



ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

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About Hygea VCT plc

Hygea VCT plc (“Hygea” or “Company”) is a Venture Capital Trust (“VCT”) which aims to provide shareholders with attractive long-term returns by investing in quoted and unquoted MedTech companies.

The Board manages the Company. The Company was launched in October 2001 and raised over £7.0 million (£6.8 million net of expenses) through an offer for subscription.

Financial Summary

Ordinary shares	Year to 31 December 2008	Year to 31 December 2007
Net assets (£'000s)	5,155	4,608
Net profit after tax (£'000s)	418	314
Net asset value per share	66.2p	61.2p
Earnings per share	5.4p	4.2p

Chairman's Statement

I am pleased to present the 2008 annual report to shareholders in Hygea VCT plc.

In these difficult economic times, it is very satisfying to be able to report a significant rise of 8.2% in the net asset value of your company at 66.2p compared to 61.2p at 31 December 2007. This increase in net asset value has resulted from a significant increase in the valuation of our unquoted portfolio, on which I comment below. We are pleased to have held our annual running costs at just 2.63% of year end net asset value.

Background

Counter intuitively we see the business environment for young bioscience companies improving in contrast to the general economic trend: we believe that our strategy of selecting companies which conform to the Hygea investment template results in businesses which enable their customers to achieve more with less resource. In the MedTech sector this means looking for companies which deliver better patient outcomes at lower total cost, which improves resilience throughout economic cycles. Large pharmaceutical majors are cutting costs but engaging in outsourcing to specialist suppliers and actively seeking small companies that provide scaleable, innovative solutions as acquisition targets.

Also as the large, traditional investment vehicles falter, there appears to be a greater appetite on the part of individuals and private/family offices to invest in young well run companies with good prospects.

Portfolio Review

(a) Investing

During the year, the company increased its unquoted portfolio by subscribing for further shares in Hallmarq (£100,000), Prosurgics (£100,000), Insense (£36,865) and Arecor (£534). Since the year end, the company has subscribed for further shares in Insense (£26,719). Changes to the quoted portfolio include the subscription for further shares in Scancell on its admission to PLUS Markets (£35,000) and the purchase and subsequent sale of a holding in Immunodiagnostic Systems at a profit of some £10,000. It is our intention to continue to support existing investee companies, where we believe that they offer a good opportunity for capital gains, to the extent that our cash resources allow.

These investments have been facilitated by realisations in the AIM portfolio, share issues and the modest use of our small overdraft facility.

(b) Selected operational highlights

DxS Limited has made significant advances during the year and it is anticipated that it will show excellent trading results for the current year: further details can be found in the Investment Review. We have been able to increase the valuation of our holding in line with the valuation attributed by the lead investor.

BioAnaLab is trading well, has grown strongly every year since formation and has been consistently profitable. In these circumstances the Board have felt able to increase its carrying value.

Prosurgics, after a delay in product registration, is raising further funds at a discount to the share price at which Hygea subscribed in January 2008. This has led to a significant write-down in the investment. However first results from the product launch are encouraging and we continue to have confidence in the future of this company.

The AIM portfolio, which is now a less significant part of our portfolio, has suffered from the general market malaise but we are delighted with the progress being made by Epistem, whose shares have continued to rise since the year end.

Shareholders seeking further information on portfolio companies can do so by visiting www.hygeavct.com, clicking on Investee Companies and then following the appropriate links.

Share Issue

As previously reported, we have issued 258,000 shares at 50p during the period. We have recently received expressions of interest from shareholders and others to apply for new shares which we will consider following the announcement of our results. Your Board feels it is desirable to have the ability to raise cash in this way given the continuing opportunities offered by fund raisings of current investee companies. We will be seeking to renew the existing authorities at the Annual General Meeting.

VAT

As I reported in my half year statement, HM Revenue and Customs ("HMRC") have now agreed that Investment Company management fees are not subject to VAT. We expect to be able to reclaim VAT on fees previously charged and

Chairman's Statement (continued)

have included an estimate in these accounts of £25,000. As the company is now managed directly by your Board, we are no longer incurring third party Investment Company management fees.

VCT Qualifying Status

PricewaterhouseCoopers LLP continues to provide the Board with advice on the ongoing compliance with HMRC rules and regulations concerning VCTs. The Board believes that Hygea continues to comply with the conditions laid down by HMRC for maintaining approval as a VCT.

Outlook

Despite the problems facing many sectors of the economy, your Board is delighted that shareholders' patience is at last being rewarded and the future for the company looks positive. We are now cautiously optimistic that we can see inflows of cash from realisations later in 2009 or early in 2010 at which time your Board will reassess the future of the company and is mindful of the need to pay dividends to shareholders at an appropriate time. We are optimistic that the developments in the portfolio, together with the modest expense ratios compared to other VCTs, will allow a continuing increase in net asset value. We will continue our efforts to communicate the prospects of the company to interested parties with the hope that demand for the company's shares will increase.

I look forward to welcoming all shareholders to our Annual General Meeting on Tuesday, 5 May at the Company's registered office.



James Otter
Chairman

31 March 2009

Investment Review

Investment portfolio

	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 December 2008 (£'000)
Unquoted Investments			
DxS Limited	325	1,115	1,440
ImmunoBiology Limited	600	244	844
BioAnaLab Limited	279	451	730
Hallmarq Veterinary Imaging Limited	885	(352)	533
Wound Solutions Limited	350	–	350
Glide Pharmaceutical Technologies Limited	105	211	316
Prosurgics Limited	490	(315)	175
Insense Limited	282	(112)	170
Arecor Limited	1	–	1
Purely Proteins Limited	372	(372)	–
Total unquoted investments	3,689	870	4,559
Quoted Investments			
Scancell plc	760	(350)	410
EpiStem Holdings plc	62	42	104
Omega Diagnostics plc	75	(30)	45
Stem Cell Sciences plc	250	(230)	20
York Pharma plc	89	(85)	4
Total quoted investments	1,236	(653)	583
Total investments	4,925	217	5,142

Ten largest holdings (by value)

Readers wishing to obtain easily further information on portfolio companies should click on the Investee Companies page at www.hygeavct.com.

DxS Limited

DxS is a world leader in the emerging field of companion diagnostics (sometimes referred to as personalised medicine) – its current focus is in the field of cancer treatment, where in many instances treatments are effective on only a small proportion of patients with a particular tumour and in the remaining instances are not only ineffective but can in some cases also do harm. DxS's diagnostics enable patients to be genetically tested as to whether or not they are likely to respond positively to a particular treatment. For the year to June 2008, DxS achieved sales of £3.3 million (2007: £1.1 million), operating profit of £812,000 (2007: £394,000 loss) and pre-tax profit of £386,000 (2007: £795,000 loss). Significant sales and profit growth is continuing to be achieved in the year to June 2009.

Initial investment	April 2004
Cost	£325,500
Valuation at 31 December 2008	£1,440,000
Basis of valuation	Fair value
Equity held	8%
Website	www.dxsgenotyping.com

Audited financial information	Year ended 30 June 2008
	£000's
Sales	3,286
Profit before tax	386
Retained loss	3,141
Net assets	2,808

Investment Review (continued)

ImmunoBiology Limited

ImmunoBiology is a biotechnology company that is focused on developing products that could have applications in the treatment of cancer and certain infectious diseases. The company's technology is based on a recent discovery that a group of proteins known as 'heat shock proteins' has a pivotal role in controlling the normal immune response to infections.

Initial investment	November 2005
Cost	£600,000
Valuation at 31 December 2008	£844,000
Basis of valuation	Last funding round
Equity held	6%
Website	www.immbio.com

Audited financial information	Year ended 31 May 2008
	£000's
Sales	1
Loss before tax	1,207
Retained loss	2,572
Net assets	174

BioAnaLab Limited

BioAnaLab is a leader in the provision of specialist analytical services to pharmaceutical and biotechnology companies in the growing sector of biopharmaceuticals.

