HYGEA VCT PLC

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Contents

Financial summary
For the year ended 31 December 2006

	31 December 2006	31 December 2005
Net assets	£4,294,000	£5,679,000
Net revenue before tax	£(167,000)	£(324,000)
Revenue loss per share*	(2.2)p	(4.3)p
Net asset value per share	56.8p	74.8p

Hygea VCT plc ("Company" or "Fund") is a venture capital trust ("VCT"). The investment manager is Octopus Investments Limited ("Octopus" or the "Manager"). The Company was launched in October 2001 and raised over £7 million (£6.8 million net of expenses) through an offer for subscription. The Company invests in quoted and unquoted bioscience companies and aims to provide attractive long term returns to shareholders.

* based on 7,555,017 (2005: 7,596,393) weighted average shares in issue in the year.

Chairman's statement

I am pleased to present the 2006 annual report to shareholders in Hygea VCT plc.

At 31 December 2006 the Fund had a portfolio of 21 investments with 92.5% of net assets being represented by VCT qualifying holdings.

In 2006 we have seen a mixture of results from our investee companies but, as is usually the case with venture capital funds, the poor results have impacted the overall value of the Fund's holdings before the Fund experiences the significant uplifts that can come from successful investments. In addition, since a substantial number of the investments have been held for less than three years, patience will be needed before the anticipated gains can be realised. Whilst we will take advantage of future investment opportunities as the availability of cash within the Fund allows, our main strategy will be, over time, to reduce the number of holdings in the portfolio and use the cash realised from disposals (mainly of the AIM portfolio) to support the key investments in the unquoted portfolio through to a listing or a trade sale. As a consequence of this, the Board, in conjunction with Octopus, is considering changes to the way the fund is managed and I expect to be writing to you shortly with proposals which will lead to a reduction in our annualised running costs and in time for them to be discussed at the AGM on 12 July 2007. We anticipate that these changes will lead to a further significant reduction in the Fund's overall running costs, while allowing us to gain further access to those skills that we believe will be important in allowing us to generate significant value from the portfolio of investments.

Investment Policy

During 2006, we made a further 3 investments in qualifying companies, taking us to the point where we finished the year with a portfolio of investments in 21 companies, of which 11 are quoted on AIM and 10 are unquoted.

The Board is taking an active role in managing the portfolio. This involves providing investee companies with advice and contacts, as well as working with them to ensure that they achieve the progress that will be required in order for Hygea to generate value from its investments.

Investment Environment

During 2006 and early 2007, there have been a number of acquisitions of UK-based biotechnology companies. This activity has been driven by the need for many pharmaceutical companies to acquire additional compounds to add to their own pipelines of new products. I believe that this points to an environment in which the financial markets are likely to become more aware of the potential upside from investing in smaller UK healthcare and biotechnology companies.

NAV

The Net Asset Value per share ("NAV") as at 31 December 2006 was 56.8p, a decline of 18p compared with the equivalent figure at the end of 2005. Despite the decline in the reported value of the portfolio, many of the portfolio companies made good progress in 2006. In accordance with the valuation guidelines for holdings in unquoted companies, we were able to increase the carrying value of our holdings in three unquoted companies (Scancell Ltd, Insense Ltd and Prosurgics Ltd). However, we reduced the carrying value of our holdings in two unquoted companies (Hallmarq Veterinary Imaging Ltd and Purely Proteins Ltd) where progress has not been in line with our original expectations. Many of our unquoted holdings are still held at cost as, despite good progress in developing their businesses, they have not yet reached a point where the valuation guidelines permit us to write up the value of our holding.

Our holdings in companies quoted on AIM experienced mixed fortunes during 2006. We saw strong share price performance from several of the holdings, but also suffered from the poor performance of a couple of others particularly Evolutec Group plc, where the share price fell 80% following the announcement of the failure of the company's lead product in a clinical trial. The NAV at the end of 2006 was also negatively impacted by the requirement for us to value our AIM-quoted holdings using the bid price, rather than the mid price. Although for most of our holdings this only results in a fairly minor negative impact on the valuation, for holdings where the shares tend to trade on a large spread between the buying and selling prices, the impact can be significant.

More details on our current portfolio are set out in the Investment Manager's Review, which follows.

As a result of the investments that were made during 2006, the Fund only had £94,000 of cash and money market securities at the end of 2006. Therefore, the income that is generated for the Fund from the cash and money market holdings will remain low for the foreseeable future. In addition, due to the nature of the underlying investments, the income that is generated from the portfolio is expected to be small, as few of the holdings pay dividends at present.

Share Price

The Board is aware that investors in VCTs sometimes need to sell their shares. As "second hand" VCT shares do not qualify for upfront income tax relief, there tends to be few purchasers of these shares. As a result of this imbalance, the share price has drifted to a point where at present it is some way below the underlying NAV. Given the small size of the Fund and its limited cash resources, the Board believes that it is preferable to focus on generating real value from the portfolio of investee companies to stimulate interest in the shares, rather than using the Fund's limited cash resources to carry out share buybacks.

Chairman's statement (continued)

The Board, in common with many other VCTs, is exploring ways through which the benefits of investing in "second hand" VCT shares can be communicated. Meanwhile we have redeveloped our website and shareholders are encouraged to visit the site at www.hygeavct.com to follow progress of the portfolio.

Board

Towards the end of 2006, Mark Andrews resigned from the Board. I would like to take this opportunity to thank Mark for his contribution during his time on the Board. In view of the Board's discussions about the future strategy for the Fund, we do not believe that it is necessary to appoint a further director at present.

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. The Board has been advised that Hygea VCT is in compliance with the conditions laid down by HM Revenue & Customs.

Outlook

During 2006, we completed the process of investing in a portfolio of investments in both AIM-quoted and unquoted companies. We also made substantial progress in reducing the Fund's cost base. We now have a strong base from which to build shareholder value going forwards. As previously indicated, I expect to be writing to all shareholders shortly with further proposals for the Fund's future development and management. I also look forward to meeting as many shareholders as possible at our AGM on 12 July 2007.

