



ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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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 Highlights

Ordinary shares	Year to 31 December 2007	Year to 31 December 2006
Net assets (£'000s)	4,608	4,294
Net revenue loss before tax (£'000s)	(164)	(167)
Net asset value per share (“NAV”)	61.2p	56.8p
Revenue loss per share	(2.2p)	(2.2p)

Chairman's Statement

I am pleased to present the 2007 annual report to shareholders in Hygea VCT plc.

At 31 December 2007, the Company had a portfolio of 15 investments; 5 AIM quoted holdings and 10 unquoted holdings. It is encouraging to see that the net asset value has continued its modest appreciation at 61.2p at the 31 December 2007 compared with 56.8p at 31 December 2006 and 60.2p at 30 June 2007.

In my letter to shareholders on 14 January 2008, I reported on news and progress in some of our portfolio companies and further details are set out in the Investment Review. Whilst our portfolio of unquoted companies has not changed during the year, we have, during the year and since the year end, added to our holdings in Hallmarq Veterinary Imaging Limited, Insense Limited, Prosurgics Limited, Glide Pharmaceutical Technologies Limited and ImmunoBiology Limited. During the year we have taken the opportunity to realise eight of our AIM holdings in order to provide liquidity for these follow on investments as well as working capital.

Background

Over the period, many of the Hygea investees have made good progress bringing step change within their respective market niches by harnessing various technologies to develop products and/or services with the potential to disrupt current players – most of the investees are now overcoming one of the key hurdles, namely market acceptance.

In contrast, many major bioscience corporations are tightening their budgets, putting pressure on prices and volumes of purchases and reduction in some development projects. Although apparently negative, this situation provides a range of new opportunities for most of the Hygea investees as they are well placed to benefit from companies increasing outsourcing and showing increased interest in licensing new products/knowhow.

The investment climate within the bioscience sector remains sluggish as the lack of good exits is deterring some investors and making many major VC groups more cautious about prospects and therefore valuations. Despite this, a number of the investees have secured additional funding during the year, reflecting their intrinsic value, and where appropriate your Board has made follow on investments rather than risk suffering dilution.

Using the Investment Template described in the circular of 9 July 2007 provides a simple means of ensuring that we are supporting companies with a clear view of their future.

We remain confident about delivering value to shareholders over the three to five year period referred to in the circular dated 9 July 2007. This confidence is based on the quality of the management teams within the portfolio and the Hygea structure of the Board and the Commercial Advisory Committee.

Investment Management

Following the passing of the resolutions at our Extraordinary General Meeting on 30 July 2007, the Board has assumed responsibility for investment management. This has led to a reduction in our expenses which have fallen from £249,000 in 2006 to £193,000 in 2007. This latter figure includes the investment management fee for the period to 30 July 2007 as well as costs associated with the EGM. Your Board is therefore confident on an ongoing basis that normal running expenses of the Company will be less than 3% of NAV per annum on the basis of our current net asset value.

NAV

As stated above, the net asset value at 31 December 2007 was 61.2p. We have taken the opportunity to increase the value of our holding in DxS Limited where significant progress has been made during the year and we are valuing the holding in line with the value attributed by the syndicate leader. As I have said before, BVCA valuation guidelines have not allowed us to attribute significantly higher values to other unquoted investments at this stage despite encouraging progress which is being made by many of them and which is referred to in the Investment Review. Our AIM holdings are valued at bid price at 31 December 2007.

Share issue

The board has decided to take advantage of its authority to make a top-up issue of up to 750,000 shares at 50p, following interest shown by existing shareholders and other parties. If fully subscribed, this issue will raise in excess of £360,000 net of expenses. The purpose of the issue is to provide the Company with additional investment monies for existing investee companies and working capital. UK taxpayers should receive 30% tax relief on applications. Existing shareholders will be given priority over other applicants and applications will close on 30 April 2008, with an earlier allotment of shares being made on 2 April 2008 to assist those earlier subscribers looking to qualify for tax relief in respect of the 2007/08 tax year. Whilst the issue price represents a discount to net asset value of some 18%, in view of the modest size of the issue, your Board believes the overall dilution to be reasonable.

Chairman's Statement (continued)

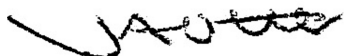
The current share price has continued to reflect a large discount to net asset value mainly due to the Board's policy of not repurchasing shares in the market. However it is pleasing to note that third parties, including the Board, have purchased shares in the market.

VCT Qualifying Status

PricewaterhouseCoopers LLP continues to provide the Board with advice on the ongoing compliance with HM Revenue & Customs' rules and regulations concerning VCTs and have advised the Board that Hygea VCT is in compliance with the conditions laid down.

Outlook

During 2007, we took steps to reduce the running costs of the Company and we believe we now have a portfolio of unquoted companies which will drive the net asset value per share forward over the next two to four years. At least three of our companies have plans to obtain a quote on AIM or PlusMarkets in 2008 or 2009 depending on market conditions. This should allow us to recognise an increase in value. The listing of some of our holdings should also allow us to realise value and recommence distributions to shareholders.



James Otter
Chairman

17 March 2008

Investment Review

Review of portfolio

Most of the portfolio companies are developing MedTech products and/or services providing better patient outcomes at lower total cost. At a time when the economic background is challenging and the average age of populations is rising, well run companies with these characteristics continue to provide the opportunity for attractive returns, partly due to their total offering being even more financially compelling for customers in the current environment.