Initial investment	May 2005
Cost	£278,600
Valuation at 31 December 2008	£730,000
Basis of valuation	Fair value
Equity held	14%
Website	www.bioanalab.com

Audited financial information	Year ended 31 October 2008
	£000's
Sales	2,233
Adjusted profit before tax	243
Retained profit	144
Net assets	1,179

Hallmarq Veterinary Imaging Limited

Hallmarq specialises in developing low cost magnetic resonance imaging systems. The first application is for equine vets to enable the diagnosis of causes of lameness in horses that are not identifiable by any other method. The key development has been the launch of EQ 2 of the scanner, which has had a significant beneficial impact on growth in scan fees, the key performance indicator for the use of MRI by the vets.

Initial investment	August 2005
Cost	£885,000
Valuation at 31 December 2008	£533,000
Basis of valuation	Last funding round
Equity held	8%
Website	www.hallmarq.net

Audited financial information	Year ended 31 August 2008
	£000's
Sales	1,927
Loss before tax	232
Retained loss	3,695
Net assets	1,647

Investment Review (continued)

Scancell plc

Scancell is a Nottingham-based biotechnology company that is developing a pipeline of vaccines to target various types of cancer, with the first target being melanoma – Phase I trials of the latter are scheduled to start in the UK in Q1 2010. The platform technology, in effect, educates the immune system how to respond – this means that the technology can also be licensed to pharmaceutical companies to assist the development of their own therapeutic vaccines.

Scancell listed on PLUS Markets in September 2008, raising £1.6 million.

Initial investment	December 2003
Cost	£760,000
Valuation at 31 December 2008	£410,000
Basis of valuation	Bid price
Equity held	13%
Website	www.scancell.co.uk

Audited financial information	Year ended 30 April 2008
	£000's
Sales	–
Loss before tax	449
Retained loss	4,072
Net assets	1,047

Wound Solutions Limited

Wound Solutions is working on the development of a product that has applications in the treatment of difficult to heal wounds such as leg ulcers and foot ulcers.

Initial investment	May 2006
Cost	£350,000
Valuation at 31 December 2008	£350,000
Basis of valuation	Cost
Equity held	3%
Website	www.woundsolutions.com

Audited financial information	Year ended 30 June 2008
	£000's
Sales	–
Loss before tax	276
Retained loss	4,528
Net assets	669

Investment Review (continued)

Glide Pharmaceutical Technologies Limited

Glide Pharma has developed a needle-free drug delivery technology that is able to deliver a drug formulation in a solid form directly through the skin of a patient. The Glide technology has been shown to have a number of benefits when compared to other delivery mechanisms. In trials on human volunteers, Glide's device was shown to be preferable to injection using a standard needle and syringe. The first product is undergoing a clinical trial, with the results due during H1 2009. In addition, there is a good pipeline of companies investigating the Glide technology in feasibility studies – the strategy is to convert the feasibility studies into funded development programs.

Initial investment	November 2005
Cost	£105,000
Valuation at 31 December 2008	£316,000
Basis of valuation	Last funding round
Equity held	2%
Website	www.glidepharma.com

Audited financial information	Year ended 31 March 2008
	£000's
Sales	72
Loss before tax	1,932
Retained loss	3,886
Net assets	1,242

Prosurgics Limited

Prosurgics develops robots for assisting surgeons: its first product Freehand, which is a camera holding robot for keyhole surgery is now being commercialised. Freehand is a Version 2 product and is much cheaper and smaller than Version 1, with the added advantage of generating recurring revenue through incorporating a consumable. Commercialisation started in February 2009, with the benefit of Prosurgics already having an established position in this market: the reaction from surgeons to live demonstrations in patients has been very encouraging.

Initial investment	January 2006
Cost	£490,000
Valuation at 31 December 2008	£175,000
Basis of valuation	Last funding round
Equity held	7%
Website	www.prosurgics.com

Audited financial information	Year ended 31 December 2007
	£000's
Sales	305
Loss before tax	2,483
Retained loss	8,838
Net assets	112

Investment Review (continued)

Insense Limited

Insense is working on the development of an innovative product range for the wound care market – commercial launch started in January 2008, against the background of trials showing significant improvement in patient outcomes at lower cost.

Initial investment	July 2003
Cost	£282,000
Valuation at 31 December 2008	£170,000
Basis of valuation	Last funding round
Equity held	3%
Website	www.insense.co.uk

Audited financial information	Year ended 31 December 2007
	£000's
Sales	71
Loss before tax	1,314
Retained loss	5,086
Net assets	774

EpiStem Holdings plc

EpiStem listed on AIM in April 2007. Its knowledge is based on over 30 years research at Christies Hospital, Manchester on the behaviour of adult epithelial stem cells – epithelial cancers account for over 80% of adult cancers. It has the attractive business model of a profitable Contract Research Organisation division, a Biomarker division and a Novel Therapies division. In March 2009, a R&D collaboration agreement was signed with Novartis, under which Epistem receives an upfront cash payment of \$4 million and research funding for two years.

Initial investment	April 2007
Cost	£61,700
Valuation at 31 December 2008	£103,500
Basis of valuation	Bid price
Equity held	<1%
Website	www.epistem.co.uk

Audited financial information	Year ended 30 June 2008
	£000's
Sales	2,065
Loss before tax	1,333
Retained loss	4,026
Net assets	2,582

Disposals

A summary of the disposals during the year is shown below:

Realisations	Carrying value at 31 December 2007 (£'000)	Cost of investment realised (£'000)	Proceeds of investment (£'000)	Total gain/(loss) (£'000)
Immunodiagnostic Systems Holdings plc	–	25	35	10
Phoqus plc	35	150	–	(150)
Total	35	175	35	(140)

Shareholder Information

The Company

The Company is a Venture Capital Trust (“VCT”). Since 30 July 2007 the Board has managed the Company. The Company was launched in October 2001 and raised over £7 million through an offer for subscription.

The Company’s objective is to develop a portfolio of unquoted and quoted MedTech companies conforming to Hygea’s investment template 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 tax benefits.

Hygea has been approved as a VCT by HMRC. 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 and PLUS) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment. The Company has continued its compliance with these requirements.

Financial Calendar

The Company’s financial calendar is as follows:

5 May 2009	–	Annual General Meeting
August 2009	–	Six-monthly results to 30 June 2009 published
March 2010	–	Annual report for year to 31 December 2009 published

Share Price

The Company’s share price is published daily on the London Stock Exchange’s website (www.londonstockexchange.com) under company code ‘HYG’ and this can also be accessed through the Company’s website (www.hygeavct.com).

As a result of the Company’s limited unallocated cash reserves, it does not expect to purchase any shares for cancellation in the near future.

Annual and Interim Reports

Previously published Annual Reports and Interim Reports are available for viewing on the Company’s website at www.hygeavct.com. The result of any poll on a resolution put before shareholders will also be found there.

Details of Advisers

Board of Directors

James Otter (Chairman)
Charles Breese
John Hustler

Registered Office

8 Angel Court
London
EC2R 7HP
Registered in England No 04221489

Company Secretary

Craig Hunter
8 Angel Court
London
EC2R 7HP

Administration Manager

Octopus Investments Limited
8 Angel Court
London
EC2R 7HP

Solicitors

Pinsent Masons
30 Aylesbury Street
London
EC1R 0ER

Independent Auditor and Taxation Adviser

Hyman Capital Services Limited
25 Duke Street
London
W1U 1LD

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Financial Adviser

Beaumont Cornish Limited
2nd Floor, Bowman House
29 Wilson Street
London
EC2R 7DE

Bankers

The Royal Bank of Scotland plc
62/63 Threadneedle Street
London
EC2R 8LA

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Details of Directors

James Otter (51 – Chairman) is currently CEO of Hallmarq Veterinary Imaging Ltd. which has developed a unique MRI scanner for use on horses. He is also a non-executive Director of Novacta Biosystems, which specialises in novel anti-infectives. He is an active investor in TCS Cellworks, a supplier of primary human cell cultures. Previous positions include being a main board director of Spectris plc working on a turnaround project in Denmark. The bulk of his career was spent in international commercial roles with Zeneca Agrochemicals (formerly ICI and now Syngenta). Mr Otter has an MBA from INSEAD and a degree in Natural Sciences from Cambridge.