James Otter
Chairman

23 April 2007

Investment manager's review

The Fund made a number of investments during 2006 and ended the year with a portfolio of investments in a total of 21 companies, 11 of which were quoted on AIM and 10 were unquoted. As at 31 December 2006, the portfolio was 43.5% invested in companies quoted on AIM, 54.3% in unquoted companies, and 2.2% in money market securities and cash.

Review of portfolio

During 2006, the Fund made 2 new investments in unquoted companies and increased its holdings in 4 other unquoted companies. In addition, 1 new investment was made into a business that is quoted on AIM. The new investments are as follows:

- Prosurgics Ltd is a developer of robots for use in a range of surgical procedures.
- Wound Solutions Ltd has developed a product that has potential applications in the treatment of leg ulcers.
- Plethora Solutions Holdings plc is working on products that have applications in the treatment and management of certain urological disease conditions.

In the closing months of 2006, movements in the share prices of two of the portfolio's AIM-quoted holdings illustrated the high risk/high return characteristics of investing in healthcare companies that are focused on drug development. In December 2006, we bought further shares in ReNeuron Group plc at a price of 10p per share by exercising warrants that the Fund owned. Later in the month, ReNeuron experienced a surge in its share price to more than 40p following the announcement of the filing of its application with the US regulators to commence clinical trials in stroke patients with its lead stem cell product. We took advantage of the period of volatility in the share price to sell a proportion of the Fund's holding, generating a profit of £63,000.

Disappointingly, the value of the Fund's holding in Evolutec Group plc fell sharply following the publication of results from a clinical trial for its lead product, illustrating the abrupt change in valuation of a biotechnology company that can occur on the publication of trial results. Despite good data from previous trials, in the latest trial in patients suffering from hay fever, no significant benefits were found from using the drug.

In August 2006, following a period of strong share price performance, we took the opportunity to dispose of the holding in Abcam plc at a share price that was approximately 60% higher than the price at which we had invested.

In the unquoted portfolio, we have been pleased with the general progress that has been made by most of the holdings. We have increased the carrying value of three holdings where it has been possible to do so under the rules which govern the way in which we are permitted to value the holdings in unquoted companies. However, we have also made significant reductions in the carrying values of two unquoted companies to reflect the underlying performance of those businesses during 2006.

Progress in 2007

Since the end of 2006, we have made several further adjustments to the portfolio. The Fund has invested a further £100,000 in Prosurgics Ltd, as part of a larger funding round. We have also sold the remaining shares in ReNeuron Group plc, realising a further profit of £83,000. In addition, we have disposed of the entire holding in DawMed Systems plc and Cobra Bio-manufacturing plc. In early April, we invested approximately £60,000 in Epistem Holdings plc, an AIM quoted biotechnology company that is commercialising adult stem cells in the areas of oncology and gastrointestinal diseases. Epistem also has a contract research division that has provided services to over 65 clients.

Our ongoing challenge is to work closely with the investee companies in order to maximise the returns that are generated for the shareholders in the Fund. We anticipate that we may reduce the size of certain of our holdings in order to focus the portfolio into those holdings from which we expect to generate the greatest returns for shareholders.

Investment manager's review (continued)

Ten largest holdings

Scancell Ltd

Scancell is a Nottingham-based biotechnology company that is developing a pipeline of drugs to target various types of cancer. These products are derived from Scancell's proprietary ImmunoBody technology. During 2006, the company sold its pipeline of antibodies to Peptech Ltd, an Australian biotechnology company, in a deal that had a total value of up to £4.85 million.

Initial investment	*December 2003*
Cost £000's	*725*
Valuation as at 31.12.06 £000's	*725*
Basis of valuation	*Cost*
Equity held	*12.6%*
Website	*www.scancell.co.uk*

Audited Financial Information

	Period ending 30 April 2006
	£000's
Sales	*27*
Loss before tax	*(716)*
Retained losses	*(734)*
Net assets	*446*

Wound Solutions Ltd

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. There is a lack of effective treatment for patients with severe ulcers, and the market size is estimated to be 2.5 million patients in the US and Europe.

Initial investment	*May 2006*
Cost £000's	*350*
Valuation as at 31.12.06 £000's	*350*
Basis of valuation	*Cost*
Equity held	*3.1%*
Website	*www.woundsolutions.com*

Audited Financial Information

	Period ending 30 June 2006
	£000's
Sales	*0*
Loss before tax	*(926)*
Retained losses	*(926)*
Net assets	*3,330*

Investment manager's review (continued)

DxS Ltd

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. DxS's services are of particular use to pharmaceutical companies when they are conducting clinical trials as the genomic tests can be used to help identify groups of patients that are most likely to benefit from a particular therapy. David Evans, who is chairman of a number of AIM-quoted companies (including BBI Holdings plc and Epistem Holdings plc, both Hygea investee companies) became chairman of DxS in 2006.

Initial investment	*April 2004*
Cost £000's	*326*
Valuation as at 31.12.06 £000's	*326*
Basis of valuation	*Cost*
Equity held	*8.3%*
Website	*www.dxsgenotyping.com*

Audited Financial Information

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

ImmunoBiology Ltd

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 £000's	*300*
Valuation as at 31.12.06 £000's	*300*
Basis of valuation	*Cost*
Equity held	*5.78%*
Website	*www.immbio.com*

Audited Financial Information

	Period ending 31 May 2006
	£000's
Sales	*28*
Loss before tax	*(495)*
Retained losses	*(495)*
Net assets	*(163)*

Investment manager's review (continued)

NeutraHealth plc

NeutraHealth is an AIM-listed company that was established to acquire businesses operating in the neutraceutical sector. The company acquired Biocare Ltd, an established business in the neutraceutical sector, in August 2005. In January 2007, NeutraHealth announced the acquisition of Brunel Healthcare Ltd, for an initial purchase price of £4m, with a further £1.9 million payable depending on the performance of Brunel over the next two years. Brunel, which distributes private label and branded vitamins and supplements through a number of outlets, including Tesco, Holland & Barrett, Superdrug and Waitrose, had turnover of £14 million in 2006.