During 2007, the Company made two new investments, EpiStem plc and Omega Diagnostics plc, increased its holding in four unquoted companies and realised eight of its AIM quoted holdings.

Since the year end the Company has subscribed a further £100,000 in further rounds for both Hallmarq and Prosurgics and £36,865 for a further funding round for Insense.

Investment portfolio

	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 December 2007 (£'000)
Unquoted Qualifying Investments			
ImmunoBiology Limited	600	244	844
Scancell Limited	725	–	725
DxS Limited	325	236	561
Prosurgics Limited	390	(5)	385
Wound Solutions Limited	350	–	350
Hallmarq Veterinary Imaging Limited	785	(447)	338
Insense Limited	245	59	304
BioAnaLab Limited	279	–	279
Glide Pharmaceutical Technologies Limited	105	173	278
Purely Proteins Limited	372	(372)	–
Total unquoted qualifying investments	4,176	(112)	4,064
AIM-listed Qualifying Investments			
EpiStem Holdings plc	61	16	77
Stem Cell Sciences plc	250	(177)	73
York Pharma plc	90	(26)	64
Omega Diagnostics plc	75	(30)	45
Phoqus plc	150	(115)	35
Total AIM-listed qualifying investments	626	(332)	294
Total investments	4,802	(444)	4,358

Investment Review (continued)

Ten largest holdings

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

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. During the year the Company subscribed £300,000 for further shares.

Initial investment	November 2005
Cost	£600,000
Valuation at 31 December 2007	£844,000
Basis of valuation	Last funding round
Equity held	6%
Website	www.immbio.com

Audited financial information	Period ended 31 May 2006
	£000's
Sales	28
Loss before tax	(495)
Retained losses	(495)
Net assets	1,213

Scancell Limited

Scancell is a Nottingham-based biotechnology company that is developing a pipeline of drugs to target various types of cancer. Its accounts for the year to 30 April 2007 reflect the sale of its pipeline of antibodies in a deal that had a total value of up to £4.85 million.

Initial investment	December 2003
Cost	£725,000
Valuation at 31 December 2007	£725,000
Basis of valuation	Cost
Equity held	13%
Website	www.scancell.co.uk

Audited financial information	Period ended 30 April 2007
	£000's
Sales	2,176
Profit before tax	1,039
Retained profit	891
Net assets	1,432

Investment Review (continued)

DxS Limited

DxS is a leading provider of genetic analysis services to pharmaceutical companies and contract research organisations. The company's services include the provision of genetic testing using single nucleotide polymorphism technology and DNA extraction and banking. David Evans who is Chairman of a number of AIM quoted healthcare diagnostic companies is Chairman of DxS. During 2007 DxS won a \$1.2 million order from a major US pharmaceutical company.

Initial investment	April 2004
Cost	£325,500
Valuation at 31 December 2007	£561,100
Basis of valuation	Fair value
Equity held	8%
Website	www.dxsgenotyping.com

Audited financial information	Period ended 30 June 2006
	£000's
Sales	1,164
Loss before tax	(502)
Retained losses	(456)
Net assets	(2,934)

Prosurgics Limited

Prosurgics is a leading image-guided surgical robotics company. The key progress during the year has been in developing Version 2 of the camera holding robot for keyhole surgery – this will be much cheaper and smaller than Version 1, with the added advantage of generating recurring revenue through incorporating a consumable – commercial launch is due in Q4 2008, with the benefit of Prosurgics already having an established position in this market.

Initial investment	January 2006
Cost	£390,000
Valuation at 31 December 2007	£385,000
Basis of valuation	Last funding round
Equity held	7%
Website	www.prosurgics.com

Audited financial information	Year ended 31 December 2006
	£000's
Sales	209
Loss before tax	(1,297)
Retained losses	(1,297)
Net assets	265

Investment Review (continued)

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 2007	£350,000
Basis of valuation	Cost
Equity held	3%
Website	www.woundsolutions.com

Audited financial information	Period ended 30 June 2006
	£000's
Sales	nil
Loss before tax	(926)
Retained losses	(926)
Net assets	3,330

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 Version 2 of the scanner, which has had a significant beneficial impact on growth in scan fees (the key performance indicator).

Initial investment	August 2005
Cost	£785,000
Valuation at 31 December 2007	£338,000
Basis of valuation	Last funding round
Equity held	8%
Website	www.hallmarq.net

Audited financial information	Year ended 31 August 2007
	£000's
Sales	2,008
Adjusted loss before tax	(792)
Retained losses	(1,522)
Net assets	1,026

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	£245,000
Valuation at 31 December 2007	£304,000
Basis of valuation	Last funding round
Equity held	3%
Website	www.insense.co.uk

Audited financial information	Year ended 31 December 2006
	£000's
Sales	15
Loss before tax	(1,033)
Retained losses	(1,033)
Net assets	252

Investment Review (continued)

BioAnaLab Limited

BioAnaLab is a leader in the provision of specialist analytical services to pharmaceutical and biotechnology companies in the growing sector of biopharmaceuticals. Its sales in the year to 31 October 2007 grew 59%.

Initial investment	May 2005
Cost	£278,600
Valuation at 31 December 2007	£278,600
Basis of valuation	Cost
Equity held	14%
Website	www.bioanalab.com

Audited financial information	Year ended 31 October 2007
	£000's
Sales	1,843
Profit before tax	236
Retained profit	233
Net assets	984

Glide Pharmaceutical Technologies Limited

Glide Pharma has developed a needle-free drug delivery technology known as Glide 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.