Charles Breese (62 – Director) has 26 years of experience of investing in start-up, early stage and quoted smaller companies harnessing technology to derive competitive advantage. He worked for KPMG from 1969 until 1982. He joined Larpent Newton in 1982 and was appointed Managing Director in 1986 – Larpent Newton provides the resources required to assist technology-based companies wanting to develop from being unquoted through to an AIM listing, and ultimately to achieving a trade sale. He has developed an Investment Template which has proved successful in identifying early stage companies which have delivered attractive long term returns.

John Hustler (62 – Director) joined Peat Marwick, now known as KPMG LLP, in 1965 and became partner in 1983. Since leaving KPMG in 1993 to form Hustler Venture Partners Limited, he has advised and been a director of a number of growing companies. He is presently chairman of Northern Venture Trust plc, Octopus Titan 2 plc and Spectrum Syndicate Management Limited and a director of Northern 3 VCT plc.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

The Company's independent auditor is required by law to report on whether the information given in the Directors' Report (including the business review) is consistent with the financial statements. The auditor's opinion is included in their report on pages 25 and 26.

Principal Activity and status

The principal activity of the Company is that of a Venture Capital Trust ("VCT"). The Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a portfolio of unquoted and quoted UK MedTech companies which meet the relevant criteria under the VCT Rules. The Company has been granted full approval as a Venture Capital Trust by HMRC. In order to maintain approved status, the Company must comply on a continuing basis with the provisions of s274 of the Income Tax Act 2007; in particular, the Company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT qualifying holdings, of which at least 30% must comprise eligible ordinary shares. For this purpose, a "VCT qualifying holding" consists of up to £1 million invested in any one year in new shares or securities of a UK unlisted company (which may be quoted on AIM or PLUS) which is carrying on a qualifying trade, and whose gross assets at the time of investment do not exceed a prescribed limit. The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing.

Under current tax legislation, shares in the Company provide tax free capital growth and income distribution, in addition to the income tax relief some investors would have obtained when they invested at the time of the initial fundraising and subsequent follow-on equity issues.

The accounts have been drawn up to include a statutory Income Statement in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance). The Directors are required by the articles of association to propose an ordinary resolution at the Company's annual general meeting in 2012 that the Company should continue as a Venture Capital Trust for a further three year period, and at three yearly intervals thereafter. If any such resolution is not passed, the Directors shall within four months convene a general meeting to consider the proposals for the reorganisation or winding-up of the Company.

Review of Business Activities

The Directors are required by s417 of the Companies Act 2006 to include a business review to shareholders. The business review is set out below but also includes the Chairman's Statement on pages 3 and 4 and the Investment Review on pages 5 to 9 by reference.

The purpose of this review is to provide information about the main trends and factors likely to effect the future development, performance and position of the Company.

Performance and Key Performance Indicators (KPIs)

As a Venture Capital Trust, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of unquoted and quoted UK companies which meet the relevant criteria for Venture Capital Trusts. The Board has a number of performance measures to assess the Company's success in meeting its objectives. Performance, measured by the change in NAV per share and total return per share, is also measured against the FTSE AIM Index and the FTSE All-Share Index. This is shown in the graph on page 20 of the Directors' Remuneration Report. These indices have been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of other generalist Venture Capital Trusts. The Chairman's Statement, on pages 3 and 4, includes a review of the Company's activities and future prospects; further details are also provided within the Investment Review on pages 5 to 9. Further details of the Company's risk management policies are provided in note 14 to the financial statements.

Results

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Net profit attributable to shareholders	418	314

Directors' Report (continued)

Objective and Investment Policy

The Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a portfolio of unquoted and quoted UK MedTech companies which meet the relevant criteria under the VCT Rules.

The Company's investment strategy is designed to deliver absolute returns on its investments rather than a performance measured against the market indices. On an ongoing basis, it is intended that at least 80% of the Company's assets will be invested in qualifying holdings, with the remainder held in cash and money market securities. The Board does not intend to vary the Company's investment policy. However, should a material change be deemed appropriate this will be done with shareholders' approval by the passing of an ordinary resolution and in accordance with the Listing Rules.

The Directors control the overall risk of the portfolio by ensuring that the Company has exposure to a diversified range of quoted and unquoted companies from the MedTech sector. The Directors will continually monitor the investment process and ensure compliance with the investment policy. During the year, the Company had in place an overdraft facility with the Royal Bank of Scotland up to the amount of £100,000.

Principal Risks, Risk Management and Regulatory Environment

The Board carries out a regular review of the risk environment in which the Company operates. The main areas of risk identified by the Board are as follows:

VCT qualifying status risk: the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the Company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. The Board and Octopus keep the Company's VCT qualifying status under continual review. The Board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

Investment risk: the majority of the Company's investments are in quoted and unquoted companies which are VCT qualifying holdings, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The Directors aim to limit the risk attached to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out due diligence procedures and by maintaining a spread of holdings in terms of financing stage. The Board reviews the investment portfolio on a regular basis.

Financial risk: by its nature, as a Venture Capital Trust, the Company is exposed to market price risk, credit risk, liquidity risk, fair value and cash flow interest rate risks. All of the Company's income and expenditure is denominated in sterling and hence the Company has no foreign currency risk. The Company is financed principally through equity and has a modest working capital facility which is used occasionally. The Company does not use derivative financial instruments.

Credit risk: credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Board carries out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

Regulatory risk: the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Internal control risk: the Board reviews annually the system of internal controls, both financial and non-financial, operated by the Company. These include controls designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained.

Due to the nature of the Company, environmental, social and employee issues do not apply and therefore no disclosures in respect of these have been included in the Directors report.

Further details of the Company's risk management policies are provided in note 14 to the financial statements.

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies the principles detailed in the 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance section on pages 21 to 23.

The adverse conditions prevailing in the UK economy at present are likely to lead to a reduction in corporate activity over the next 12 months. The Board will continue to take a highly selective approach to new investment and will pursue

Directors' Report (continued)

several exit opportunities where discussions are already in progress. It can be expected that some of the Company's portfolio companies will find the immediate future challenging, and may require further funding, but we remain confident in the strength of the balance sheet and look forward to achieving good returns for shareholders in the future.

Directors

The Directors of the Company during the period and their interests (in respect of which transactions are notifiable under Disclosure and Transparency Rule 3.1.2R) in the issued ordinary shares of 50p are shown in the table below:

	31 December 2008	31 December 2007
James Otter (Chairman)	14,050	8,050
Charles Breese	105,000	5,000
John Hustler	60,000	50,000

All of the Directors' shares were held beneficially. There have been no changes in the Directors' share interests between 31 December 2008 and the date of this report.

Mr Charles Breese retires by rotation, and being eligible, offers himself for re-election. The Board has considered provision A.7.2 of the Combined Code 2006 and believes that he continues to be effective and demonstrates commitment to his role. Therefore they recommend his re-election at the forthcoming Annual General Meeting.

Brief biographical notes on the Directors are given on page 12.

Directors' and officers' liability insurance

The Company has, as permitted by s232-236 of the Companies Act 2006, 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.

Management

Since 30 July 2007 the Board has assumed responsibility for the management of the Company and its portfolio. The Board continues to review and evaluate the management of the company in the light of present circumstances whereby the resources of the company are fully invested in portfolio companies. It does not believe that it would be cost effective to seek to appoint a third party manager at the present time. The terms of the Board's remuneration are set out at the sections entitled, "Directors' Emoluments" and "Performance Fee", both of which appear in the Directors' Remuneration Report.

Share issues

During the year, the Company issued 258,000 shares at 50p per share. Further details may be found in note 12.

Share buy-backs

During the year, the Company did not purchase any of its own shares (2007: nil).

Share capital, rights attaching to the shares and restrictions on voting and transfer

The Company's share capital is £25,000,000 divided into 50,000,000 shares of 50p each, of which as at 31 December 2008 7,788,191 shares were in issue (as at that date none of the issued shares were held by the Company as treasury shares). Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's articles of association, the shares confer on their holders (other than the Company in respect of any treasury shares) the following principal rights: (a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the Board as approved by shareholders in general meeting or in the case of an interim dividend an amount determined by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company; (b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the Company remaining after payment of its liabilities *pari passu* with the other holders of ordinary shares; and (c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the Company. On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder; the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting

Directors' Report (continued)

or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll. These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the Company's articles of association with a notice pursuant to s793 of the Companies Act 2006 (notice by Company requiring information about interests in its shares), the Company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the Company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares. Shareholders, either alone or with other shareholders, have other rights as set out in the Company's articles of association and in company law (principally the Companies Act 2006 and, so far as still applicable, the Companies Act 1985).

