

Hygea vct plc

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

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FINANCIAL HEADLINES

1.3% Total return for the year to 31 December 2010

77.4p Net Asset Value at 31 December 2010

5p Final Dividend proposed

£2.7m Amount invested during the year into investee companies

7 Number of new investee companies in the year

SHAREHOLDER INFORMATION AND CONTACT DETAILS

Financial Calendar

The Company's financial calendar is as follows

11 May 2011	Annual General Meeting
August 2011	Half-yearly results to 30 June 2011 published
April 2012	Annual results for year to 31 December 2011 announced, Annual Report and financial statements published

Dividends

Dividends will be paid by the Registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's Registrar, Capita Registrars, by calling 0871 664 0300 (calls cost 10p per minute plus network extras), or by writing to them at

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4BR
www.capitaregistrars.com

The Directors are proposing at the 2011 Annual General Meeting that a final dividend of 5p per Ordinary share be paid

Share Price

The Company's share price is published daily on the London Stock Exchange's website (www.londonstockexchange.com), and other financial websites, and can also be accessed through the Company's website (www.hygeavct.com). The share price may be found with the following TIDM/EPIC code

	Ordinary Shares
TIDM/EPIC code	HYG
Latest mid-market share price (7 April 2011)	57.5p per share

Buying and Selling Shares

The Company's Ordinary shares, which are listed on the London Stock Exchange and Sharemark, can be bought and sold in the same way as any other company quoted on a recognised stock exchange via a stockbroker. There may be tax implications in respect of all or part of your holdings, so Shareholders should contact their independent financial adviser if they have any queries.

The Company does not currently operate a buyback policy. If you are considering selling your shares or trading in the secondary market, please contact the Company's Corporate Broker, Matrix Corporate Capital LLP ('Matrix'). Matrix can be contacted as follows:

Chris Lloyd
0203 206 7176 chris.lloyd@matrixgroup.co.uk

Paul Nolan
0203 206 7177 paul.nolan@matrixgroup.co.uk

Sharemark can be contacted as follows:

Sophie Douglas
01296 439432 sophie.douglas@share.co.uk

Notification of Change of Address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrar, Capita Registrars, (contact details shown above) under the signature of the registered holder.

Other Information for Shareholders

Previously published Annual Reports and Half-yearly Reports are available for viewing on the Company's website at www.hygeavct.com

ABOUT HYGEA VCT PLC

The Company is a Venture Capital Trust (VCT). Since 30 July 2007, the Board has managed the Company. The Company was launched in October 2001 and raised over £7 million through an offer for subscription. A further £540,000 has been raised by way of top-ups since inception.

The Company's objective is to develop a portfolio of unquoted and quoted MedTech companies conforming to Hygea's investment template (which can be found on www.hygeavct.com, clicking on *About*, and then clicking on *Investment Strategy/Process*) in order to generate capital growth over the long-term

Venture Capital Trusts (VCTs)

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

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

FINANCIAL SUMMARY

	Year to 31 December 2010	Year to 31 December 2009
Net assets (£'000s)	6,282	7,404
Return on ordinary activities after tax (£'000s)	94	2,070
Earnings per share	12p	25.8p
Net asset value per share	77.4p	91.2p
Dividends paid since inception	16.25p	1.25p
Total return (NAV plus dividends paid)	93.65p	92.45p

CHAIRMAN'S STATEMENT

I am pleased to present the 2010 annual report to shareholders in Hygea vct plc

Following the realisation in 2009 of two of our investments, the focus of our attention in 2010 has been the reinvestment of the cash proceeds in the best possible opportunities while maintaining our VCT qualifying position. Our net asset value at 31 December 2010 was 77.4p which, after taking account of the dividends paid to shareholders in 2010 of 15p, represents a total return of 12p for the year. In the light of the economic circumstances which prevailed during 2010, we view this outcome as encouraging.

Introduction

2010 was a year of significant change in the UK, with a new government being elected resulting in the implementation of a substantial public sector cost cutting programme. There was also a general tightening up of the normal sources of venture capital funding and trade exits to major companies. Against this background and increasing life expectations, your board believes that rather than individuals spending some one third of their lives in retirement, they will have to work well beyond current retirement ages, which provides an attractive backdrop for MedTech companies delivering better patient outcomes at lower total cost.