Initial investment	*August 2005*
Cost £000's	*360*
Valuation as at 31.12.06 £000's	*295*
Basis of valuation	*Bid price*
Equity held	*2.43%*
Website	*www.neutrahealthplc.com*

Audited Financial Information

	Period ending 31 December 2006
	£000's
Sales	*8,571*
Profit before tax	*902*
Retained losses	*590*
Net assets	*19,492*

Hallmarq Veterinary Imaging Ltd

Hallmarq is a Guildford-based company which 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. Hallmarq has installed more than 30 units at leading equine veterinary practices and research centres around the world, and over 7,000 scans have been carried out on horses using equipment supplied by Hallmarq. James Otter, the Chairman of Hygea, is playing an active role at Hallmarq illustrating the way in which Hygea is able to work in a proactive manner with its investee companies in order to ensure that they fulfil their potential.

Initial investment	*August 2005*
Cost £000's	*735*
Valuation as at 31.12.06 £000's	*288*
Basis of valuation	*Latest funding round*
Equity held	*7.3%*
Website	*www.hallmarq.net*

Audited Financial Information

	Period ending 31 August 2006
	£000's
Sales	*1,438*
Loss before tax	*(328)*
Retained losses	*(278)*
Net assets	*1,199*

Investment manager's review (continued)

BioAnaLab Limited

BioAnaLab is a leader in the provision of specialist analytical services to pharmaceutical and biotechnology companies involved in the growing sector of biopharmaceuticals. More than 30% of all pharmaceutical products in development are made from proteins, which present particular analytical challenges in measuring drug levels, patient responses, and product efficiency in order to provide product validation and satisfy the requirements of the regulatory authorities. The company has experienced a substantial growth in revenue since Hygea invested in the business. A key development during 2006 was the appointment as chairman of David Oxlade, who has substantial experience leading companies in the pharmaceutical and biotechnology sector.

Initial investment	*May 2005*
Cost £000's	*279*
Valuation as at 31.12.06 £000's	*279*
Basis of valuation	*Cost*
Equity held	*13.9%*
Website	*www.bioanalab.com*

Audited Financial Information

	Period ending 31 October 2006
	£000's
Sales	*1,161*
Profit before tax	*98*
Retained profit	*98*
Net assets	*751*

Prosurgics Ltd

Prosurgics (formerly known as Armstrong Healthcare Ltd) is a leading image-guided surgical robotics company. The company's PathFinder robot enables surgeons to achieve a high level of accuracy in neurosurgery, enabling improved patient outcomes at lower cost. The EndoAssist is a robotic manipulator for the endoscope used in chest and abdominal surgery. It has a unique control system that is guided by head movement, giving the surgeon total control at a glance.

Initial investment	*January 2006*
Cost £000's	*250*
Valuation as at 31.12.06 £000's	*275*
Basis of valuation	*Latest funding round*
Equity held	*7.05%*
Website	*www.prosurgics.com*

Audited Financial Information

	Period ending 31 December 2005
	£000's
Sales	*300*
Loss before tax	*(1,225)*
Retained losses	*(1,133)*
Net assets	*213*

Investment manager's review (continued)

Insense Ltd

Insense is working on the development of an innovative product range for the wound care market. Its first product has completed clinical trials and the second product is currently undergoing clinical evaluation. Both products are expected to be approved by the relevant regulatory authorities in 2007 and to be launched onto the market shortly after approval is received.

Initial investment	*July 2003*
Cost £000's	*167*
Valuation as at 31.12.06 £000's	*226*
Basis of valuation	*Latest funding round*
Equity held	*3.12%*
Website	*www.insense.co.uk*

Audited Financial Information

	Period ending 31 December 2005
	£000's
Sales	*0*
Loss before tax	*(893)*
Retained losses	*(893)*
Net assets	*685*

ReNeuron Group plc

ReNeuron is a leading company in the field of cell therapies derived from stem cells. The company announced in December 2006 that it had filed an application with the US Food & Drug Administration to commence initial clinical trials in the US for its lead product, a stem cell therapy for treating stroke patients. As a result of the strong share price performance, the Fund's remaining stake was sold in early 2007.

Initial investment	*August 2005*
Cost £000's	*82*
Valuation as at 31.12.06 £000's	*195*
Basis of valuation	*Bid price*
Equity held	*0.42%*
Website	*www.reneuron.com*

Audited Financial Information

	Period ending 31 March 2006
	£000's
Sales	*9*
Loss before tax	*(6,826)*
Retained losses	*(6,313)*
Net assets	*4,628*

Investment manager's review (continued)

Summary of investments made by other funds managed by Octopus Investments Ltd

It is a requirement that Octopus discloses if some of its other funds are also invested in any of the Hygea VCT portfolio companies. Details of these are shown below.

Company name	% equity held by Hygea VCT	% equity held by other funds
BBI Holdings plc	0.30%	3.30%
DawMed Systems plc	2.20%	1.71%
NeutraHealth plc	2.43%	1.37%
Plethora Solutions Holdings plc	0.14%	0.36%
Prosurgics Ltd	7.05%	0.68%

The above data is as at 31 December 2006.

Octopus Investments Ltd
23 April 2007

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

Activities and status

The principal activity of the Fund is investing in unquoted and AIM-quoted bioscience 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 to include a statutory profit and loss account, a statement of total recognised gains and losses and a note of historical cost profits and losses in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance).

The Chairman's Statement on pages 3 and 4 includes a review of the Fund's activities and future prospects. Further details are also provided within the Investment Manager's Review on pages 5 to 11. The Directors have managed the affairs of the Fund 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 Fund was not at any time up to the date of this report a close company within the meaning of S414 of the Act.

Dividends

During the year no dividends were paid (2005: 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 2006	31 December 2005
Mr J Otter (Chairman)	8,050	-
Mr C Breese	5,000	5,000
Mr M Andrews	4,989	-
Mr J Hustler	15,000	5,000

The shares bought by the Directors in 2006 were purchased by them in the market.