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his shares, subject in the case of certificated shares to the rules set out in the Company's articles of association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the directors to refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the register of members. The directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the Company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares. Whilst there are no squeeze-out and sell out rules relating to the shares in the Company's articles of association, shareholders are subject to the compulsory acquisition provisions in s974 to s991 of the Companies Act 2006.

Appointment and replacement of Directors

A person may be appointed as a director of the Company by the shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the Directors: No person, other than a director retiring by rotation or otherwise, shall be appointed or reappointed a director at any general meeting unless he is recommended by the Directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's articles of association. Each director who is appointed by the Directors (and who has not been elected as a director of the Company by the members at a general meeting held in the interval since his appointment as a director of the Company) is to be subject to election as a director of the Company by the members at the first Annual General Meeting of the Company following his appointment. At each Annual General Meeting of the Company one third of the Directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one-third, are to be subject to re-election. The Companies Act allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the Company. A person also ceases to be a director if he or she resigns in writing, ceases to be a director by virtue of any provision of the Companies Act, becomes prohibited by law from being a director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the Board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the Company's articles of association.

Powers of the Directors

Subject to the provisions of the Companies Acts, the memorandum and articles of association of the Company and any directions given by shareholders by special resolution, the articles of association specify that the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular the Directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the 2008 annual general meeting to make market purchases of up to 14.99% of the issued share capital at any time up to the 2009 annual general meeting and otherwise on the terms set out in the relevant resolution, and authority is being sought at the 2009 general meeting as set out in the notice of the annual general meeting.

Directors' Report (continued)

International financial reporting standards

As the Company is not part of a group it is not mandatory for it to apply International Financial Reporting Standards. The Company does not anticipate that it will voluntarily adopt the International Financial Reporting Standards.

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 December 2008 there were trade creditors of £2,000 (2007: £8,000).

Going concern

After making enquiries, the Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements. This is appropriate as cash facilities are sufficient to continue to service the average annual running costs of the Company.

Substantial shareholdings

As at the date of this report, no disclosures of major shareholdings had been made to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

Annual general meeting

Notice convening the 2009 annual general meeting of the Company and a form of proxy in relation to the meeting can each be found at the end of this document.

Independent auditor

Hyman Capital Services Limited offers itself for reappointment as auditor in accordance with section 385 of the Companies Act 1985. A resolution to re-appoint Hyman Capital Services Limited as auditor will be proposed at the forthcoming annual general meeting.

Alteration of the Company's Articles of Association

At the Annual General Meeting, Resolution 5 will be proposed as a special resolution to adopt new Articles of Association to reflect recent changes introduced by the Companies Act 2006. The main changes from the existing Articles of Association are summarised below:

Electronic communications

The new Articles of Association will continue to allow the Company to communicate with members in electronic form (such as by email or fax) and also permit the Company to communicate with its members by means of publication on a website. However, before the Company can communicate with a member by means of website communication, the relevant member must be asked individually to agree that the Company may send or supply notices, documents or information by means of a website and the member has agreed or the Company has not received a response within the period of 28 days beginning on the date on which the Company's request was sent. The members will be sent a notification of the presence of the notice, document or information on a website, the address of that website, the place on that website where it may be accessed, and how it may be accessed.

Form of Resolution

The concept of extraordinary resolutions has not been retained under the Companies Act 2006. Consequently, any references to extraordinary resolutions have been replaced with references to special resolutions.

General Meetings

Extraordinary General Meetings will now be referred to as General Meetings. The length of the notice period required to convene General Meetings has been amended to reflect the notice periods set out in the new provisions of the Companies Act 2006. Consequently to convene a General Meeting at which a special resolution is to be considered, the notice period required will be reduced from 21 to 14 days.

Under the new Articles of Association, the Annual General Meeting will be held within six months of the Company's financial year end, in accordance with the provisions of the Companies Act 2006. Currently, the AGM must be held within 15 months of the previous AGM.

Directors' Report (continued)

Votes of members

In accordance with the provisions of the Companies Act 2006, under the new Articles the following changes to voting arrangements will be made:

- the chairman of a general meeting will no longer have a casting vote;
- a proxy will be allowed to be appointed by electronic form;
- the 48 hour deadline for proxies to be deposited before a general meeting will no longer include weekends or bank holidays;
- members will be allowed to appoint multiple proxies; and
- a proxy will have the right to speak at a general meeting and vote on a show of hands as well as on a poll.

Directors' duties (including the duty to avoid conflicts of interests)

The general duties of Directors are now set out in statute under the Companies Act 2006. Whilst these duties generally codify the existing law, there have been some changes, and the new Articles require the Directors to comply with these duties in the performance of their functions. Under the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The Companies Act 2006 allows directors of public companies to authorise such conflicts and potential conflicts in appropriate circumstances provided this is permitted under the Articles of Association. The new Articles of Association of the Company give the Directors authority to approve such situations and to include other provisions to allow conflicts of interests to be dealt with such that a breach of duty is avoided. Only Directors who have no interest in the matter being considered will be able to authorise the conflict of interest.

Directors' authority to allot shares, to disapply pre-emption rights

Resolution 6, which will be proposed as an ordinary resolution, is to renew the general authority granted to the directors at the last annual general meeting to allot shares in the Company. If passed, this resolution will, among other things, authorise the directors to allot all the authorised but unissued shares (subject to rights of first refusal of existing shareholders). This authority will be effective until the earlier of the conclusion of the next annual general meeting and 15 months of passing the resolution (except insofar as commitments to allot shares have been entered into before that date).

Resolution 7, which is proposed as a special resolution, supplements the directors' authority to allot shares in the Company conferred by Resolution 6. This resolution authorises the directors to allot shares either on a pro rata pre-emption basis to existing shareholders for up to a maximum of all of the authorised and unissued share capital, and/or, to allot up to such number of shares equal to 10% of the issued share capital without pre-emption rights to any person. This authority will be effective until the earlier of the conclusion of the next annual general meeting and 15 months of passing the resolution (except insofar as commitments to allot shares have been entered into before that date).

Directors' authority to make market purchase of its own shares

Resolution 8, which is proposed as a special resolution, will, if passed, authorise the Company to purchase in the market up to 1,167,450 ordinary shares (equal to 14.99% of the issued share capital) at a minimum price of 10 pence share and a maximum price of 5% above the average of the middle market quotation for the previous five days. This authority will be effective until the earlier of the conclusion of the next annual general meeting and 15 months of passing the resolution (except insofar as commitments by the Company to purchase shares have been entered into before that date). The Directors have no present intention of buying back any shares under the authority conferred by this resolution.

By order of the Board



Craig Hunter FCIS
Company Secretary
31 March 2009

Directors' Remuneration Report

Introduction

This report is submitted in accordance with the Companies Act 2006, Schedule 7A in respect of the year ended 31 December 2008. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The Company's auditors, Hyman Capital Services Limited, are required to give their opinion on certain information included in this report; this comprises the Directors' emoluments section below only. Their report on these and other matters is set out on pages 25 and 26.