Initial investment	November 2005
Cost	£105,000
Valuation at 31 December 2007	£277,500
Basis of valuation	Last funding round
Equity held	2%
Website	www.glidepharma.com

Audited financial information	Year ended 31 March 2007
	£000's
Sales	45
Loss before tax	(1,686)
Retained losses	(1,475)
Net assets	649

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.

Initial investment	April 2007
Cost	£61,700
Valuation at 31 December 2007	£77,400
Basis of valuation	Bid price
Equity held	<1%
Website	www.epistem.co.uk

Audited financial information	Year ended 30 June 2007
	£000's
Sales	1,357
Loss before tax	(1,196)
Retained losses	(1,037)
Net assets	2,597

Investment Review (continued)

Disposals

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

Realisations	Carrying value at 31 December 2006 (£'000)	Cost of investment realised (£'000)	Proceeds of investment (£'000)	Total gain/(loss) (£'000)
ReNeuron Group plc	195	93	175	83
BBI Holdings plc	120	76	153	77
NeutraHealth plc	274	362	416	55
York Pharma plc	95	10	13	3
Plethora Solutions Holdings plc	69	81	65	(17)
Cobra Bio-manufacturing plc	62	125	68	(58)
DawMed Systems plc	34	101	28	(73)
Evolutec Group plc	43	347	41	(306)
Angel Biotechnology Holdings plc	79	750	54	(696)
TOTAL	971	1,945	1,013	(932)

Shareholder Information

The Company

Hygea plc is a 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 invest in a broad range of unquoted and AIM-quoted MedTech companies in order to generate capital growth over the long-term.

Venture Capital Trusts ("VCT")

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

Hygea has been provisionally approved as a VCT by HM Revenue & Customs (HMRC). Full approval may be sought this year. 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. With the exception of changes to the VCT Rules which affect the additional shares which may be issued in Hygea (as explained below), a "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted Company (including companies listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment. The Company has continued its compliance with these requirements.

There were a number of changes to the VCT Rules announced in the 2006/07 Budget which relate to new VCTs, and further shares issued in existing VCTs, including Hygea. These changes include:

- upfront income tax relief of 30% if the shares are held for 5 years (20% and 3 years up to 5 April 2004; 40% and 3 years up to 5 April 2006);
- exemption from income tax on dividends paid;
- exemption from capital gains tax on disposals of shares; and
- "qualifying holdings" of up to £1 million invested in any one year in new shares or securities in an unquoted company (including companies listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £7 million prior to investment and £8 million after.

Investment Policy

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 change be deemed appropriate this will be done with shareholders' approval and in accordance with the Listing Rules.

Risk Management and Borrowing

The Directors control the overall risk of the portfolio by ensuring that the Company has exposure to a diversified range of AIM-quoted and unquoted companies from the MedTech sector. In order to limit the risk to the portfolio that is derived from any particular investment, no more than 15% of the Company will be invested in any one investment and investments will not exceed the upper limit of £1 million per year. The Directors will continually monitor the investment process and ensure compliance with the investment policy. During the year, the Company arranged an overdraft facility with the Royal Bank of Scotland up to the amount of £100,000.

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

Financial Calendar

The Company's financial calendar is as follows:

22 July 2008	–	Annual General Meeting
August 2008	–	Six-monthly results to 30 June 2008 published
April 2009	–	Annual report for year to 31 December 2008 published

Shareholder Information (continued)

Share Price and Buy-back Facility

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
John Hustler
Charles Breese

Registered Office

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

Company Secretary

Neil Osmond
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
10-12 Cophall Avenue
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 (50 – Chairman) leads a bioscience start-up business for Defence Science Technology Laboratories (Porton Down) and sits on the advisory board to the ICENI seed fund serving academic institutions in East Anglia. He is Chief Executive of Hallmarq Veterinary Imaging Limited and a non-executive Director of Novacta Biosystems, an ICENI investee, specialising 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, and working on several turnaround projects. The bulk of his career was spent in international commercial roles with Zeneca Agrochemicals (formally, ICI and now Syngenta). Mr Otter has an MBA from INSEAD and a degree in Natural Sciences from Cambridge.

Charles Breese (61 – Director) is a director of Octopus. He has 25 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 (61 – 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 3 VCT plc, Octopus Titan 2 plc and Spectrum Syndicate Management Limited and a director of Northern Venture Trust plc.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

Activities and status

The principal activity of the Company is investing in unquoted and AIM-quoted MedTech companies.

The Company is an investment company as defined in S266 of the Companies Act 1985, has been granted provisional approval as a VCT by HM Revenue & Customs, and has been listed on the Main Market of the London Stock Exchange since April 2002. The accounts have been drawn up in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance).

The Directors have managed the affairs of the Company with the intention of maintaining its status as an approved VCT for the purposes of S842AA of the Income and Corporation Taxes Act 1988. The Company was not at any time up to the date of this report a close company within the meaning of S414 of the Act.

Review of Business Activities

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 AIM-quoted UK MedTech companies which meet the relevant criteria under the VCT Rules. 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 All Share Index. This index has 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 the other VCTs. The Chairman's Statement, on pages 3 to 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 10. Further details of the Company's risk management policies are provided in note 14 to the financial statements.

Dividends

During the year no dividends were paid (2006: nil).