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

Mr J Otter 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 that Mr J Otter continues to be effective and to demonstrate commitment to his role, the Board and the Fund. The Board therefore has no hesitation in recommending him for re-election at the forthcoming Annual General Meeting. See "Management" below.

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

Financial risk management objectives and policies

As a VCT, the Fund's objective is to provide shareholders with long term capital growth by investing its funds in a broad spread of quoted and unquoted UK companies which meet the relevant criteria for VCTs.

Further details of the Fund's risk management policies are provided in note 17 to the financial statements.

Directors' and officers' liability insurance

The Fund has, as permitted by S310(3) of the Companies Act 1985, maintained insurance cover on behalf of the Directors and Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Fund.

Creditor payment policy

The Fund'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 Fund does not follow any code or standard with regard to creditor payment practice. At 31 December 2006 there were no trade creditors.

Management

Octopus acts as investment manager to the Fund. The principal terms of the Fund's investment management agreement with Octopus are set out in Note 3 to the financial statements. Mr C Breese is a Director of Octopus.

Directors' report (continued)

Purchase and cancellation of own shares
During the year, the Fund purchased 66,202 Ordinary Shares for cancellation at 60p per share representing 0.87% of the total share capital (2005: nil).

Issue of equity
During the year to 31 December 2006 no shares were allotted (2005: nil).

Fixed assets
Movements in fixed asset investments during the year are set out in Note 7 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.

Change of Name
On 26 April 2006 the name of the Fund was changed from BioScience VCT plc to Hygea VCT plc.

Annual General Meeting
Notice convening the 2007 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 or 15 months of passing the resolution (except insofar as commitments to allot shares have been entered 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 or 15 months of passing the resolution (except insofar as commitments to allot shares have been entered before that date).

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 50 pence per 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 or 15 months of passing the resolution (except insofar as commitments by the Company to purchase shares have been entered before that date). The Directors have no present intention of buying back any shares under the authority conferred by this resolution.

Independent auditors
KPMG Audit plc resigned during the year and the casual vacancy was filled by the appointment of Hyman Capital Services Limited. Hyman Capital Services Limited offers itself for re-appointment at the forthcoming annual general meeting in accordance with section 385 of the Companies Act 1985.

By order of the Board

Neil Osmond
Secretary
18 April 2007

Details of the directors

James Otter (49 – 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 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 (60) is a director of Octopus. He has 24 years of experience of investing in start-up, early stage and listed 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 (60) 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, and a director of Northern Venture Trust plc. He was a member of the Council of the ICAEW from 1997 – 2000. He has been a member of the Council of the British Venture Capital Association and a member of the Valuation Committee of the European Venture Capital Association and an adviser to HM Government's Small Firms Ministers from 1986 to 1990.

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 2006.

Consideration by the Directors of matters relating to Directors' remuneration
The Board as a whole considers Directors' remuneration and has not appointed a separate remuneration committee. 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 Fund'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 Fund's affairs. 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.

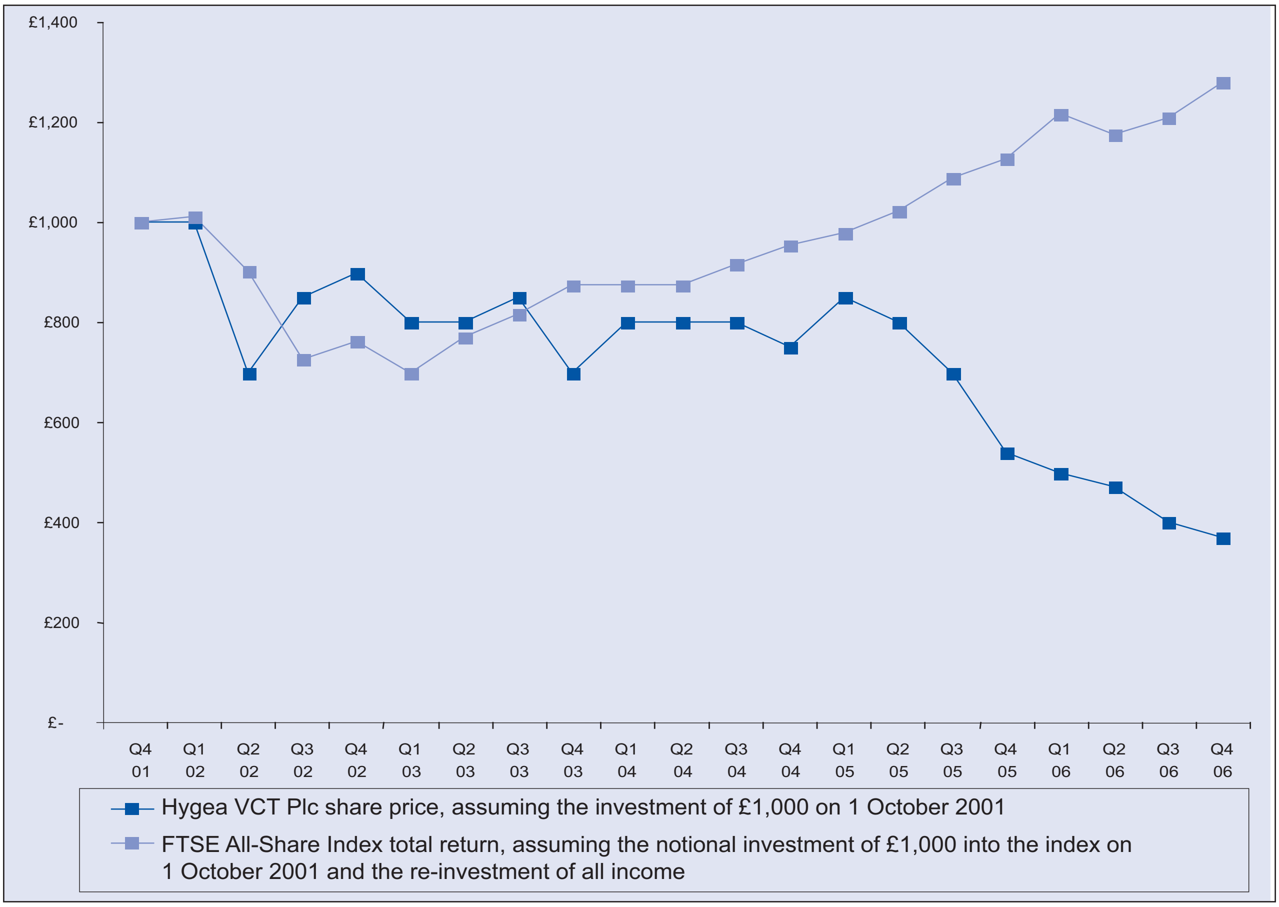
Mr M Andrews tendered his resignation in order to provide him with more time to focus on his other business interests on 9 November and this was duly accepted by the Board. Mr Andrews continued to serve his notice period which terminated on 9 February 2007.

