

ECLIPSE VCT 2 PLC

UNAUDITED HALF-YEARLY REPORT
FOR THE SIX MONTHS ENDED 31 JULY 2008



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Financial Highlights

	Six months to 31 July 2008	Six months to 31 July 2007	Year to 31 January 2008
Net assets	£17,426,000	£22,645,000	£20,928,000
Net profit after tax	£(2,631,000)	£1,309,000	£(248,000)
Net asset value per share ("NAV")	92.2p	121.9p	110.7p
Cumulative dividends paid since launch	10.25p	2.25p	5.25p

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	–	95.00p
31 January 2006	95.0p	1.25p	96.25p
31 July 2006	95.2p	–	96.45p
31 January 2007	115.9p	1.00p	118.15p
31 July 2007	121.9p	–	124.15p
31 January 2008	110.7p	3.00p	115.95p
31 July 2008	92.2p	5.00p	102.45p

Chairman's Statement

I am pleased to present the interim results for the six months to 31 July 2008.

Results Review

In the six months to 31 July 2008, the total return per share, being the NAV plus dividends paid, decreased 11.6% from 115.95p to 102.45p. By comparison, the FTSE AIM All Share index and the FTSE Small Cap index have fallen 15.1% and 11.8% respectively over the same period. There has been no realisation activity during the period under review and the decline in total return reflects the downward movement in portfolio valuations as a result of difficult market conditions. However, in line with the Board's desire to deliver a regular stream of tax-free dividends, and with retained capital profits from prior periods, the Board has declared an interim dividend of 3p per share to be paid on 31 October 2008 to shareholders on the register on 3 October 2008. This will take total dividends paid to shareholders since launch to 13.25p. The total return to shareholders of 2.5% is before taking into account the 40% upfront income tax relief received by initial subscribers. It is pleasing that Eclipse 2 is currently ranked the top quarter of generalist and specialist VCTs launched in the 2004/2005 tax year (source: www.taxefficientreview.com).

Investment Portfolio

The year thus far has been challenging for many businesses as a result of the credit crunch and the resultant worsening of the general economic environment. Inevitably this has had an impact on our portfolio and in particular the valuations. The decline of 13.5p in the total return is principally accounted for by the decline in the value of the AIM portfolio (5.7p) and the overall downward valuation of the unquoted portfolio (7.4p). Disappointingly, Adrenalin Design Limited has been placed into administration leading to a full write-down to nil in the valuation of our investment of £575,000. During the period, one new investment and six follow-on investments were made totalling nearly £1.1 million. The new investment of £257,900 was in unquoted company Hydrobolt, with small follow-on investments in The History Press, The Grill Group, First Sports Group, Limestone Holdings and Adrenalin Design, and £371,000 in Promotion Space, supporting its acquisition of a significant competitor.

Further information on these movements and the holdings in the portfolio can be found in the Investment Manager's review.

Share Price

At the date of publication, the Company's mid market share price stood at 90p compared to the previously published NAV of 104.6p and the current NAV of 92.2p. We hope that as our Fund demonstrates its ability to deliver sustained growth and regular dividends in the future, its discount to NAV will narrow longer term.

During the period, the Company issued 407,684 Ordinary shares at a price of 120.9p, and bought back 403,159 Ordinary shares at a weighted average price of 96.0p, representing 2% of the issued share capital prior to the buy back.

VCT Qualifying Status

PricewaterhouseCoopers LLP provides the Board and Investment Manager with advice on the ongoing compliance with Her Majesty's Revenue & Customs ("HMRC") rules and regulations concerning VCTs. The Board has been advised that Eclipse 2 is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT.

A key requirement is for 70% of the portfolio to be invested in qualifying investments by the end of the third accounting period, and every accounting period thereafter, following that in which new share capital was subscribed. As at 31 July 2008, over 77.8% of the portfolio (according to HMRC regulations) was invested in VCT qualifying investments, in line with our expectations at this stage of the Fund's life. The Board is confident of maintaining the required investment level.