Consideration by the Directors of matters relating to Directors' remuneration

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

Statement of the Company's policy on Directors' remuneration

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

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

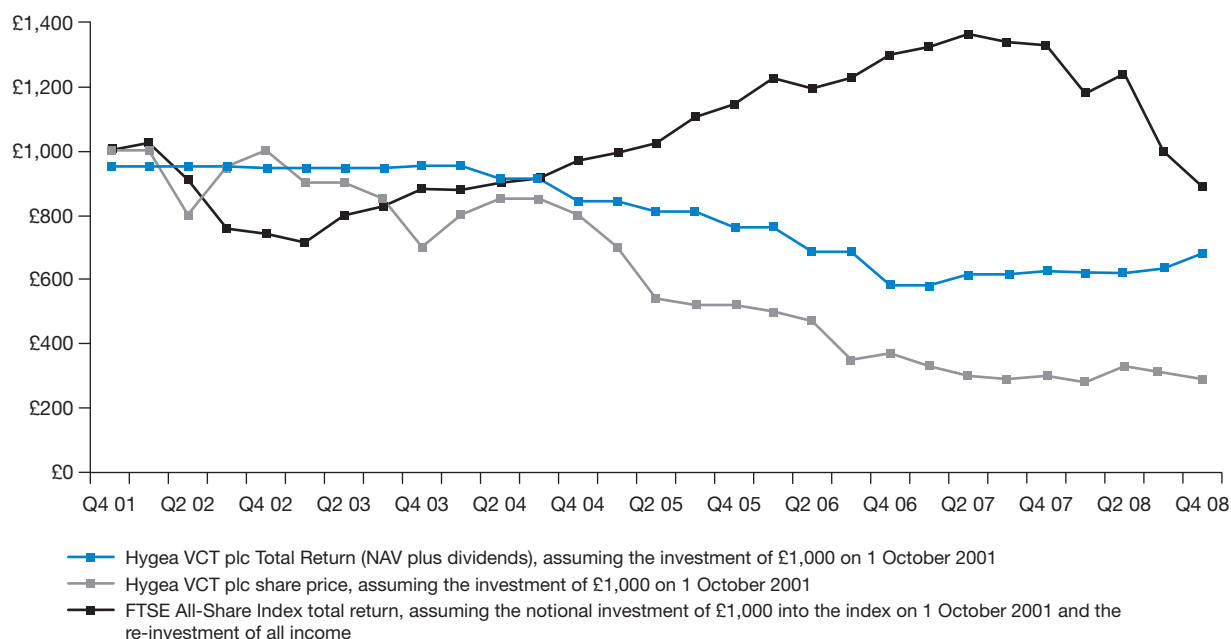
The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chairman of the Board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

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. Other than the performance bonus referred to in Note 17, there are no long-term incentive schemes, share option schemes or pension schemes in place. No other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors.

Company performance

The Board is responsible for the Company's investment strategy, management and performance. The graph below compares the share price, NAV and total return (NAV plus dividends) of Hygea over the period from October 2001 to December 2008 with the total return from notional investments in the FTSE AIM Index and FTSE All-Share index over the same period. These indices are considered to be the most appropriate broad equity market indices for comparative purposes. However, the Directors wish to point out that VCTs are not able to make qualifying investments in companies quoted on the Main Market in their observance of the VCT rules.

Directors' Remuneration Report (continued)



Directors' emoluments (information subject to audit)

Amount of each Director's emoluments:

Annual rate of Directors' fees, exclusive of employer's National Insurance or VAT

	Year ended 31 December 2008	Year ended 31 December 2007
James Otter (Chairman)	£15,000	£15,000
Charles Breese	£10,000	£10,000
John Hustler	£10,000	£10,000
Total	£35,000	£35,000

The Directors did not receive any other form of emoluments in addition to the Directors' fees.

By order of the Board

Craig Hunter FCIS
Company Secretary
31 March 2009

Corporate Governance

The Board of Hygea VCT plc has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against principles and recommendations of the AIC Code, by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in section 1 of the 2006 Combined Code on Corporate Governance with the exceptions set out in the Compliance Statement on page 23.

Board of Directors

The Company has a Board of three non-executive Directors, all of whom are considered to be independent. 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 which 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 of Managers;
- the performance of the Company, including monitoring of the discount of the net asset value and the share price; and
- monitoring shareholder profiles and considering shareholder communications.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the Company. He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All of the Directors have access to the advice and services of the Company Secretary, who has administrative responsibility for the meetings of the Board and its committees. Directors may also take independent professional advice at the Company's expense where necessary in the performance of their duties. As all of the Directors are non-executive, it is not considered appropriate to identify a member of the Board as the senior non-executive Director of the Company.

The Company's articles of association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

During the year the following were held:

10 full Board meetings

All Directors attended all meetings

1 Audit Committee meeting

All Members attended the meeting

No Nomination Committee meetings

No meeting was held during the year
– see below

- additional meetings were held as required to address specific issues. A brief biographical summary of each Director is given on page 12.

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

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

Audit Committee:

The Audit Committee, chaired by John Hustler, consists of two independent Directors. The Audit Committee believes Mr Hustler possesses appropriate and relevant financial experience as per the requirements of the Combined Code. The

Corporate Governance (continued)

Board considers that the members of the committee are independent and have collectively the skills and experience required to discharge their duties effectively.

The Audit Committee's terms of reference include the following roles and responsibilities:

- reviewing and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- reviewing and making recommendations to the Board in relation internal control (including internal financial control and risk management systems);
- periodically considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional regulatory requirements; and
- monitoring the extent to which the external auditor is engaged to supply non-audit services.

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary. The Committee meets twice per year and has direct access to Hyman Capital Services Limited, the Company's external auditor.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However, the Committee considers annually whether there is a need for such a function and if so would recommend this to the Board.

During the year ended 31 December 2008, the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement and remuneration;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks and confirmation of auditor independence;
- reviewing Octopus' statement of internal controls in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of Octopus Investments Limited's compliance procedures;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial and interim results statement prior to Board approval; and
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements.

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, under Turnbull guidance, 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.

Octopus Investments Limited is engaged to carry out the accounting and administration function.

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control systems. As part of this process an annual review of the internal control systems is carried out in accordance with the Financial Reporting Council 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 the risks arising from its operational and investment activities. Further details can be found in note 14 to the Financial Statements.

Relations with Shareholders

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

Corporate Governance (continued)

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.

Compliance Statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting year. The preamble to the Combined Code does, however, acknowledge that some provisions may have less relevance for investment companies. With the exception of the limited items outlined below, the Company has complied throughout the accounting year to 31 December 2008 with the provisions set out in Section 1 of the Combined Code.

1. New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise.
2. Due to the size of the Board and the nature of the Company's business, a formal performance evaluation process for the Board, its committees, the individual Directors and the Chairman has not been put in place or a formal evaluation been undertaken. Specific performance issues are dealt with as they arise.
3. The Company has three independent Directors, James Otter, Charles Breese and John Hustler, as defined by the Combined Code issued in 2006. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code.
4. The Company does not have a chief executive officer or senior independent director. The Board does not consider this necessary for the size of the Company.
5. The Company conducts a formal review as to whether there is a need for an internal audit function. However, the Directors do not consider that an internal audit would be an appropriate control for a Venture Capital Trust.
6. The Company does not have a separate Nomination Committee, appointments are dealt with by the full Board as and when appropriate.
7. The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.
8. The Company has no major shareholders so shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the annual general meeting.
9. The Company does not have a Remuneration Committee as it does not have any executive Directors.

Directors' Responsibility Statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

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

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

The Directors confirm that to the best of their knowledge the financial statements for the year ended 31 December 2008 comply with the requirements set out above and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement, have been used in their preparation. They also confirm that the annual report includes a fair review of the development and performance of the business together with a description of the principal risks and uncertainties faced by the Company.

Under applicable law and regulations, the Directors are responsible for preparing a Directors' Report (including Business Review), Directors' Remuneration Report and Corporate Governance Statement which comply with that law and those regulations.

In so far as the Directors are aware:

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

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions. The work carried out by Hyman Capital Services Limited as independent auditor of the Company does not involve consideration of the maintenance and integrity of the website and accordingly they accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

The Directors confirm to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Investment Review includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board



James Otter
Chairman
31 March 2009

Report of the Independent Auditor to the Members of Hygea VCT plc

We have audited the financial statements of Hygea VCT plc for the year ended 31 December 2008 which comprise the Income Statement, the Balance sheet, the Reconciliation of Movement in Shareholders Funds, the Cash Flow Statement and the related notes. The 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 in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes that specific information presented in the Chairman's statement that is cross referenced from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 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 financial statements. The other information comprises only the Chairman's Statement, Investment Review, Shareholder Information, Director's Report, Corporate Governance Statement and the unaudited part of the Director's Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

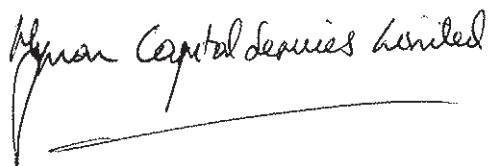
We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material 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.