The Chairman can receive fees of £15,000 per annum. The Directors can 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 Fund's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Fund'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 (assuming all income is reinvested) to ordinary shareholders in the Fund over the period from October 2001 to December 2006 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' emoluments

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

	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Mr J Otter (Chairman)	15,000	12,400
Dr P A Nicholson	-	8,800
Mr C Breese	10,000	10,000
Mr J Hustler	10,000	10,000
Mr M Andrews	10,000	10,000
Professor A F Markham	-	8,600
	45,000	59,800

The Fund's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Directors personally. However, the remuneration for Mr C Breese during the relevant period was paid to Octopus and, until 2 November 2005, the remuneration for Mr J Hustler was paid to MMI. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no long-term incentive schemes, share option schemes or pension schemes in place. No other remuneration or compensation was paid or payable by the Fund during the period to any of the current Directors.

By Order of the Board

Neil Osmond
Secretary
23 April 2007

Shareholder information

The Fund

Hygea VCT plc is a VCT. The investment manager is Octopus Investments Limited. The Fund was launched in October 2001 and raised over £7 million through an offer for subscription.

The objective of the Fund is to invest in a broad range of unquoted and AIM-quoted BioScience companies in order to generate capital growth over the long-term.

Octopus, founded in 2000 by a team of fund managers from Mercury Asset Management, is a rapidly growing fund management company committed to bringing innovative, high-return fund management products to the broadest possible market. The Octopus team prides itself not only on its history of excellent investment returns across the funds which it manages, but also on the level of service that it provides to its investors. Octopus currently manages more than £300 million on behalf of approximately 10,000 investors.

Venture Capital Trusts

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in unlisted companies in the UK. Subsequent Finance Acts have introduced changes to VCT legislation. The tax benefits currently available to eligible new investors in VCTs include:

- up-front income tax relief of 30% (20% up to 5 April 2004; 40% up to 5 April 2006)
- exemption from income tax on dividends paid
- exemption from capital gains tax on disposals of shares in VCTs

The Company has been provisionally approved as a VCT by HM Revenue & Customs. In order to maintain its approval the Fund must comply with certain requirements on a continuing basis. Within three years from the date of provisional approval at least 70% of the Fund's investments must comprise "qualifying holdings" of which at least 30% must be in eligible ordinary shares. A "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted company (including companies listed on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment. The Fund has continued its compliance with these qualification requirements.

Financial Calendar

The Fund's financial calendar is as follows:

12 July 2007	-	Annual General Meeting
September 2007	-	Half-yearly report for six months to 30 June 2007 published
April 2008	-	Annual report and financial statements for year to 31 December 2007 published

The Fund will comply with the Transparency Directive and make announcements as may be required from time to time, having regard to the nature of the Fund, its business and its financial reporting calendar. Any such announcements made may contain financial and numerical information.

Share Price and Buyback Facility

As a result of the company's limited uninvested cash resources, it does not expect to purchase any shares for cancellation in the near future.

The Fund'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 Fund's website (www.hygeavct.com).

Corporate governance

The Fund is committed to maintaining high standards in corporate governance. The Directors consider that the Fund 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 20.

Board of Directors

During the financial period in question, the Fund had a board of four non-executive Directors, three of whom are considered to be independent. Following the resignation of Mr M Andrews, effective 9 February 2007, the Board has three non-executive directors, two of whom are considered to be independent. Mr C Breese is not considered to be independent due to his role as a director of the Fund's investment manager, Octopus. 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.

During the year the following were held:

9 Full board meetings

All directors attended all meetings with the exception of Mr M Andrews who was unable to attend one of those meetings.

2 Audit Committee meetings

All Members attended

The Fund'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.

Directors may take secretarial and other independent professional advice at the Fund's expense where necessary in the performance of their duties. As all the Directors are non-executive, it is not considered appropriate to identify a member of the Board as the senior non-executive Director. Given the size of the Board and the resignation and appointment of Directors in the course of 2005 and 2006, further appraisal of the performance of the Board, its committees and its Directors individually, has not been undertaken in the year.

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

Audit Committee:
Mr J Hustler
Mr J Otter
Mr M Andrews

The audit committee, chaired by Mr Hustler, consists of two independent Directors. The vacancy created following the resignation of Mr Andrews on 9 February 2007 was filled by Mr J Otter. 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 KPMG Audit, and subsequently Hyman Capital Services Limited, the Fund'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 audit committee has considered the whistle blowing procedures in place should Octopus employees have concerns they wish to communicate to the audit committee.

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.

Nomination Committee:
Mr J Otter
Mr C Breese
Mr J Hustler

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 the 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.

Management Engagement Committee:
Mr J Otter
Mr J Hustler

The management engagement committee undertakes a periodic review of the terms of the agreement with Octopus, the investment manager.

Internal control

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

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to investments. Quoted investments are held in Crest. Octopus regularly reconciles the client asset register with the physical documents. Secretarial matters are delegated to Neil Osmond.

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 Fund 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 Revised Guidance for Directors on the Combined Code issued in October 2005, previously Turnbull guidelines for internal control. The Board does not consider it necessary to maintain a separate internal audit function.

Risk management

The Fund invests its funds primarily in early stage UK smaller companies, which by their nature entail a higher degree of risk than investments in larger listed companies. The Directors aim to limit this risk through careful selection of a spread of investments.