VAT on Management Fees

The Government has recently announced that VCTs will be exempt from paying VAT on investment management fees with effect from 1 October 2008. This follows a European Court of Justice judgement against the Government in a case relating to VAT payable by investment trusts. It is not yet clear to what degree it will be possible to obtain a repayment of VAT paid on management fees prior to the new measure taking effect, and we will follow developments with the help of our advisers. At this stage it is inappropriate to accrue for any repayment until the picture becomes clearer.

Chairman's Statement (continued)

Outlook

The Board's focus is to continue to generate capital growth in the investee companies in order to pay out a tax-free dividend stream to shareholders. Whilst short term valuations are indicative of the tough market conditions, it is important to maintain some perspective. The Investment Manager has, in line with VCT requirements, invested in relatively small companies with growth potential, either through new products or increased market share. These fundamentals have not changed and most of our unquoted investments have continued to grow organically and through acquisition. Difficult market conditions can often present opportunities for acquisitions or exits. This and the diversified nature of the portfolio should assist the Manager in achieving its objective of realising gains in the coming years to support the continuation of an attractive tax-free dividend profile. Nevertheless, the Board's visibility on the twelve months ahead is clearly restricted as a result of the scale of the current world financial crisis which will have a significant negative impact on small as well as large businesses unless credit conditions are improved markedly in the coming months.



Marc Vlessing
Chairman

24 September 2008

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 0800 316 2347.

Portfolio Review

The performance of the Fund over the last year has been mixed. In the strong Mergers and Acquisitions market, which pertained up until March 2008, the fund was able to capitalise on two very successful full realisations, Covion and Gyro and the partial realisation on float, of Plastics Capital. However, since the beginning of the current accounting period the overall performance of the portfolio has been affected by the widely reported weakness in the stock market and by the performance of some of the portfolio companies in worsening economic circumstances. Particularly disappointing has been the loss of our investment in Adrenalin Design totalling £575,000. Although we believe progress was being made, a number of management issues were compounded by very weak trading conditions. The quantum of additional funding required and the uncertainty of success led us to conclude that follow-on investment was not appropriate and the Company has gone into administration.

Valuation impairments have been made on a number of unquoted investments where performance is significantly behind plan including T4 and The Grill Group. We have also reduced the uplift on Luther Pendragon to reflect the weaker trading environment. The approach taken to portfolio valuations, in compliance with EVCA guidelines, may be viewed as prudent, and we have been cautious in the current environment about writing up investment values, even where demonstrable progress has been made by the investee company. A number of companies including SweetCred, Audio Visual Machines and Promotion Space have made significant progress, which we would hope to lead to valuation uplifts in the future. It is our aim to ensure that the achieved valuations on exit from an investment exceed the carrying value prior to that exit. Octopus actively works with all investee companies to ensure value will be added in due course.

The AIM portfolio, whilst only accounting for around 22% of the investment portfolio by value, has reduced in value over the period to impact the NAV negatively by around 5.7p per share. The Fund has been impacted by a profit warning by Tanfield Group, which was one of the Fund's larger holdings. We invested in Tanfield during May 2005, and had sold over 50% of the original holding over recent years, crystallising investment gains of over £722,700 against an original investment of £130,000. The recent share price fall however has impacted the NAV by approximately 2.8p over the period. Price falls in quoted smaller companies have been severe (the FTSE AIM All Share index and the FTSE Small Cap index have fallen 15.1% and 11.8% respectively over the period under review), and due to the illiquidity of some of the stocks, this has compounded the problem. Whilst the economic outlook remains of concern, a large number of the companies in the AIM portfolio are established, profitable companies, which should not need to rely on access to further funding. Furthermore, many of the AIM investments are engaged in business activities that have demonstrated robust pricing power and will not be reliant on the ebb and flow of the wider economy. With this in mind, we remain confident about the longer-term prospects of many of the underlying AIM holdings within the portfolio. Disappointingly, however, Myhome International plc went into administration on 3 September 2008 and this effectively vales our holding at £nil (31 July 2008: £17,000). The underlying businesses that the franchisees contract with are not subject to insolvency proceedings and shall continue to operate whilst the administrators explore the strategic options for the group.