Independent Auditors' Report (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 December 2008 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

A handwritten signature in black ink that reads "Hyman Capital Services Limited". The signature is written in a cursive style and is positioned above a long, horizontal, slightly wavy line that serves as a separator or underline.

Hyman Capital Services Limited

Registered Auditors

London, UK

31 March 2009

Income Statement

Year to 31 December 2008

	Notes	Revenue £'000	Capital £'000	Total £'000
Loss on disposal of fixed asset investments	9	-	(25)	(25)
Gain on valuation of fixed asset investments	9	-	547	547
Investment income	2	7	-	7
Investment management fees	3	-	-	-
VAT on management fee rebate		6	19	25
Other expenses	4	(136)	-	(136)
(Loss)/profit on ordinary activities before tax		(123)	541	418
Taxation on (loss)/profit on ordinary activities	6	-	-	-
(Loss)/profit on ordinary activities after tax		(123)	541	418
(Loss)/earnings per share – basic and diluted	7	(1.6)p	7.0p	5.4p

- the 'Total' column of this statement is the income statement of the Company; the supplementary revenue return and capital return columns have been prepared in accordance with the AITC Statement of Recommended Practice;
- all revenue and capital items in the above statement derive from continuing operations;
- the accompanying notes are an integral part of the financial statements; and
- 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 year as set out above. Accordingly a statement of total recognised gains or losses is not required.

Other than revaluation movements arising on investments held at fair value through the profit and loss account, there were no differences between the profit/(loss) as stated above and at historical cost.

Income Statement

Year to 31 December 2007

	Notes	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments		–	124	124
Gain on valuation of fixed asset investments		–	378	378
Gain on valuation of current asset investments		–	4	4
Investment income	2	1	–	1
Investment management fees	3	(10)	(28)	(38)
Other expenses	4	(155)	–	(155)
(Loss)/profit on ordinary activities before tax		(164)	478	314
Taxation on (loss)/profit on ordinary activities	6	–	–	–
(Loss)/profit on ordinary activities after tax		(164)	478	314
(Loss)/earnings per share – basic and diluted	7	(2.2)p	6.4p	4.2p

- the 'Total' column of this statement is the Income Statement of the Company; the supplementary revenue return and capital return columns have been prepared in accordance with the AITC Statement of Recommended Practice;
- all revenue and capital items in the above statement derive from continuing operations;
- the accompanying notes are an integral part of the financial statements; and
- 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 year as set out above. Accordingly a statement of total recognised gains or losses is not required.

Other than revaluation movements arising on investments held at fair value through the profit and loss account, there were no differences between the profit/(loss) as stated above and at historical cost.

Balance Sheet

	Notes	As at 31 December 2008		As at 31 December 2007	
		£'000	£'000	£'000	£'000
Fixed asset investments	9		5,142		4,358
Current assets:					
Debtors	10	79		3	
Cash at bank		-		272	
		79		275	
Creditors: amounts falling due within one year	11	(32)		(25)	
Overdraft	11	(34)		-	
Net current assets			13		250
Net assets			5,155		4,608
Called up equity share capital	12	3,894		3,765	
Share premium account	13	1,722		1,722	
Special distributable reserve	13	1,660		1,660	
Capital redemption reserve	13	38		38	
Capital reserve – realised	13	(1,595)		(1,474)	
– unrealised	13	217		(445)	
Revenue reserve	13	(781)		(658)	
Total equity shareholders' funds			5,155		4,608
Net asset value per share	8		66.2p		61.2p

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

The statements were approved by the Directors and authorised for issue on 31 March 2009 and are signed on their behalf by:



James Otter
Chairman

Cash Flow Statement

For the year ended 31 December

	Notes	As at 31 December 2008 £'000	As at 31 December 2007 £'000
Net Cash outflow from operating activities		(173)	(122)
Capital expenditure and financial investment			
Purchase of investments	9	(297)	(713)
Disposal of investments	9	35	1,013
Net cash (outflow)/inflow from investing activities		(262)	300
Financing			
Issue of Ordinary share capital		129	-
Net cash inflow from financing		129	-
(Decrease)/increase in cash resources		(306)	178

Reconciliation of Movement in Shareholders' Funds

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Shareholders' funds at start of year	4,608	4,294
Profit on ordinary activities after tax	418	314
Issue of equity	129	-
Shareholders' funds at end of year	5,155	4,608

Reconciliation of Net Cash Flow to Movement in Liquid Resources

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
(Decrease)/increase in cash at bank	(306)	178
Opening net liquid resources	272	94
Net liquid resources at 31 December	(34)	272

Liquid resources at 31 December comprised:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Cash at Bank	(34)	161
Money Market Funds	-	111
Net liquid resources at 31 December	(34)	272

Reconciliation of profit before Taxation to Cash Flow from Operating Activities

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Profit on ordinary activities before tax	418	314
Gain on valuation of fixed assets investments	(547)	(378)
Loss/(gain) on disposal of investments	25	(124)
(Increase)/decrease in debtors	(76)	74
Increase/(decrease) in creditors	7	(8)
Outflow from operating activities	(173)	(122)

Notes to the Financial Statements

1. Accounting policies

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised December 2005, is consistent with the requirements of UK GAAP, the Directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

The principal accounting policies have remained unchanged from those set out in the Company's 2007 annual report and financial statements. A summary of the principal accounting policies is set out below.

The accounts have been drawn up to include a statutory income statement in accordance with Schedule 4 of the Companies Act 1985.

Investments

Purchases and sales of investments are recognised in the financial statements at the date of the transaction (trade date).

These investments will be managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy and information about them has to be provided internally on that basis to the Board. Accordingly as permitted by FRS 26, the investments will be designated as fair value through profit and loss ("FVTPL") on the basis that they qualify as a group of assets managed, and whose performance is evaluated, on a fair value basis in accordance with a documented investment strategy. The Company's investments are measured at subsequent reporting dates at fair value.

In the case of unquoted investments, fair value is established in accordance with industry guidelines by using measurements of value such as price of recent transaction, earnings multiple and net assets; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary. In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending upon convention of the exchange on which the investment is quoted. This is consistent with the International Private Equity and Venture Capital (IPEVC) guidelines.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the unrealised capital reserve.

In preparation of the valuations of assets the Directors are required to make judgements and estimates that are reasonable and incorporate their knowledge of the performance of the investee companies.

Current asset investments

Current asset investments comprise money market funds. Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the unrealised capital reserve.

The current asset investments are all invested with the Company's cash manager and are readily convertible into cash at the choice of the Company. The current asset investments are held for trading, are actively managed and the performance is evaluated on a fair value basis in accordance with a documented investment strategy. Information about them has to be provided internally on that basis to the Board.

Income

Investment income includes interest earned on bank balances, money market securities and loans to unquoted companies and includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. 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.

Notes to the Financial Statements (continued)

Expenses

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

Revenue and capital

The revenue column of the income statement includes all income and revenue expenses of the Company. The capital column includes realised and unrealised gains and losses on investments. Gains and losses arising from changes in fair value are considered to be realised only to the extent that they are readily convertible to cash in full at the balance sheet date.

Taxation

Corporation tax payable is applied to profits chargeable to corporation tax, if any, at the current rate. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue return on the "marginal" basis as recommended in the SORP.

Deferred tax is recognised on an undiscounted basis in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax, with the exception that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing can be deducted.

Cash and liquid resources

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

Loans and receivables

The Company's loans and receivables are initially recognised at fair value and subsequently measured at amortised cost.

Financial instruments

The Company's principal financial assets are its investments and the policies in relation to those assets are set out above. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to reserves.

Dividends

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make payment has been established. This liability for final dividends is established when the dividends proposed by the Board are approved by the shareholders.