Directors

According to the register of Directors' interests, the Directors of Hygea VCT plc during the year and their interests in the issued Ordinary Shares of 50p were as follows:

	31 December 2007	31 December 2006
Mr J Otter (Chairman)	8,050	8,050
Mr C Breese	5,000	5,000
Mr J Hustler	50,000	15,000
Mr M Andrews	–	4,989

There have been no changes in the Directors' share interests between 31 December 2007 and the date of this report.

Mr M Andrews tendered his resignation on 9 November 2006 and continued to serve the Company during his notice period which ended on 9 February 2007.

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

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

Directors' and officers' liability insurance

The Company has, as permitted by s309A of the Companies Act 1985, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Directors' Report (continued)

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 2007 there was £7,000 of trade creditors (2006: £nil).

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.

Open offers and offers for subscription

During the year to 31 December 2007, no shares were issued or allotted (2006: nil). Under the authority granted at the 2007 AGM, the Board is seeking applications for up to 750,000 shares (10% of the outstanding share capital) at 50p per share from shareholders and certain other sophisticated investors.

Purchase and cancellation of own shares

During the year to 31 December 2007, the Company did not purchase any shares for cancellation (2006: 66,202 at 60p per share).

Fixed assets

Movements in fixed asset investments during the year are set out in note 8 to the financial statements.

International Financial Reporting Standards ('IFRS')

As the Company is not part of a group it is not mandatory for it to comply with IFRS. Additionally, the Company does not anticipate that it will voluntarily adopt IFRS.

Substantial shareholdings

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

Annual General Meeting

Notice convening the 2008 annual general meeting of the Company and a form of proxy in respect of that meeting can both be found at the end of this document. The items of special business set out in the Notice can be summarised as follows:

Resolution 5 – renewal of directors' authority to allot shares

Resolution 5, 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 6 – disapplication of pre-emption rights

Resolution 6, which is proposed as a special resolution, supplements the directors' authority to allot shares in the Company conferred by Resolution 5. 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' Report (continued)

Resolution 7 – purchase of ordinary shares by the Company

Resolution 7, which is proposed as a special resolution, will, if passed, authorise the Company to purchase in the market up to 1,128,776 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.

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.

By order of the Board



Neil Osmond
Secretary
17 March 2008

Directors' Remuneration Report

Introduction

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 December 2007.

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 are expected from time to time to review the fees paid to the boards of directors of other VCTs).

Statement of the Company's policy on Directors' remuneration

The Board consists of three Directors, who are responsible for the management of the Company, assisted by the Commercial Advisory Committee, and they meet as necessary to carry out their management responsibilities. Directors are appointed with the expectation that they will serve for a period of three years. Directors' appointments are reviewed formally every three years thereafter on their retirement by rotation by the Board as a whole.

None of the Directors has a service contract. Each Director has a notice period of three months and a Director may resign by notice in writing to the Board at any time. None of the Directors is entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

The Chairman receives fees of £15,000 per annum. The other Directors receive fees of £10,000 per annum. The Company's Articles of Association limit the total fees payable to the Directors to £75,000 per annum.

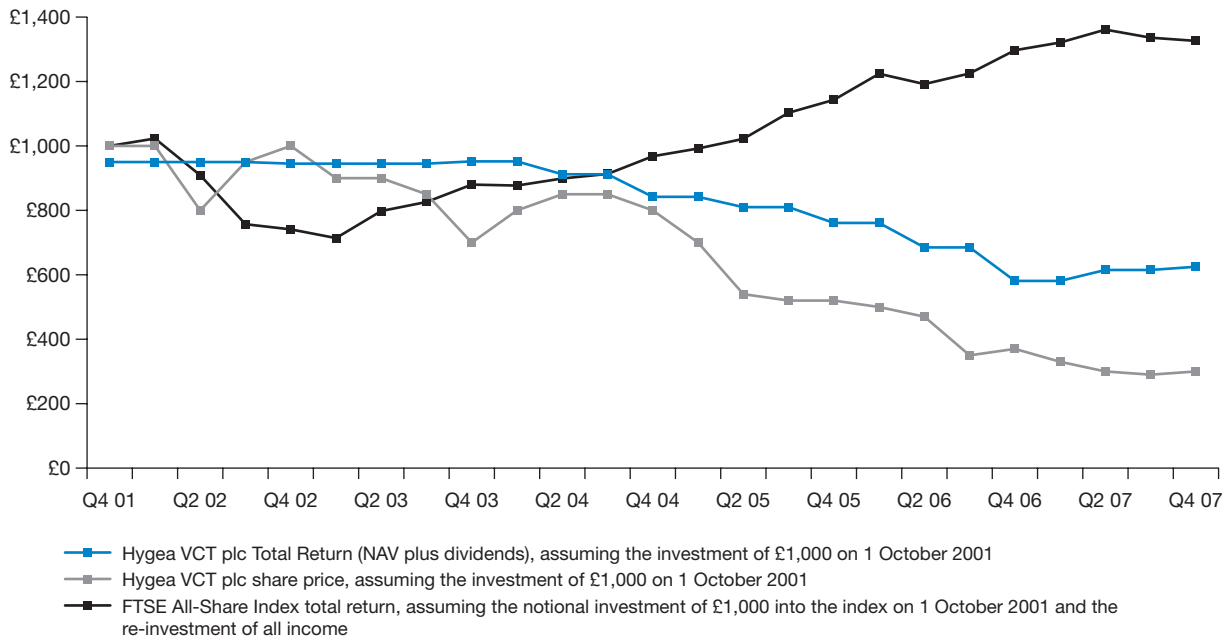
The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board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

Company performance

The graph below compares the total return (NAV plus dividends) and share price of the Company over the period from October 2001 to December 2007 with the total return from a notional investment in the FTSE All Share index. This index is considered to be the most appropriate broad equity market index for comparative purposes. This underperformance is to be expected at this stage of the portfolio's development (the majority of the investments were made in 2004 and 2005), but the board remains confident regarding the likelihood that the performance of the portfolio will recover over the next five years.