The portfolio is spread across a wide range of sectors to give the Fund a broad exposure to the UK economy. However, in line with the concentration of deal flow over the last three years, a proportion of the Fund is invested in consumer facing companies or other businesses that may be susceptible to an economic downturn. To mitigate the risk of such a downturn we regularly review performance and the outlook for each investment so that early action can be taken if there is any impact on these companies. In many cases this includes asking the management teams to consider, in advance, plans to counter the impact.

Investment Manager's Review (continued)

Unquoted investments	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 July 2008 (£'000)	Change in valuation in the period (£'000)	% equity held by Eclipse 2 VCT	% equity held by all funds managed by Octopus
Luther Pendragon Limited	1,000	234	1,234	(486)	17.5%	35.0%
The History Press Limited	1,071	–	1,071	–	9.7%	60.0%
Perfect Pizza Limited	800	–	800	–	10.5%	34.3%
CSL DualCom Limited	589	124	713	84	7.3%	45.8%
Sweet Cred Holdings Limited	688	–	688	–	3.1%	24.5%
The Grill Group Limited	1,042	(647)	395	(647)	8.0%	51.6%
Promotion Space Limited	655	–	655	–	4.7%	38.0%
Audio Visual Machines Limited	454	138	592	138	6.9%	43.1%
The Kendal Group Limited	576	–	576	–	5.7%	16.0%
First Sports Group Limited	1,135	(585)	550	–	18.5%	40.0%
Lilestone Holdings Limited	811	–	811	289	6.7%	18.0%
Tristar Worldwide Limited	446	–	446	–	4.5%	35.0%
T4 Holdings Limited	659	(228)	431	(228)	7.3%	41.7%
The Capital Pub Company 2 plc	349	(77)	272	(77)	2.1%	8.2%
Hydrobolt Limited	258	–	258	–	3.0%	48.1%
Bruce Dunlop & Associates Limited	173	–	173	–	3.4%	33.4%
Blanc Brasseries Limited	62	(31)	31	(31)	0.7%	3.3%
Adrenalin Design Limited	575	(575)	–	(438)	6.7%	42.9%
Red-M Group Limited	300	(300)	–	–	2.2%	9.3%
Total unquoted investments	11,643	(1,947)	9,696	(1,396)		
AIM-quoted investments						
Plastics Capital plc	1,068	(267)	801	(214)	4.0%	12.7%
CBG Group plc	312	33	345	15	1.6%	13.7%
Hexagon Human Capital plc	431	(99)	332	(116)	1.7%	8.5%
Healthcare Locums plc	151	125	276	57	0.3%	1.9%
Pressure Technologies plc	137	108	245	69	0.8%	5.3%
Interquest plc	171	–	171	(87)	1.0%	5.9%
Hasgrove plc	200	(38)	162	(38)	0.8%	7.7%
Cohort plc	85	44	129	16	0.2%	2.5%
Brulines (Holdings) plc	93	19	112	6	0.3%	2.6%
Concateno plc	61	44	105	16	0.1%	0.5%
Northern Bear plc	200	(101)	99	(46)	0.7%	7.6%
Cantono plc	300	(201)	99	(21)	1.0%	9.9%
Autoclenz plc	206	(145)	61	(21)	1.6%	12.8%
Vertu Motors plc	150	(93)	57	(18)	0.3%	3.2%
Tanfield Group plc	132	(79)	53	(542)	0.2%	2.8%
Invocas plc	50	(18)	32	(4)	0.2%	1.3%
Optimisa plc	91	(66)	25	(50)	0.5%	5.3%
Myhome International plc	250	(233)	17	(97)	0.6%	6.3%
Total AIM-quoted investments	4,088	(967)	3,121	(1,074)		
Total investments	15,731	(2,914)	12,817	(2,470)		

Review of Investments

At 31 July 2008, the Eclipse 2 portfolio comprised investments in 19 unquoted and 18 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 the portfolio did not give rise to any disposals.

Investment Manager's Review (continued)

New Investments

During the period, the Fund made one new investment:

Hydrobolt Limited

Investment date:	April 2007
Cost:	£257,879 (ordinary shares and loan notes)
Valuation:	£257,879

Eclipse 2 invested in the management buy-out of Hydrobolt Limited in April 2008 as part of £3.5 million investment across all the Eclipse funds. Hydrobolt is a specialist manufacturer of high integrity fasteners for the oil & gas and energy sectors. The business has progressed well since investment, with sales year to date over 20% ahead of prior year.