2. Investment income

	31 December 2008 £'000	31 December 2007 £'000
Income on money market securities and bank balances	1	1
Income received from fixed asset investments	6	–
	7	1

Notes to the Financial Statements (continued)

3. Management fees

	31 December 2008			31 December 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	–	–	–	8	24	32
Irrecoverable VAT thereon	–	–	–	2	4	6
	–	–	–	10	28	38

For the purposes of the revenue and capital columns in the income statement, the management fee (including VAT) has been allocated 25% to revenue and 75% to capital, in line with the Board's expected long term return in the form of income and capital gains respectively from the Company's investment portfolio.

The Chancellor of the Exchequer announced in his budget statement on 12 March 2008 that the Finance Act 2008 would contain draft legislation exempting VCTs from VAT on management fees with effect from 1 October 2008. This legislation has now been passed and as such all VCTs have been made exempt from VAT on management fees from this date.

4. Other expenses

	31 December 2008 £'000	31 December 2007 £'000
Directors' remuneration	35	36
Fees payable to the Company's auditor for the audit of the financial statements	6	6
Fees payable to the Company's auditor – other services	1	1
Legal and professional expenses	52	67
Accounting and administration services	28	25
Other expenses	14	20
	136	155

For the year ended 31 December 2008, the running costs were 2.6% of net assets (2007: 3.4%).

5. Directors' remuneration

	31 December 2008 £'000	31 December 2007 £'000
Directors' emoluments		
James Otter (Chairman)	15	15
Charles Breese	10	10
John Hustler	10	10
Mark Andrews (to 9 February 2007)	–	1
	35	36

None of the Directors received any other remuneration or benefit from the Company during the year. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the year was three (2007: three).

Notes to the Financial Statements (continued)

6. Tax on ordinary activities

The corporation tax charge for the year was £nil (2007: £nil).

Factors affecting the tax charge for the current year:

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 20% (2007: 20%). The differences are explained below.

Current tax reconciliation:	31 December 2008	31 December 2007
	£'000	£'000
Loss on ordinary activities before tax	(122)	(164)
Current tax at 20% (2007: 20%)	(24)	(33)
Unrecognised tax losses	24	33
Total current tax charge	–	–

Approved Venture Capital Trusts are exempt from tax on capital gains within the Company. Since the Directors intend that the Company will continue to conduct its affairs so as to maintain its approval as a Venture Capital Trust, no current deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

7. (Loss)/earnings per share

The revenue (loss) per share is based on loss after tax of (£123,000) (2007: (£164,000)) and on 7,684,458 (2007: 7,530,191) shares, being the weighted average number of shares in issue during the year.

The total earnings per share is based on profit after tax of £418,000 (2007: £314,000) and on 7,684,458 (2007: 7,530,191) shares, being the weighted average number of shares in issue during the year.

There are no potentially dilutive capital instruments in issue and, as such, the basic and diluted earnings per share are therefore identical.

8. Net asset value per share

The calculation of net asset value per share as at 31 December 2008 is based on net assets of £5,155,000 (2007: £4,608,000) divided by 7,788,191 (2007: 7,530,191) ordinary shares in issue at that date.

Notes to the Financial Statements (continued)

9. Fixed asset investments

	Unquoted investments £'000	Quoted investments £'000	Total £'000
Book cost as at 31 December 2007	4,176	626	4,802
Revaluation to 31 December 2007	(112)	(332)	(444)
Valuation at 31 December 2007	4,064	294	4,358
Opening valuation at 1 January 2008	4,064	294	4,358
Purchases at cost	237	60	297
Disposal proceeds	–	(35)	(35)
Flotation of Scancell plc (Transfer of valuation)	(725)	725	–
Loss on disposal of investments – current year	–	(25)	(25)
Revaluation in year	983	(436)	547
Closing valuation at 31 December 2008	4,559	583	5,142
Book cost at 31 December 2008	3,689	1,236	4,925
Revaluation to 31 December 2008	870	(653)	217
Valuation at 31 December 2008	4,559	583	5,142

Further details of the fixed asset investments held by the Company are shown within the Investment Review on pages 5 to 9.

All investments are designated as fair value through profit or loss from the time of acquisition, and all capital gains or losses on investments so designated. Given the nature of the Company's venture capital investments, the changes in fair value of such investments recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and accordingly these gains are treated as unrealised.

At 31 December 2008 and 31 December 2007 there were no commitments in respect of investments approved by the Board but not yet completed.

10. Debtors

	31 December 2008 £'000	31 December 2007 £'000
Prepayments & accrued income	28	3
Other debtors*	51	–
	79	3

*Other debtors include an amount of £50,000 due from the pension fund of a Director in respect of the issue of shares which has subsequently been paid.

11. Creditors: amounts falling due within one year

	31 December 2008 £'000	31 December 2007 £'000
Bank overdraft	34	–
Accruals	30	17
Other creditors	2	8
	32	25

Notes to the Financial Statements (continued)

12. Share capital

	31 December 2008 £'000	31 December 2007 £'000
Authorised: 50,000,000 Ordinary shares of 50p each	25,000	25,000
Allotted and fully paid up: 7,788,191 ordinary shares of 50p each (2007: 7,530,191)	3,894	3,765

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective as set on page 13. The Company is not subject to any externally imposed capital requirements.

The Company issued the following shares in the year (2007: nil):

- 2 April 2008: Issue of 100,200 shares at 50p per share
- 30 April 2008: Issue of 49,800 shares at 50p per share
- 30 May 2008: Issue of 2,000 shares at 50p per share
- 31 July 2008: Issue of 106,000 shares at 50p per share

The Company did not repurchase any shares in the year (2007: nil).

13. Reserves

	Share premium account £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue Reserve £'000
As at 1 January 2008	1,722	1,660	38	(1,474)	(445)	(658)
Profit on ordinary activities after tax	–	–	–	–	–	418
VAT management fee rebate	–	–	–	19	–	(19)
Prior period (losses)/gains on disposal	–	–	–	(115)	115	–
Current period (losses)/gains on disposal	–	–	–	(25)	–	25
Gains/losses on revaluation	–	–	–	–	547	(547)
Balance at 31 December 2008	1,722	1,660	38	(1,595)	217	(781)

When the Company revalues its investments during the period, any gains or losses arising are credited/charged to the income statement. Unrealised gains/losses are then transferred to the capital reserve – unrealised. When an investment is sold any balance held on the capital reserve unrealised is transferred to the capital reserve – realised as a movement in reserves. The purpose of the special distributable reserve was to create a reserve which will be capable of being used by the Company to pay dividends and for the purpose of making repurchases of its own shares in the market with a view to narrowing the discount at which the Company's shares trade to net asset value.

Notes to the Financial Statements (continued)

14. Financial instruments and risk management

The Company's financial instruments comprise equity and loan note investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT qualifying quoted and unquoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Fixed asset investments (see note 9) are valued at fair value. For quoted investments this is either bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The Directors believe that the fair value of the assets held at the year end is equal to their book value.

In carrying on its investment activities, the Company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the Company are price risk, interest rate risk, credit risk and liquidity risk. The Company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 13. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed in accordance with the policies and procedures described in the Corporate Governance statement on pages 21 to 23, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in smaller companies, by their nature, usually involve a higher degree of risk than investments in larger companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is regularly monitored by the Board.

Details of the Company's investment portfolio at the balance sheet date are set out on page 5.

11.3% (31 December 2007: 6.4%) by value of the Company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM or PLUS. A 10% increase in the bid price of these securities as at 31 December 2008 would have increased net assets and the total return for the year by £58,000 (31 December 2007: £29,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

88.4% (31 December 2007: 88.2%) by value of the Company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the Company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 10% overall increase in the valuation of the unquoted investments at 31 December 2008 would have increased net assets and the total return for the year by £455,853 (31 December 2007: £406,000); an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount.

Interest rate risk

Some of the Company's financial assets are interest-bearing. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market securities. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 2.0% at 31 December 2008 (31 December 2007: 5.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 December 2008 £'000	31 December 2007 £'000
Cash at bank	–	272
	(34)	272

Notes to the Financial Statements (continued)

14. Financial instruments and risk management (continued)

A 1% increase in the base rate would increase income receivable from these investments and the total return for the year by £nil (31 December 2007: £2,700).