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

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

	Year ended 31 December 2007	Year ended 31 December 2006
Mr J Otter (Chairman)	£15,000	£15,000
Mr C Breese	£10,000	£10,000
Mr J Hustler	£10,000	£10,000
Mr M Andrews	£1,100	£10,000
Total	£36,100	£45,000

During the year, the Company paid Mr M Andrews up to the end of this resignation notice period (which expired on 9 February) the fees as shown above.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no service contracts, 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.

Performance Fee

The Directors participating in the Commercial Advisory Committee are entitled to benefit from a performance fee which amounts to 20 per cent of all distributions to shareholders in excess of 80p per share, as further detailed in the section entitled, "Commercial Advisory Committee" in the Corporate Governance section.

By order of the Board

Neil Osmond
Secretary
17 March 2008

Corporate Governance

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

Board of Directors

The Company has a Board of three Directors which meets regularly as required to carry out its responsibilities in managing the Company. There is no independent investment manager of the Company although management and responsibility for the Company's portfolio has been delegated to the "Commercial Advisory Committee" (see below). All the Directors are on the Commercial Advisory Committee. The Board has a formal schedule of matters specifically reserved for its decision, including investment decisions. The Board meets regularly, at least on a quarterly basis.

During the year the following were held:

9 full board meetings

All Directors attended all meetings

2 Audit Committee meetings

All Members attended

A brief biographical summary of each Director is given on page 14.

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

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

Audit Committee:

Mr J Hustler (Chairman)
Mr C Breese

The audit committee, chaired by Mr Hustler, consists of two Directors. The audit committee believes Mr Hustler possesses appropriate and relevant financial experience. The committee deals with matters relating to audit, financial reporting and internal control systems. It is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board as to the appointment and remuneration of the external auditors. The committee meets twice per year and has had direct access to Hyman Capital Services Limited, the Company's auditors. The audit committee has reviewed the non audit services provided by the external auditors and does not believe they are sufficient to influence their independence or objectivity.

The terms of reference of the committee and the responsibility delegated to it has been formally documented and approved by the Board and can be viewed by shareholders at the Company's registered office. The audit committee has discharged its responsibilities through: review of the draft financial statements and interim results; review of accounting policies; review of systems of internal control and their effectiveness; and review of the independence and objectivity of the external auditors. The audit committee has not considered it necessary to develop a formal policy on the engagement of the external auditor to supply non audit services as all such services are approved by a non-executive Director.

As the Company does not have an independent investment manager, the Board do not consider it a requirement to have whistle blowing procedures in place.

Nomination Committee:

Mr J Hustler (Chairman)
Mr C Breese

The nomination committee considers the selection and appointment of Directors and makes recommendations to the Board as to the level of Directors' fees. It has not yet been necessary for this committee to meet and so terms of reference will be agreed if and when appropriate. The Board does not have a separate remuneration committee as the Company has no employees or executive Directors. Detailed information relating to the remuneration of Directors is given in the Directors' remuneration report.

Corporate Governance (continued)

Commercial Advisory Committee:

Mr C Breese (Chairman)
Mr J Hustler
Mr J Otter

The Commercial Advisory Committee was formed and constituted on 30 July 2007 immediately following the extraordinary general meeting at which the shareholders resolved to support the change in investment manager to the Board's management of the Company,

The Committee will be responsible for the management of all the assets of the Company (including, without limitation, the AIM-quoted and unquoted investments, other securities, contractual entitlements of any description and uninvested cash) and in particular the developing and mentoring of those portfolio companies which, in the opinion of the Board and/or Committee, show potential for significant growth in value.

The Committee shall be entitled to receive a performance incentive fee which shall be 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).

The Committee shall meet at least four times a year in person and more frequently as required.

Internal Control

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

Octopus Investments Limited is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments. Quoted investments are held in Crest. Octopus regularly reconciles the client asset register with the physical documents.

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.

Risk Management

The Company invests its funds primarily in early stage UK smaller companies within the MedTech sector, which by their nature may entail a higher degree of risk than investments in larger quoted companies. The Directors aim to limit this risk through careful selection in, and spread of, investments.

Octopus Investments Limited, in its role as Administration Manager, carries out management of liquid funds in accordance with the policy guidelines laid down and regularly reviewed by the Board. In general the guidelines require that uninvested cash will be held in money market securities.

The Company has arranged an overdraft facility in the amount of £100,000 with the Royal Bank of Scotland. The Company has not entered into derivative transactions.

Corporate Governance (continued)

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law 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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Under applicable law and regulations, the Directors are responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Report 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 set out on their website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Going Concern

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

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the Annual General Meeting. In addition to the formal business of the AGM, the Board is available to answer any questions a shareholder may have. Information about the Company and its underlying investments can also be found at the Company's website: www.hygeavct.com

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.

Corporate Governance (continued)

Compliance Statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting year. 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 2007 with the provisions set out in Section 1 of the Combined Code 2006.

