown within the reconciliation of operating profit before taxation to cash flow from operating activities refers only to those gains and losses on unquoted and AiM quoted investments. Realised and unrealised gains and losses on money market security investments are shown within the cash flow statement as part of the increase or decrease in money market securities.

7. During the six months ended 31 July 2007 the Company issued no ordinary shares. The Company bought back 15,194 shares at 97.0p per share during the same period.

8. Copies of this statement are being sent to all shareholders. Copies are also available from the registered office of the Company at 8 Angel Court, London, EC2R 7HP.