In response to this challenging economic climate and the tough fundraising environment, your board is proactively working on several projects which are expected to assist portfolio companies seeking to raise further funds. We will provide further details as and when the projects come to fruition.

Results and Dividends

During the year our revenue return on ordinary activities was a slightly increased loss of 1.6p per share compared to 0.2p last year. This resulted from a reduction in income (which had been unexpectedly high in 2009 due to the receipt of loan interest from DxS, following the realisation of the investment), as well as an increase in expenses due to administrative charges associated with the payment of two dividends, the previously approved increase in Directors' fees and a full year's charge for our new advisers. The total expense ratio remains below 3% and we intend that, subject to unforeseen circumstances, this will continue.

As previously reported, we have received further proceeds from the DxS disposal as the company reached agreed milestones. This amounted to

£596,056 during the period, being £331,000 in respect of the first instalment of the escrow fund and £264,856 in respect of the earn-out. This has led us to achieve a capital return in the year of 2.8p (2009 26.0p).

We have accrued a further £300,000 in respect of the final instalment of the escrow fund given that we are now within six months of this becoming due. We will receive additional proceeds should DxS achieve further milestones, which would further confirm the success of the DxS deal to all parties.

As I wrote in my last report, we intend to maintain an annual dividend of 5p per share and I am pleased to confirm that the Directors are proposing a final dividend of 5p per share payable on 1 July 2011 to shareholders on the register on 27 May 2011, subject to approval at the annual general meeting.

Portfolio Review

Follow on investments in existing investee companies

It is our policy to continue to support our existing investee companies where a good business case continues to be made for further investment. In particular we aim to maintain our percentage holding where our liquid cash resources allow but the rules for maintaining our VCT qualifying percentage, which are particularly difficult for small funds such as Hygea, often limit our ability in this regard.

During the year under review we have invested further funds in Arecor (£106,020), Freehand (£335,000), Glide (£100,400), Hallmarq (£231,208), Insense (£200,000) and Omega Diagnostics (£230,868).

New investments

During the year we invested into three AIM companies, EKF Diagnostics (£51,286), Reneuron (£50,000) and Tristel (£55,481), and four unquoted companies, Axon (£100,001), Eykona (£100,051), Exosect (£250,005) and Quotient Diagnostics (£200,000). Quotient was acquired later in 2010 by AIM quoted EKF Diagnostics and our holding (including rolled-up loan note interest) was exchanged for shares in EKF Diagnostics.

Since the year end we have invested £72,340 into Archimed, a woundcare business spun out of Insense, £250,000 into Freehand 2010, and a further £50,000 into Axon.

Selected operational highlights

Further details of our most significant investments are included in the Investment Review but I would like to mention the following investments in particular

Freehand (laparoscopic camera holders) this has been a turbulent year for Freehand with the Board electing to take the company into administration at the end of 2010. However, after considerable debate, your Board decided to invest in a new vehicle, Freehand 2010 which bought the Freehand IPR and stock from the administrator. We believe that the principles of the business are still sound and that the new vehicle's simplified structure and reduced cost base has a good chance of success.

Glide (direct injections of solid formulations) a clinical trial during 2010 successfully demonstrated the equivalence of the Glide formulation with the liquid, commercial standard in humans. However the trial also highlighted flaws with the delivery system and the company has had to regroup to solve them, causing delays.

Hallmarq (MRI scanners for horses) continues to make excellent progress building up an installed base of scanners. The new business model has been embraced by the equine vets in Europe and, although initially cash hungry, this model generates increased recurring revenues. The team are now actively re-entering the US market and exploring means of expanding into the larger market in companion animals.

Scancell (developing vaccines to target various types of cancer) in early 2010 £2.5 million was raised (accompanied by a transfer from PLUS Markets to AIM) to fund Phase I/II trials of the melanoma treatment - in June 2010 the trial was started - safety data in respect of the first three patients was approved by the Cohort Review Committee in January 2011.

VCT Qualifying Status

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

In the recent Budget, the Chancellor increased both the amount that any single company can receive under the EIS or from VCTs as well as increasing the rate of tax relief on EIS. These moves combined with a consultation process to focus on 'genuine risk capital investments' are a welcome move to encourage investment in companies such as those in the Hygea portfolio.