Octopus carries out management of liquid funds in accordance with the policy guidelines laid down and regularly reviewed by the Board. In general the guidelines require that uninvested cash will be held in money market securities. The Fund has no borrowing facilities nor has it entered into derivative transactions.

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, 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 Fund and of the profit or loss of the Fund 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 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 Fund will continue in business.

The Directors confirm that the financial statements for the year ended 31 December 2006 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. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Fund 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 Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

- there is no relevant audit information of which the Fund's auditors are 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 auditors are aware of that information.

Going concern

After making the necessary enquiries, the Directors confirm that they are satisfied that the Fund 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 AGM. In addition to the formal business of the AGM, the Board is available to answer any questions a shareholder may have. In the course of 2006, the Fund has developed a detailed website www.hygeavct.com, which is intended to make it easier for shareholders to obtain information about the fund and its underlying profits.

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 8 Angel Court, London, EC2R 7HP. Alternatively, the team at Octopus is happy to answer any questions shareholders may have and can be contacted on 020 7710 2800.

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 Fund has complied throughout the accounting year to 31 December 2006 with the provisions set out in Section 1 of the Combined Code.

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 Fund'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 Fund does not have a remuneration committee as all the Directors are non-executive and it is not considered appropriate.
5. The Fund 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 Fund 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.

Details of advisers

Registered Office
8 Angel Court
London
EC2R 7HP

Registered Number
04221489

Investment Manager
Octopus Investments Limited
8 Angel Court
London
EC2R 7HP

Solicitors
Pinsent Masons
30 Aylesbury Street
London
EC1R 0ER

Independent Auditors
Hyman Capital Services Limited
25 Duke Street
London
W1U 1LD

VCT Status Advisers
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

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 4T

Stockbrokers
Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds
LS1 4LX

Company Secretary
Neil Osmond
8 Angel Court
London
EC2R 7HP

Independent auditors' report to the members of Hygea VCT plc

We have audited the financial statements of Hygea VCT plc for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and Reconciliation of Movements in Shareholders' Funds and the related notes. 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 auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 19 and 20.

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 and whether the information in the Directors' Report is consistent with the financial statements. We also 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 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss 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;
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 December 2006.

Hyman Capital Services Limited
Chartered Accountants and Registered Auditors
25 Duke Street
London W1U 1LD
18 April 2007

Income Statement

	Notes	Year ended 31 December 2006 Revenue £000's	Capital £000's	Total £000's	Year ended 31 December 2005 Revenue £000's	Capital £000's	Total £000's
Realised gain on investments	**7**	-	82	82	-	8	8
Unrealised loss on investments	**7**	-	(1,199)	(1,199)	-	(123)	(123)
Income	**2**	21	-	21	34	-	34
Investment management fees	**3**	(21)	(61)	(82)	(59)	(177)	(236)
Other expenses	**4**	(167)	-	(167)	(299)	-	(299)
Loss on ordinary activities before tax		(167)	(1,178)	(1,345)	(324)	(292)	(616)
Tax on ordinary activities	**5**	-	-	-	-	-	
Loss on ordinary activities after tax		(167)	(1,178)	(1,345)	(324)	(292)	(616)
Loss per share	**6**	(2.2)p	(15.6)p	(17.8)p	(4.3)p	(3.8)p	(8.1)p

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

Reconciliation of movements in shareholders' funds

	Year ended 31 December 2006 £000's	Year ended 31 December 2005 £000's
Shareholders' funds at start of year	5,679	6,299
Middle market price to bid price valuation movement	-	(4)
Restated shareholders' funds at start of year	5,679	6,295
Loss on ordinary activities after tax	(1,345)	(616)
Cost of share buyback	(40)	-
Shareholders' funds at end of year	4,294	5,679

Balance Sheet

	Notes	31 December 2006 £000's	31 December 2005 £000's
Fixed asset investments	**7**	4,156	4,428
Current assets			
Debtors	**8**	77	13
Cash at bank		94	1,369
		171	1,382
Creditors: amounts falling due within one year	**9**	(33)	(131)
Net current assets		138	1,251
Net assets		4,294	5,679
Called up equity share capital	**10**	3,765	3,798
Share premium	**11**	1,722	1,722
Special distributable reserve	**11**	1,660	1,700
Capital redemption reserve	**11**	38	5
Capital reserve - realised	**11**	(513)	(534)
- unrealised	**11**	(1,879)	(680)
Revenue reserve	**11**	(499)	(332)
Total equity shareholders' funds		4,294	5,679
Net asset value per share	**12**	56.8p	74.8p

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

The financial statements on pages 24 to 32 were approved by the Directors on 23 April 2007 and are signed on their behalf by:

Mr J Otter
Chairman

Mr J Hustler
Director

Cash Flow Statement

	Notes	Year ended 31 December 2006 £000's	Year ended 31 December 2006 £000's	Year ended 31 December 2005 £000's	Year ended 31 December 2005 £000's
Net cash outflow from operating activities	**13**		(390)		(213)
Financial investment:					
Purchase of investments	**7**	(1,068)		(3,183)	
Sale of investments		223		23	
Net cash outflow from financial investment			(845)		(3,160)
Net cash outflow before financing			(1,235)		(3,373)
Financing:					
Repurchase of own shares	**11**	(40)		-	
Total financing			(40)		-
Decrease in cash resources			(1,275)		(3,373)

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

Notes to the Financial Statements

1. Accounting policies

a) Basis of accounting

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 principles. Where presentational guidance as set out in the Statement of Recommended Practice (SORP), revised December 2005, for investment trust companies is consistent with the requirements of UK generally accepted accounting policies, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

Financial assets and liabilities are recognised in the company's balance sheet when it becomes a party to the contractual provisions of the instrument.

b) Investments

In accordance with FRS 26 "Financial Instruments Measurement", equity investments are designated at fair value through profit or loss account ("FVTPL"). The 'Total' column of the Income Statement represents the Company's profit and loss account. Unquoted investments' fair value is determined by the directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Fair value movements on equity investments and gains and losses arising on disposal of investments are reflected in the capital column of the Income Statement in accordance with the Association of Investment Companies (AIC) Statement of Recommended Practice.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices or last traded prices at the close of business on the balance sheet date. Previously all listed investments were valued using closing mid market prices at 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.

c) Income

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

Dividends receivable on listed equity shares are brought into account on the ex-dividend date. Dividends receivable on unlisted 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.

d) 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 and technology advisor fees which have been charged 25% to revenue and 75% to capital.

e) 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".

f) 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;

g) 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;

h) 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 securities of less than one year (other than cash), government securities and investments in money market managed funds.