1. The non-executive directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.
2. 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.
3. Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its committees, the individual directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise.
4. The Company does not have a remuneration committee as there are no executive directors.
5. The Company does not conduct a formal review as to whether there is a need for an internal audit function. The Directors do not consider that an internal audit would be an appropriate control for a Venture Capital Trust.
6. The 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.
7. 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.
8. All the Directors are involved in the Company's investment management through the Commercial Advisory Committee. The Board considers that all directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code.

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 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in cash resources, the reconciliation of operating profit before taxation to cash flow from operating activities, and notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 Auditor

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

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

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Investment Review 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 2006 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. This other information comprises only the Financial Summary, Chairman's Statement, Details of Directors, Shareholder Information, Investment Review, Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

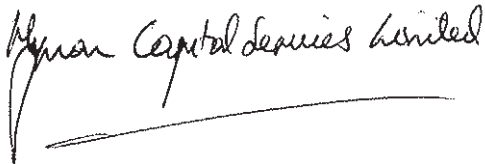
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from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

Report of the Independent Auditor (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 2007 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 for the year ended 31 December 2007.

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

Hyman Capital Services Limited

Chartered Accountants and Registered Auditors
25 Duke Street
London
W1U 1LD

17 March 2008

Profit & Loss Account

For the year ended 31 December 2007

	Notes	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments	8	-	124	124
Unrealised gain on fair value of fixed asset investments	8	-	378	378
Unrealised gain/(loss) on fair value of current asset investments	8	-	4	4
Other income	2	1	-	1
Investment management fees	3	(10)	(28)	(38)
Other expenses	4	(155)	-	(155)
Profit on ordinary activities before tax		(164)	478	314
Taxation on profit on ordinary activities	5	-	-	-
Profit on ordinary activities after tax		(164)	478	314
Earnings/(loss) per share – basic and diluted	6	(2.2)p	6.4p	4.2p

- The 'Total' column of this statement is the profit and loss account of the Company
- All revenue and capital items in the above statement derive from continuing operations
- The accompanying notes are an integral part of the financial statements

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

Profit & Loss Account

For the year ended 31 December 2006

	Notes	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments		-	82	82
Unrealised gain on fair value of fixed asset investments		-	(1,199)	(1,199)
Other income	2	21	-	21
Investment management fees	3	(21)	(61)	(82)
Other expenses	4	(167)	-	(167)
Profit on ordinary activities before tax		(167)	(1,178)	(1,345)
Taxation on profit on ordinary activities	5	-	-	-
Profit on ordinary activities after tax		(167)	(1,178)	(1,345)
Earnings per share – basic and diluted	6	(2.2p)	(15.6p)	(17.8p)

- The 'Total' column of this statement is the profit and loss account of the Company
- All revenue and capital items in the above statement derive from continuing operations
- The accompanying notes are an integral part of the financial statements

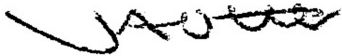
The Company has no recognised gains or losses other than the results for the year as set out above.

Balance Sheet

	Notes	31 December 2007 £'000	31 December 2006 £'000
Fixed asset investments	8	4,358	4,156
Current assets:			
Debtors	9	3	77
Cash at bank		272	94
		275	171
Creditors: amounts falling due within one year	10	(25)	(33)
Net current assets		250	138
Net assets		4,608	4,294
Called up equity share capital	11	3,765	3,765
Share Premium	12	1,722	1,722
Special distributable reserve	12	1,660	1,660
Capital redemption reserve	12	38	38
Capital reserve – realised	12	(1,474)	(513)
– unrealised	12	(440)	(1,879)
Revenue reserve	12	(663)	(499)
Total equity shareholders' funds		4,608	4,294
Net asset value per share	7	61.2p	56.8p

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

The financial statements were approved by the Directors and authorised for issue on 17 March 2008 and are signed on their behalf by:



Mr J Otter
Chairman

Cash Flow Statement

For the year ended 31 December

	Notes	31 December 2007 £'000	31 December 2006 £'000
Net cash (outflow)/inflow from operating activities		(122)	(390)
Financial investment:			
Purchase of investments	8	(713)	(1,068)
Sale of investments	8	1,013	223
Financing:			
Repurchase of own shares		–	(40)
Increase in cash resources		178	(1,275)

Reconciliation of Net Cash Flow to Movement in Cash Resources

	31 December 2007 £'000	31 December 2006 £'000
Increase/(Decrease) in cash resources	178	(1,275)
Movement in liquid resources	–	–
Opening net cash resources	94	1,369
Net cash at 31 December	272	94

Net cash at 31 December comprised:

	31 December 2007 £'000	31 December 2006 £'000
Cash at Bank	161	(13)
Money Market Funds	111	107
Net cash at 31 December	272	94

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

	31 December 2007 £'000	31 December 2006 £'000
Profit/(Loss) on ordinary activities before tax	314	(1,345)
Unrealised (gain)/loss on investments	(378)	1,199
Realised gains on investments	(124)	(82)
Decrease/(Increase) in debtors	74	(64)
Decrease in creditors	(8)	(98)
	(122)	(390)

Notes to the Financial Statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments, and in accordance with applicable accounting standards in the UK.

The principal accounting policies have remained unchanged from those set out in the Company's 2006 annual report and financial statements.

The accounts have been drawn up in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance).

The functional currency of the company is GBP.

Investments

The Company invests in financial assets with a view to profiting from their total return through income and capital growth. These investments are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy. Accordingly as permitted by FRS 26, the investments are designated as fair value through profit or loss ("FVTPL"). Unrealised gains or losses on valuation are recognised through the profit and loss account. Investments are initially held at cost with all transaction costs written off through the profit and loss account at the time of transaction.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

Investments are recognised as financial assets on legal completion of the investment contract and are de-recognised on legal completion of the sale of investment.