Auditors

During the year our Auditors, Hyman Capital Services Limited, resigned following their deregistration as Statutory Auditor. The Directors appointed James Cowper LLP in their place. James Cowper currently audit a number of smaller VCTs.

Annual General Meeting

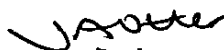
The Company's Annual General Meeting will take place on Wednesday 11 May 2011 at 11.30 a.m. I look forward to welcoming you to the meeting which will be held at the offices of Matrix, 1 Vine Street, London W1J 0AH.

Outlook

We now have a balanced portfolio of 6 AIM quoted companies and 10 unquoted companies. Many companies in the Medtech sector are continuing to find the fund raising climate challenging and so we are using our resources to help those in our portfolio, which we believe have a strong business case and prospects for the future, by contributing to their requests for further funds. As you can see from the accounts, we are effectively fully invested for the moment, but will seek to realise funds from our AIM portfolio when we consider such requests provide a strong case for further investment.

However the economic climate continues to be especially challenging for small growing companies, with many companies responding to the tightening up of the funding prospects by focussing on reaching self-sufficiency, rather than racing towards technical goals.

Your Board remain cautiously optimistic about the prospects for the MedTech sector, especially for our investee companies which conform to the Company's investment template, as providing better health outcomes at lower cost provides a sound foundation, even in a tougher economic climate.



James Otter
Chairman
8 April 2011

INVESTMENT REVIEW

Investment Portfolio

	Investment at cost (£'000)	Unrealised profit/(loss) (£'000)	Carrying value at 31 December 2010 (£'000)	Movement in the year to 31 December 2010 (£'000)
Unquoted investments				
ImmunoBiology Limited	818	244	1,062	-
Hallmarq Veterinary Imaging Limited	1,116	(257)	859	27
Insense Limited	509	(112)	397	-
Exosect Limited	250	-	250	-
Arecor Limited	114	-	114	-
Eykona Technologies Limited	100	-	100	-
Axon Limited	100	-	100	-
Glide Pharmaceutical Technologies Limited	306	(206)	100	(420)
Wound Solutions Limited	350	(262)	88	(88)
Freehand Surgical Limited (holding company of ProSurgics Limited) ¹	1,225	(1,225)	-	(688)
Purely Proteins Limited	372	(372)	-	-
Total unquoted investments	5,260	(2,190)	3,070	(1,169)
Quoted investments				
Scancell plc	1,061	23	1,084	375
EKF Diagnostics plc	260	152	412	151
Omega Diagnostics plc	356	(12)	344	(19)
EpiStem Holdings plc	66	126	192	(24)
Reneuron plc	50	13	63	13
Tristel plc	55	5	60	5
York Pharma plc	90	(90)	-	-
Total quoted investments	1,938	217	2,155	501
Total investments	7,198	(1,973)	5,225	(668)

Note

1 Freehand Surgical Limited was placed into administration on 20 December 2010

Objective and Investment Policy

The Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a portfolio of unquoted and quoted UK MedTech companies which meet the relevant criteria under the VCT Rules and conform to the investment template referred to in the second paragraph on page 5

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

The Directors control the overall risk of the portfolio by ensuring that the Company has exposure to a diversified range of quoted and unquoted companies from the MedTech sector. The Directors will continually monitor the investment process and ensure compliance with the investment policy.

Valuation Methodology

Quoted and unquoted investments are valued in accordance with the accounting policy set out on page 31, which takes account of current industry guidelines for the valuation of venture capital portfolios and is compliant with International Private Equity and Venture Capital Valuations guidelines and current financial reporting standards.

If you would like to find out more regarding the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines, please visit their website at www.privateequityvaluation.com

Ten largest holdings (by value)

Scancell plc

Background Scancell is a Nottingham-based biotechnology company that is developing a pipeline of vaccines to target various types of cancer, with the first target being melanoma. The platform technology, in effect, educates the immune system how to respond - this means that the technology can also be licensed to pharmaceutical companies to assist the development of their own therapeutic vaccines. Scancell listed on PLUS Markets in September 2008, raising £1.6 million - in July 2010, it transferred to AIM.