2. Income

	Year ended 31 December 2006 £000's	Year ended 31 December 2005 £000's
Income		
Money market securities	21	30
Loan stock interest	-	4
Total income	21	34

3 Investment management fees

		Year ended 31 December 2006			Year ended 31 December 2005	
	Revenue £000's	Capital £000's	Total £000's	Revenue £000's	Capital £000's	Total £000's
Investment management fee	21	61	82	22	67	89
Technology adviser fee	-	-	-	37	110	147
	21	61	82	59	177	236

The above amounts include irrecoverable VAT.

Octopus provides investment management services to the company under an agreement which runs for a period of 5 years with effect from 19 April 2002 and may be terminated at any time thereafter by not less than twelve months' notice given by either party. The management fee is payable quarterly in advance and is based on 1.25% of the net asset value calculated annually at 31 December.

Octopus also provides accounting and administrative services to the company for a fee of £20,000 per annum, which increases annually in line with the movement in RPI. There is £nil (2005: £nil) outstanding at the balance sheet date for the accounting and administrative services. Once a sum equal to a return of 7% per annum compound averaged over the first 5 accounting periods post admission to the London Stock Exchange has been returned to investors, by way of dividends, capital distributions and increase in net asset value, a performance fee (expressed as 10% of the excess) will be payable to Octopus plus VAT if applicable.

On 8th March 2006 the Company signed an agreement with Medical Marketing International Group plc ('MMI') to terminate the Technology Adviser agreement under which MMI provided technology advice to the company. Under the terms of the Technology Adviser agreement MMI had received a fee, which was payable quarterly in advance, based on 1.25% of the net asset value calculated annually at 31 December.

4. Other expenses

	Year ended 31 December 2006 £000's	Year ended 31 December 2005 £000's
Accounting and administrative services	26	25
Directors' remuneration	45	61
Auditors' remuneration – audit services – 2005	5	12
– audit services – 2006	5	-
– non-audit services	3	2
Legal and professional expenses	31	146
Other expenses	52	53
	167	299

The above amounts include irrecoverable VAT.

An adjustment has been made to take account of the irrecoverable VAT previously accounted for in Directors remuneration. The impact of this change is a reclassification of £5,000 from Directors' remuneration to other expenses in 2005.

Information on the Directors' remuneration is given in the Directors' Remuneration Report on pages 15 and 16.

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

5. Tax on ordinary activities

5a. Analysis of charge for the period

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Corporation tax	-	-	-	-	-	-

5b. Reconciliation of tax charge for the period

	2006 £'000	2005 £'000
Return on ordinary activities before tax	(167)	(324)
Corporation tax at 19%	(32)	(62)
Effects of:		
Unrecognised tax loss	32	62
Tax charge for the period	–	–

At 31 December 2006 the Company had surplus management expenses of £1,043,000 (2004: £811,000) 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. Loss per share

	2006 Revenue	2006 Capital	2006 Total	2005 Revenue	2005 Capital	2005 Total
Loss on ordinary activities before tax	£(167,000)	£(1,178,000)	£(1,346,000)	£(324,000)	£(292,000)	£(616,000)
Weighted average shares	7,555,017	7,555,017	7,555,017	7,596,393	7,596,393	7,596,393
Revenue/capital/total loss per share	(2.2)p	(15.6)p	(17.8)p	(4.3)p	(3.8)p	(8.1)p

There is no difference between a basic and a diluted return per share figure for either revenue or capital returns.

7. Fixed asset investments

	Unquoted investments	AIM-quoted investments	Total
Book cost as at 1 January 2006	2,657	2,451	5,108
Unrealised appreciation at 1 January 2006	(242)	(438)	(680)
Valuation at 1 January 2006	2,415	2,013	4,428
Movements in the year:			
Purchases at cost	945	123	1,068
Disposals	-	(223)	(223)
Net realised gain	-	82	82
Increase in unrealised losses	(398)	(801)	(1,199)
Valuation at 31 December 2006	2,962	1,194	4,156
Comprising:			
Book cost at 31 December 2006	3,602	2,433	6,035
Unrealised appreciation at 31 December 2006	(640)	(1,239)	(1,879)

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 Ltd and Hallmarq Veterinary Imaging Ltd where a proportion of the investment is held in loan stock. Details of the investments are shown below:

			31 December 2006
		Cost £000's	Valuation £000's
Unquoted investments			
BioAnaLab Ltd		279	279
DxS Ltd		30	30
	Loan stock	296	296
Glide Pharmaceutical Technologies Ltd		100	100
Hallmarq Veterinary Imaging Ltd		600	153
	Loan stock	135	135
ImmunoBiology Ltd		300	300
Insense Ltd		167	226
Prosurgics Ltd		250	275
Purely Proteins Ltd		370	93
Scancell Ltd		725	725
Wound Solutions Ltd		350	350
		3,602	2,962
AIM-quoted investments			
Angel Biotechnology Holdings plc		750	79
BBI Holdings plc		74	120
Cobra Bio-manufacturing plc		125	62
DawMed Systems plc		101	34
Evolutec Group plc		347	43
NeutraHealth plc		360	274
Phoqus Group plc		150	110
Plethora Solutions Holdings plc		83	69
ReNeuron Group plc		93	195
Stem Cell Sciences plc		250	113
York Pharma plc		100	95
		2,433	1,194
		6,035	4,156