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

At 31 December 2008 the Company's financial assets exposed to credit risk comprised the following:

	31 December 2008 £'000	31 December 2007 £'000
Cash at bank	–	272
	(34)	272

The Company's interest-bearing deposit and current accounts are maintained with Royal Bank of Scotland.

Other than cash or liquid money market funds, there were no significant concentrations of credit risk to counterparties at 31 December 2008 or 31 December 2007.

Liquidity risk

The Company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid. They also include investments in smaller quoted companies, which by their nature, involve a higher degree of risk than investments on the main market. As a result, the Company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer.

The Company's liquidity risk is managed on a continuing basis by the Board in accordance with policies and procedures laid down by the Board. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient cash facilities to pay accounts payable and accrued expenses. At 31 December 2008, £34,000 of the overdraft facility of £100,000 had been used (31 December 2007: £ nil).

15. Post balance sheet events

The following events occurred between the balance sheet date and the signing of these financial statements:

- Investment of £26,700 into Insense Limited in March 2009

16. Contingencies, guarantees and financial commitments

As mentioned in the Chairman's Statement on pages 3 and 4, a rebate of VAT previously paid on management fees to Octopus Investments Limited is almost certain. This has been included as a debtor within these financial statements and as such has not been included as a contingent asset. There were no further contingencies, guarantees or financial commitments as at 31 December 2008 (2007: £nil).

17. Related party transactions

The Board acts as the investment manager of the Company. No remuneration has been paid to the Board during the year in its capacity as investment manager. The Directors are entitled to participate in a performance bonus calculated as 20% of sums returned to shareholders by way of dividends and capital distributions of whatever nature, which in aggregate exceeds the sum of 80p per share (including dividends paid to date, i.e. 1.25p, but excluding any sums returned to shareholders from HMRC in the year of subscription). At the 31 December 2008, no performance fee was payable (2007: nil).

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of Hygea VCT plc will be held at 8 Angel Court, London, EC2R 7HP on Tuesday, 5 May 2009 at 11.00 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 31 December 2008 and the Directors' and auditor's reports thereon.
2. To approve the Directors' Remuneration Report.
3. To re-elect Mr Charles Breese as a director.
4. To re-appoint Hyman Capital Services Limited as auditor of the Company and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass Resolution 5 as a Special Resolution, pass Resolution 6 as an Ordinary Resolution, and Resolutions 7 and 8 as Special Resolutions:

5. **ADOPTION OF NEW ARTICLES OF ASSOCIATION**
 THAT the Articles of Association produced to the meeting and initialled by the Chairman for the purposes of identification be adopted as the Articles of Association in substitution for, and to the exclusion of, the existing Articles of Association of the Company.
6. **AUTHORITY TO ALLOT RELEVANT SECURITIES**
 THAT the Directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of the authorised but as yet unissued share capital of the Company from time to time provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months following the passing of this Resolution 5, whichever is the first to occur, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such offer or agreement notwithstanding that the authority conferred hereby has expired, and the expression "relevant securities" and reference to the allotment of relevant securities shall bear the same respective meanings as in Section 80 of the Act.
7. **EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES**
 THAT conditional upon the passing of Resolution 6 above, the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities wholly for cash pursuant to the authority conferred by Resolution 6 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with or pursuant to either, (i) an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company and other persons entitled to participate therein in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlement or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange, and/or, (ii) an offer of up to an aggregate nominal value of 10% of the issued share capital of the Company at any one time as at the date of such allotment, and in either case such power shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months following the passing of this Resolution 6, whichever is the first to occur, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement notwithstanding that the power conferred hereby has expired, and the expression "equity securities" and references to the allotment of equity securities shall bear the same respective meanings as in Section 94 of the Act.

Notice of Annual General Meeting (continued)

8. EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES

THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of s163(3) of the Companies Act 2006 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 10% of the current issued Ordinary share capital of the Company;
- (b) the minimum price which may be paid for an ordinary share shall be 50p;
- (c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased;
- (d) the authority conferred comes to an end at the conclusion of the next annual general meeting of the Company or upon the expiry of 15 months from the passing of this resolution, whichever is the later; and
- (e) that the Company may enter into a contract to purchase its ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.

By order of the Board



Craig Hunter FCIS
Company Secretary

8 Angel Court
London
EC2R 7HP

31 March 2009

Notice of Annual General Meeting (continued)

NOTES:

1. Holders of ordinary shares, or their duly appointed representatives, are entitled to attend and vote at the AGM. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the meeting. A shareholder can appoint the Chairman of the meeting or anyone else to be his/her proxy at the meeting. A proxy need not be a shareholder. More than one proxy can be appointed in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different ordinary share or shares held by that shareholder. To appoint more than one proxy, the Proxy Form should be photocopied and completed for each proxy holder. The proxy holder's name should be written on the Proxy Form together with the number of shares in relation to which the proxy is authorised to act. The box on the Proxy Form must also be ticked to indicate that the proxy instruction is one of multiple instructions being given. All Proxy Forms must be signed and, to be effective, must be lodged with the company's registrar so as to arrive not later than 48 hours before the time of the meeting, or in the case of an adjournment 48 hours before the adjourned time.
2. The return of a completed Proxy Form will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.
3. Any person to whom this Notice is sent who is a person nominated under Section 146 of the CA 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. Only shareholders whose names appear on the register of members of the Company as at 48 hours before the time of the meeting shall be entitled to attend the AGM either in person or by proxy and the number of ordinary shares then registered in their respective names shall determine the number of votes such persons are entitled to cast on a poll at the AGM.
5. As at 31 March 2009 being the latest practicable date prior to the publication of this document, the Company's issued share capital consists of 7,788,191 ordinary shares of 50p, carrying one vote each. There are no shares held in Treasury. Therefore the total voting rights in the Company as at 31 March 2009 is 7,788,191.
6. In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the AGM so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.
7. In Accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members at 6:00pm on the day which is two days before the day of the meeting or, if the meeting is adjourned, shareholders entered on the Company's register of members at 6.00 p.m. on the day two days before the date of any adjournment shall be entitled to attend and vote at the meeting.
8. A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to be received by no later than 48 hours before the time the annual general meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the annual general meeting.
9. Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company kept in accordance with s325 of the Companies Act 2006 will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the Annual General Meeting, and at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion.

Proxy Form

Form of Proxy for use at the Annual General Meeting of Hygea VCT plc to be held at 11.00 a.m. on Tuesday, 5 May 2009

I/We, the undersigned, being (a) member/member(s) of Hygea VCT plc, hereby appoint the Chairman of the Meeting or,

Name of Proxy Number of shares

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 11.00 a.m. on Tuesday, 5 May 2009 at the Company's offices at **8 Angel Court, London EC2R 7HP** and at any adjournment thereof.

I/We wish my/our proxy to vote as shown below in respect of the resolutions set out in the Notice of the Meeting.

Please indicate by ticking the box if this proxy appointment is one of multiple appointments being made

For the appointment of one or more proxy, please refer to explanatory note 4 (below).

Resolution number	FOR	AGAINST	WITHHELD
1. To receive, consider and adopt the financial statements for the year ended 31 December 2008	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Charles Breese as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Hyman Capital Services Limited as auditor and authorise the Directors to agree their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To adopt the new Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise the Directors to allot shares under s80 of the Companies Act 1985 (Ordinary Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To disapply s89(1) of the Companies Act 1985 and allot shares on a non rights issue basis (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Directors to make market purchases of its own shares in the Company (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed: Dated: 2009

NOTES

- To be valid, the proxy form must be received by the Registrars of Hygea VCT PLC at, **Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU** no later than 48 hours before the commencement of the meeting. If delivering by Courier please use the full address of Capita set out in the Notice.
- 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.
- Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement. (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account.)
- To appoint more than one proxy, you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
- 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.
- Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6.00 p.m. on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- The address on the envelope containing this notice is how your address appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0871 664 0300 (Calls cost 10p per minute plus network extras) to request a change of address form.
- The completion and return of this form will not preclude a member from attending the meeting and voting in person.

PLEASE USE THE REPLY PAID ENVELOPE PROVIDED