Update since 2009 In early 2010 £2.5 million was raised to fund Phase I/II trials of the melanoma treatment through to a stage where negotiations could be held with potential commercialisation partners - in June 2010 the trial was started. In January 2011 the safety data on the first three patients was reviewed by the Cohort Review Committee, which approved escalation of the dose and recruitment of the next cohort of patients.

Initial investment date.	December 2003
Cost:	£1,061,000
Valuation:	£1,084,000
Equity held:	9.35%
Last audited accounts.	30 April 2010
Loss before tax.	£1.8 million
Net assets:	£6.0 million

ImmunoBiology Limited

Background ImmunoBiology is a biotechnology company that is focused on developing treatment areas such as meningitis, tuberculosis, influenza and hepatitis C. The company's technology is based on the discovery that a group of proteins known as 'heat shock proteins' has a pivotal role in controlling the normal immune response to infections - it has also licensed in Scancell's immunobody technology (see above) for use in certain treatments - both approaches seek to educate the immune system how to respond.

Update since 2009 the company has made scientific progress and is now planning for its first project to start clinical trials.

Initial investment date	November 2005
Cost:	£818,000
Valuation:	£1,062,000
Equity held:	5.8%
Last audited accounts:	31 May 2010
Loss before tax:	£1.6 million
Net liabilities:	£1.0 million

Hallmarq Veterinary Imaging Limited

Background Hallmarq specialises in developing low cost magnetic resonance imaging systems for the vet market. 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 - this was the first MRI scanner in the world for standing horses - the business model relies principally on a share of scan fees (ie recurring income) rather than systems sales. The next development project is an MRI scanner for companion animals, a market which is significantly larger than the equine market.

Update since 2009 Hallmarq has continued to expand its installed base, implementing its changed business model to secure more revenue after installation. The audited accounts to August 2010 showed sales of £2.7 million (2009 £2.2 million) and operating profit of £50,280 (2009 £63,234 loss), with scan fee recurring income of £1.3 million almost covering fixed overheads. The critical next hurdles are the development and launch of the companion animal scanner and to build equine installations in the USA.

Initial investment date:	August 2005
Cost:	£1,116,000
Valuation:	£859,000
Equity held:	11.0%
Last audited accounts:	31 August 2010
Loss before tax:	£129,000
Net assets:	£2.4 million

INVESTMENT REVIEW (continued)

EKF Diagnostics Holdings plc

Background EKF is an AIM listed company which David Evans (formerly chairman of, inter alia, DxS) and Julian Baines took board control of in Q4 2009, with the objective of building a leading diagnostic business with a particular focus on the needs of diabetic patients - messrs Evans and Baines had been chairman and CEO respectively of AIM listed point of care diagnostics business BBI, which listed on AIM in 2004 and was acquired by Inverness Medical for £84 million in late 2007 EKF completed its first acquisition in July 2010, which has been followed by two smaller acquisitions - one of the latter was Quotient Diagnostics, in which Hygea invested in January 2010 and exchanged its investment for EKF shares in October 2010

Initial investment date:	June 2010
Cost:	£260,000
Valuation:	£412,000
Equity held:	<1%
Last audited accounts:	31 December 2009
Loss before tax:	£277,000
Net assets:	£5.6 million

Insense Limited

Background Insense was a spin-out from Unilever with a platform technology which Insense has deployed in the fields of chronic wound care (now spun-out as Archimed LLP in which Insense has a 49% interest), protein stabilisation (spun-out as Arecor Ltd - see below) and dermatology

Update since 2009 The key events were the spinning out of the chronic wound care division and continuing negotiations with major multinationals regarding dermatology applications

Initial investment date	July 2003
Cost:	£509,000
Valuation:	£397,000
Equity held.	9.2%
Last audited accounts:	31 December 2009
Loss before tax:	£1.2 million
Net assets:	£88,000

Omega Diagnostics plc

Background Omega listed on AIM via a reverse acquisition in 2006. It is a healthcare diagnostics business providing IVD products for use in hospitals, blood banks, clinics and laboratories in over 100 countries - it specialises in the areas of Food Intolerance, Autoimmune Disease and Infectious Disease. One of its products is Food Detective for home testing of allergies brought about by 59 commonly eaten foods