In addition to the new investment noted above, the Company has made follow-on investments in another six of the unquoted portfolio companies as follows:

- Promotion Space Limited – In April 2008 Eclipse 2 invested £371,000 as part of a £2.75 million round from Octopus managed funds, to finance the acquisition of BrandSpace Limited. Together with the acquisition of Fitting Exposure in 2007, Promotion Space has now become the UK's leading arranger of promotional activities in UK shopping centres.
- Lilestone Holdings Limited, The History Press Limited, Adrenalin Design Limited, The Grill Group Limited and First Sports Group Limited, in each case to support the working capital needs of the company

Recent Transactions

Since the end of the period under review, the Fund has invested a further £50,000 by way of guarantee in The Grill Group Limited.

If you have any questions on any aspect of your investment, please call one of the team on 0800 316 2347.



Simon Rogerson
Chief Executive

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors confirm that to the best of their knowledge the half-yearly financial report has been prepared in accordance with the Disclosure and Transparency rules and in accordance with applicable accounting standards, and includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements.

Principal Risks and Uncertainties

The Company's assets consist of equity and fixed interest investments, cash and liquid resources. Its principal risks are therefore market risk, credit risk and liquidity risk. Other risks faced by the Company include economic, loss of approval as a Venture Capital Trust, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the way in which they are managed, are described in more detail in the Company's Annual Report and Accounts for the year ended 31 January 2008. The Company's principal risks and uncertainties have not changed materially since the date of that report.

Related Party Transactions

Octopus Investments Limited acts as the investment manager of the Company. Octopus also provides the provision of secretarial and administrative services to the Company. Under the management agreement, Octopus receives a fee of 2.0% per annum of the net assets of the Company for the investment management services. This is described in more detail under Note 17 in the Annual Report and Accounts for the year ended 31 January 2008. During the period, the Company incurred management fees of £256,000, including VAT at the applicable rate, payable to Octopus. At the period end there was £nil outstanding to Octopus.

Profit and Loss Account

	Six months to 31 July 2008			Six months to 31 July 2007			Year to 31 January 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments	-	-	-	-	415	415	-	1,334	1,334
(Loss)/gain on disposal of current asset investments	-	-	-	-	(3)	(3)	-	5	5
(Loss)/gain on valuation of fixed asset investments	-	(2,470)	(2,470)	-	1,078	1,078	-	(1,389)	(1,389)
(Loss)/gain on valuation of current asset investments	-	(16)	(16)	-	18	18	-	13	13
Income	239	-	239	240	-	240	630	-	630
Investment management fees	(64)	(192)	(256)	(63)	(188)	(251)	(127)	(379)	(506)
Other expenses	(128)	-	(128)	(188)	-	(188)	(335)	-	(335)
Profit/(loss) on ordinary activities before tax	47	(2,678)	(2,631)	(11)	1,320	1,309	168	(416)	(248)
Taxation on profit on ordinary activities	-	-	-	-	-	-	-	-	-
Profit/(loss) on ordinary activities after tax	47	(2,678)	(2,631)	(11)	1,320	1,309	168	(416)	(248)
Earnings/(loss) per share – basic and diluted	0.3p	(14.0)p	(13.7)p	(0.1)p	7.1p	7.0p	0.9p	(2.2)p	(1.3)p

- the 'Total' column of this statement is the profit and loss account of the Company; the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies
- 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

The Company has no recognised gains or losses other than the results for the period as set out above.