8. Debtors

	31 December 2006 £000's	31 December 2005 £000's
Prepayments and accrued income	77	13

9. Creditors (amounts falling due within one year)

	31 December 2006 £000's	31 December 2005 £000's
Accruals	33	131

10. Share capital

	31 December 2006 £000's	31 December 2005 £000's
Authorised:		
Equity: 50,000,000 (2005: 50,000,000) ordinary shares of 50p	25,000	25,000
Allotted and fully paid:		
Equity: 7,530,191 (2005: 7,596,393) ordinary shares of 50p	3,765	3,798

11. Reserves

	Share premium £000's	Special distributable reserve £000's	Capital redemption reserve £000's	Capital reserve realised £000's	Capital reserve unrealised £000's	Revenue reserve £000's
At 1 January 2006	1,722	1,700	5	(534)	(680)	(332)
Buy back of shares	-	(40)	33	-	-	-
Management fee capitalised	-	-	-	(61)	-	-
Net realised gain on disposal of investments	-	-	-	82	-	-
Net increase in unrealised losses	-	-	-	-	(1,199)	-
Net revenue	-	-	-	-	-	(167)
At 31 December 2006	1,722	1,660	38	(513)	(1,879)	(499)

12. Net asset value per share

The calculation of basic net asset value per share as at 31 December 2006 is based on net assets of £4,294,000 divided by the 7,530,191 ordinary shares in issue at that date (2005: based on net assets of £5,679,000 divided by 7,596,393 ordinary shares).

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

	Year ended 31 December 2006 £000's	Year ended 31 December 2005 £000's
Net loss before taxation	(1,345)	(616)
(Increase)/decrease in debtors	(64)	197
(Decrease)/increase in creditors	(98)	91
Decrease in capital value of investments	1,117	115
Net cash outflow from operating activities	(390)	(213)

14. Reconciliation of net cash flow to movement in net debt

	Year ended 31 December 2006 £000's	Year ended 31 December 2005 £000's
Net funds at 1 January 2006	1,369	4,742
Decrease in cash in the period	(1,275)	(3,373)
Movement in liquid resources	-	-
Net funds at 31 December 2006	94	1,369

15. Analysis of changes in net debt

	At 1 January 2006 £000's	Cash flows £000's	At 31 December 2006 £000's
Cash in hand, at bank	1,369	(1,275)	94

16. Contingencies, guarantees and financial commitments

There were no contingent liabilities at 31 December 2006 (2005: none).

17. Financial instruments and associated risks

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to maximise the long term growth in capital.

Fixed asset investments (see note 7) are valued at fair value. For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are fair valued by the Directors (using rules consistent with IPEVC guidelines). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Fund are discussed below.

Market risk

Market risk embodies the potential for both loss 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.

Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments set out in note 7.

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 Investment Manager has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Liquidity risk

The Company's financial instruments include investments in unlisted 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 listed securities are considered to be readily realisable as they are all quoted on AIM at year end.

Notice of Annual General Meeting

NOTICE is hereby given that the fifth Annual General Meeting of Hygea VCT plc will be held at 14h30 on 12 July 2007 at the offices of Octopus Investments Limited, 8 Angel Court, London EC2R 7HP for the following purposes:
Ordinary Business

1. To receive the Report of the Directors and Accounts for the year ended 31 December 2006.
2. To approve the Directors' remuneration report for the year ended 31 December 2006.
3. To re-elect Mr J Otter, who retires by rotation, as a Director of the Company.
4. To re-appoint Hyman Capital Services Limited as auditors and to authorise the Directors to agree 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. 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. 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.
7. 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 1,128776 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 50 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
Company Secretary
Registered Office:
8 Angel Court
London
EC2R 7HP

23 April 2007

NOTES:

(i) A member entitled to vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company.

(ii) A form of proxy is enclosed. To be effective, the instrument appointing a proxy (together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority) must be deposited at or posted to the office of the registrars of Hygea VCT plc at Capita IRG (Proxies), Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0LA so as to be received not less than 48 hours before the time fixed for the Meeting. Completion and return of the form of proxy will not preclude a member from attending or voting at the Meeting in person if he or she so wishes.

(iii) Members who hold their shares in uncertificated form must be entered in the Fund's register of Members 48 hours before the Meeting to be entitled to attend or vote at the Meeting. Such shareholders may only cast votes in respect of Ordinary Shares held by them at such time.

Copies of the letters of appointment of each of the Directors, and the register of directors' interests in shares of the Company under section 325 of the Companies Act 1985, will be available for inspection at the registered offer of the Company during usual business hours on any week day (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.

Proxy Form

Hygea VCT plc

Annual General Meeting – 12 July 2007

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 12 July 2007, notice of which was sent to shareholders with the directors' report and the accounts for the year ended 31 December 2006, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting:

Resolution number		FOR	AGAINST	WITHHELD
1.	To receive, consider and adopt the financial statements for the year ended 31 December 2006	☐	☐	☐
2.	To approve the Directors' Remuneration Report	☐	☐	☐
3.	To re-elect Mr J Otter as a director	☐	☐	☐
4.	To re-appoint Hyman Capital Services Limited as auditors and authorise the directors to agree their remuneration	☐	☐	☐
5.	To authorise the directors to allot shares under section 80 (Ordinary Resolution)	☐	☐	☐
6.	To disapply Section 89(1) of the Companies Act 1985 and allot shares on a non rights issue basis (Special Resolution)	☐	☐	☐
7.	To authorise the directors to make market purchases of its own shares (Special Resolution)	☐	☐	☐

Signed:... Dated: 2007

NOTES

1. A member wishing to appoint a person other than the Chairman of the meeting as proxy should insert the name and address of such person in the space provided.
2. Use of the proxy form does not preclude a member from attending and voting in person.
3. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
4. If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.
5. To be valid, the proxy form must be received by the Registrars of Hygea VCT plc at, **Capita IRG (Proxies), Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA** no later than 48 hours before the commencement of the meeting.

Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No. RRHB-RSXJ-GKCY

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Proxy Processing Centre
Telford Road
BICESTER
OX26 4LD

First fold

Second Fold

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