It is not the Company's policy to exercise control or significant influence over investee companies. Therefore, in accordance with the exemptions under FRS 9, those investments in which the Company holds more than 20 per cent of the equity are not regarded as associated undertakings.

Income

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

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

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue within the income statement with the exception of expenses incidental to the acquisition or disposal of an investment which are charged to capital and investment management fees which have been charged 25% to revenue and 75% to capital.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The tax relief attributable to the Company on its management and administrative costs is allocated between revenue and capital according to the marginal basis whereby revenue expenses are matched first against taxable income arising in the revenue account; the effect of this is that a tax credit is shown for deductible expenses in the capital account necessary to offset otherwise taxable income in the revenue account.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by "FRS 19 Deferred Tax".

Notes to the Financial Statements (continued)

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital reserve – unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year-end;
- unrealised exchange differences of a capital nature.

Cash and liquid resources

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

2. Income

	31 December 2007 £'000	31 December 2006 £'000
Interest receivable on money market securities and bank balances	–	21
Dividend income	1	–
	1	21

3. Management fees

	31 December 2007			31 December 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	8	24	32	18	52	70
Irrecoverable VAT thereon	2	4	6	3	9	12
	10	28	38	21	61	82

Octopus provided investment management services to the Company under an agreement which was cancelled by mutual agreement on 30 July 2007. The management fee was payable quarterly in advance and was based on 1.25% of the net asset value calculated annually at 31 December.

Notes to the Financial Statements (continued)

4. Other expenses

	31 December 2007 £'000	31 December 2006 £'000
Accounting and administration services	25	26
Directors' remuneration	36	45
Fees payable to the Company's auditor for the audit of the financial statements	6	10
Fees payable to the Company's auditor for other services – tax compliance	1	3
Legal and professional expenses	67	31
Other expenses	20	52
	155	167

Information on the Director's remuneration is given in the Director's Remuneration Report on pages 18 to 19.

Legal and professional fees include legal expenses in respect of secretarial services, corporate advice, registrars fees and assistance regarding investment agreements and tax advice in respect of VCT compliance.

5. Tax on ordinary activities

The corporation tax charge for the year was £nil (2006: £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% (2006: 19%). The differences are explained below.

	31 December 2007 £'000	31 December 2006 £'000
Current tax reconciliation:		
Profit/(loss) on ordinary activities before tax	(164)	(167)
Current tax at 20% (2006: 19%)	(33)	(32)
Unrecognised tax losses	33	32
Total current tax charge	–	–

At 31 December 2007 the Company had surplus management expenses of £1,228,000 (2006: £1,043,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of the existing surplus expenses.

6. Earnings/loss per share

The revenue loss per share is based on loss after tax of £(164,000) (2006: £(167,000)) and on 7,530,191 (2006: 7,555,017) shares, being the weighted average number of shares in issue during the year.

The total gain/(loss) per share is based on gain/(loss) after tax of £314,000 (2006: £(1,345,000)) and on 7,530,191 (2006: 7,555,017) shares, being the weighted average number of shares in issue during the year.

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

7. Net asset value per share

The calculation of net asset value per share as at 31 December 2007 is based on net assets of £4,608,000 (2006: £4,294,000) divided by the 7,530,191 (2006: 7,530,191) shares in issue at that date.

Notes to the Financial Statements (continued)

8. Fixed asset investments

	Unquoted investments £'000	AIM-quoted investments £'000	Total £'000
Valuation and net book amount:			
Book cost as at 1 January 2007	3,602	2,433	6,035
Unrealised gains at 1 January 2007	(640)	(1,239)	(1,879)
Valuation at 1 January 2007	2,962	1,194	4,156
Movement in the year:			
Purchases at cost	573	140	713
Disposal proceeds	–	(1,013)	(1,013)
Profit on realisation of investments – current year	–	124	124
Unrealised gain in year	529	(151)	378
Valuation at 31 December 2007	4,064	294	4,358
Book cost at 31 December	4,176	626	4,802
Revaluation to 31 December	(112)	(332)	(444)
Valuation at 31 December 2007	4,064	294	4,358

All AIM-quoted investments are in ordinary shares with full voting rights. Unquoted investments are in ordinary shares with full voting rights with the exception of DxS Limited and Hallmarq Veterinary Imaging Limited where a proportion of the investment is held in loan stock.

Current assets comprising money market funds had an unrealised gain of £4,000 at the year end.

Further details of the fixed asset investments held by the Company are shown within the Investment Review on pages 5 to 10.