Reconciliation of Movements in Shareholders' Funds

	Six months ended 31 July 2008 £'000	Six months ended 31 July 2007 £'000	Year to 31 January 2008 £'000
Shareholders' funds at start of period	20,928	21,537	21,537
(Loss)/profit for the period	(2,631)	1,309	(248)
Net proceeds of share issue	468	-	417
Cancellation of own shares	(387)	(15)	(35)
Dividends paid	(952)	(186)	(743)
Shareholders' funds at end of period	17,426	22,645	20,928

Balance Sheet

	As at 31 July 2008		As at 31 July 2007		As at 31 January 2008	
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed asset investments		12,817		15,816		14,226
Current assets:						
Investments – money market securities	4,610		6,757		5,924	
Debtors	45		100		875	
Cash at bank	107		13		500	
	4,762		6,870		7,299	
Creditors: amounts falling due within one year	(153)		(41)		(597)	
Net current assets		4,609		6,829		6,702
Net assets		17,426		22,645		20,928
Called up equity share capital	1,891		1,857		1,890	
Share premium account	808		–		381	
Special distributable reserve	15,386		15,792		15,773	
Capital redemption reserve	45		3		5	
Revaluation reserve	(2,935)		3,402		(449)	
Profit and loss account	2,231		1,591		3,328	
Total equity shareholders' funds		17,426		22,645		20,928
Net asset value per share		92.2p		121.9p		110.7p

Cash Flow Statement

	Six months to 31 July 2008 £'000	Six months to 31 July 2007 £'000	Year to 31 January 2008 £'000
Net cash inflow/(outflow) from operating activities	242	78	(638)
Financial investment:			
Purchase of investments	(1,071)	(2,025)	(7,667)
Sale of investments	8	3,205	8,891
Management of liquid resources:			
Net purchase of money market securities	(1,330)	(1,956)	(1,122)
Dividends paid	(952)	(186)	(743)
Financing:			
Issue of own shares	487	–	437
Received for shares to be issued	–	–	487
Share issue expenses	(19)	–	(22)
Repurchase of own shares	(387)	(15)	(35)
Decrease in cash resources	(3,022)	(899)	(412)

Reconciliation of Net Cash Flow to Movement in Liquid Resources

	Six months to 31 July 2008 £'000	Six months to 31 July 2007 £'000	Year to 31 January 2008 £'000
Decrease in cash resources	(3,022)	(899)	(412)
Increase in liquid resources	1,314	1,972	1,139
Opening net cash resources	6,424	5,697	5,697
Net cash at 31 July/31 January	4,716	6,770	6,424

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

	Six months to 31 July 2008 £'000	Six months to 31 July 2007 £'000	Year to 31 January 2008 £'000
(Loss)/profit on ordinary activities before tax	(2,631)	1,309	(248)
Decrease/(increase) in debtors	830	258	(517)
(Decrease)/increase in creditors	(443)	19	90
Gain on realisation of investments	–	(412)	(1,339)
Loss/(gain) on valuation of investments	2,486	(1,096)	1,376
Inflow/(outflow) from operating activities	242	78	(638)

Notes to the Interim Financial Statements

1. Basis of preparation

The unaudited interim results which cover the six months to 31 July 2008 have been prepared in accordance with applicable accounting standards in the United Kingdom, to include a Profit and Loss Account, Reconciliation of Movements in Shareholders' Funds, Balance Sheet and Cash Flow Statement. 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 2008 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. The comparative figures for the year ended 31 January 2008 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements under Section 235 of the Companies Act 1985 was unqualified. This half-yearly report has not been reviewed by the Company's auditor.

3. Earnings per share

The earnings/(loss) per share at 31 July 2008 is based on a (loss)/profit from ordinary activities after tax of £(2,631,000) and on 19,191,116 shares (31 January 2008: £(248,000) and 18,657,430 shares and 31 July 2007: £1,309,000 and 18,580,785 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 2008 and on 18,906,826 shares being the number of shares in issue at the same date (31 January 2008: 18,902,301 and 31 July 2007: 18,569,454).

5. Dividends

The interim dividend of 3.0 pence per share for the six months ending 31 July 2008 will be paid on 31 October 2008 to shareholders on register at the close of business on 3 October 2008. A final dividend of 5.0 pence per share, relating to the year ended 31 January 2008, was paid on 25 July 2008 to shareholders on the register on 4 July 2008.

6. During the six months ended 31 July 2008 the Company issued 407,684 ordinary shares of 10 pence each at a price of 120.9 pence per share. The Company bought back 403,159 shares at a weighted average price of 96.0p per share during the same period.

7. 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, and will also be available to view on the Investment Manager's website at www.octopusinvestments.com.



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