9. Debtors

	31 December 2007 £'000	31 December 2006 £'000
Prepayments	3	73
Accrued income	–	4
	3	77

10. Creditors: amounts falling due within one year

	31 December 2007 £'000	31 December 2006 £'000
Accruals	17	33
Trade creditors	7	–
Tax and social security	1	–
	25	33

11. Share capital

	31 December 2007 £'000	31 December 2006 £'000
Authorised:		
Equity – 50,000,000 Ordinary shares of 50p	25,000	25,000
Allotted and fully paid up:		
Equity – 7,530,191 Ordinary shares of 50p (2006: 7,530,191)	3,765	3,765

Notes to the Financial Statements (continued)

12. Reserves

	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue Reserve £'000
As at 1 January 2007	1,722	1,660	38	(513)	(1,879)	(499)
Profit on ordinary activities after tax	-	-	-	-	-	314
Capitalisation of management fees	-	-	-	(28)	-	28
Prior period unrealised gains/losses now realised	-	-	-	(1,057)	1,057	-
Realised gains on investments due to current period	-	-	-	124	-	(124)
Unrealised gains on investments	-	-	-	-	382	(382)
Balance at 31 December 2007	1,722	1,660	38	(1,474)	(440)	(663)

13. Reconciliation of movements in shareholders' funds

	31 December 2007 £'000	31 December 2006 £'000
Shareholders' funds at 1 January	4,294	5,679
Profit/(loss) on ordinary activities after tax	314	(1,345)
Repurchase of own shares	-	(40)
Balance at 31 December	4,608	4,294

14. Financial instruments

Management of risk

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

The Company's financial instruments may comprise:

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

The main risks arising from the Company's financial instruments are fluctuations in market price for quoted investments and fluctuations in valuations, for unquoted investments and money market securities.

Market price risk

Market risk embodies the potential for both losses and gains and includes interest rate risk and price risk.

The Company is not significantly impacted by interest rate risk.

The Company's strategy on the management of investment risk is driven by the Company's investment objective. The management of market price risk is part of the investment management process and is typical of private equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AIM-quoted companies, by their nature, involve a higher degree of risk than investments in the main market.

Liquidity risk

The Company's financial instruments include investments in unquoted equity investments which are not traded on an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the credit worthiness of any particular issuer.

The Company's quoted securities are considered to be readily realisable as they are all quoted on AIM at year end.

Notes to the Financial Statements (continued)

Interest rate risk

The Company finances its operations through share capital raised and retained profits including both realised and unrealised profits. At the year end and throughout the year, the Company had no liabilities that were subject to interest rate risk. At the year end the Company had an unused bank facility of £100,000.

Fair values of financial assets and liabilities

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

15. Related party transactions

During the year, the following related party transactions were formally approved by the shareholders in general meeting:

1. the appointment of the Board as the investment manager of the Company in place of Octopus Investments Limited;
2. the approval of a performance incentive fee entitling the Directors 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); and
3. the approval of a deed of variation entered into by the Company and Octopus Investments Limited setting out the revised terms of engagement of the latter in its provision of administrative and other services to the Company.

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, 22 July 2008 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 2007 and the Directors' and Auditor's reports thereon.
2. To approve the Directors' Remuneration Report.
3. To re-elect Mr J Hustler 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 an Ordinary Resolution and Resolutions 6 and 7 as Special Resolutions:

5. **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.
6. **EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES**
 THAT conditional upon the passing of Resolution 5 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 5 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)

7. AUTHORITY TO MAKE MARKET PURCHASES

THAT the Company generally and unconditionally authorised, pursuant to Section 166 of the Act, to make market purchases (as defined in Section 163 of the Act) of up to 1,128,776 in the capital of the Company (being 14.99% of the present issued share capital) on such terms and in such manner as the Directors of the Company may from time to time determine, provided that the amount paid for each share (exclusive of expenses) shall not be more than 5% above the average of the middle market quotation for the Company's Ordinary Shares as derived from the Daily Official List of London Stock Exchange plc for the 5 business days before the purchase is made, and in any event not less than 10 pence per Ordinary Share; and the authority herein contained shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months following the passing of this Resolution 7, whichever is the first to occur, provided that the Company may, before such expiry, make a contract to purchase its own shares which would or might be executed wholly or partly after such expiry, and the Company may make a purchase of its own shares in pursuant of such contract as if the authority hereby conferred had not expired.

By order of the Board



Neil Osmond
Secretary

8 Angel Court
London
EC2R 7HP

17 March 2008

NOTES:

- (a) A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member.
- (b) A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the Company, **Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent, BR3 4BR** so as to be received by no later than 48 hours before the time the annual general meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the annual general meeting.
- (c) Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company kept in accordance with Section 325 of the Companies Act 1985 and a copy of the Memorandum and Articles of Association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the Annual General Meeting, and for at least 15 minutes prior to the commencement of the meeting until its conclusion.

Proxy Form

Hygea VCT plc Annual General Meeting – 22 July 2008

I/We
(BLOCK CAPITALS PLEASE)

of

being a member of Hygea VCT plc, hereby appoint

of.....

or failing him/her the Chairman of the meeting to be my/our proxy and vote for me/us on my/our behalf at the annual general meeting of the Company to be held on 22 July 2008, notice of which was sent to shareholders with the directors' report and the accounts for the year ended 31 December 2007, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting:

Resolution number	FOR	AGAINST	WITHHELD
1. To receive and adopt the financial statements for the year to 31 December 2007	<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 Mr J Hustler as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Hyman Capital Services Limited as Auditor of the Company and to authorise the directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors to allot shares under Section 80 of the Companies Act 1985 (Ordinary Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To disapply Section 89(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"/>
7. To authorise the Directors to make market purchases of its own shares (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed: Dated: 2008

NOTES

1. To be valid, the proxy form must be received by the Registrars of Hygea VCT plc at, **Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent, BR3 4BR** no later than 48 hours before the commencement of the meeting.
2. 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.
3. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided.
4. 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.
5. 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.
6. The completion and return of this form will not preclude a member from attending the meeting and voting in person.

Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No. MB 122



**Capita Registrars
Proxies Department
PO Box 25
BECKENHAM
Kent BR3 4BR**

First fold

Second fold