Update since 2009 In December 2010 Allergopharma was acquired for £775 million - it produces manual assays for testing for allergies - part of the strategy for developing the business is to leverage off Omega's distribution reach, and take the assays into the much larger automated market using Omega's Genarrayt platform and the IDS-iSYS platform. This will be licensed from AIM listed Immunodiagnostic Systems Holdings. The interim results to September 2010 showed sales of £3.3 million (2009 £2.9 million) and adjusted operating profit of £413,000 (2009 £176,000)

Initial investment date:	August 2007
Cost:	£356,000
Valuation:	£344,000
Equity held:	<1%
Last audited accounts:	31 March 2010
Profit before tax:	£210,000
Net assets.	£5.6 million

Exosect Limited

Background Exosect was established in 2001 as a spin-out from the University of Southampton to develop a platform technology and range of natural bio-control products for the protection of food from pests and disease - the objective is to develop intelligent solutions to pest management and overcome the drawbacks of conventional pesticides Hygea invested in Exosect in January 2010

Initial investment date:	January 2010
Cost:	£250,005
Valuation:	£250,005
Equity held:	27%
Last audited accounts:	31 December 2010
Loss before tax:	£16 million
Net assets:	£5.8 million

EpiStem Holdings plc

Background 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, and a Personalised Medicine division. In March 2009, a R&D collaboration agreement was signed with Novartis, under which EpiStem received an upfront cash payment of \$4 million and research funding for two years.

Update since 2009. A key event has been the development of Genedrive, a point-of-care molecular diagnostic instrument. The final results to June 2010 showed sales of £5.7 million (2009: £4.0 million) and pre-tax profit of £350,000 (2009: £669,000 loss).

Initial investment date:	April 2007
Cost:	£66,000
Valuation:	£192,000
Equity held:	<1%
Last audited accounts:	30 June 2010
Profit before tax:	£360,000
Net assets:	£5.8 million

Arecor Limited

Background Arecor was a spin-out from Insense (see above) to commercialise technology developed by Insense for enabling biologics to maintain their integrity without the need for refrigeration - this both reduces cost and also helps deployment in developing countries where temperature monitored cold storage facilities are in short supply. The technology also assists in maintaining the integrity and function of proteins exposed to ionizing radiation as the means of sterilisation.

Initial investment date:	December 2008
Cost:	£114,000
Valuation:	£114,000
Equity held:	2.6%
Last audited accounts:	31 May 2010
Loss before tax:	£697,000
Net assets:	£301,000

INVESTMENT REVIEW (continued)

Eykona Limited

Background Eykona was founded in 2007 to deploy computer vision technology (essentially 3D imaging) developed within Oxford University for developing a hand held camera to measure the volume of chronic wounds - this is a vital measurement for obtaining an understanding of whether a wound is getting better or worse, and hence assist determining the treatment to be applied

The first production version of the camera was delivered in May 2010 - sales are expected to start in early 2011 The company is pursuing a recurring income business model

The 3D imaging technology also has potential applications outside MedTech

Initial investment date:	March 2010
Cost:	£100,051
Valuation:	£100,051
Equity held:	3.8%
Last audited accounts:	31 August 2009
Loss before tax:	£352,000
Net assets:	£350,000

Update in Freehand

Background As at 31 December 2010, Hygea's investment was in Freehand Surgical. Freehand 2010 is the successor company to Freehand Surgical - the latter was placed in administration in Q4 2010 due to last minute difficulties in finding new investors at an acceptable valuation. Freehand's purpose is to improve the productivity in operating rooms used for keyhole surgery (which is itself a productivity improvement over open surgery) - its first product, Freehand, is a camera holding robot for keyhole surgery - this both removes the need for a human to hold the camera and makes longer operations easier for the surgeon because, unlike a human camera holder, the robot does not get tired. The business model is free placement of the system and sales of consumables to generate recurring income.

Update since 2009 The above business model was launched in June 2010 and so against the background of the financial constraints within the NHS has taken some time to start gaining traction - however, York Healthcare Economics issued a report confirming the attractive economic benefits which Freehand brings. The company enters 2011 with a very strong team for commercializing the selected market opportunity and a new CEO with considerable experience of selling to surgeons.

Disposals

During the year, the holding in Stemcells was fully disposed of by way of its administration. The loss was reflected in the income statement for the year to 31 December 2009, and was transferred to the Capital Reserve - Realised during the year to 31 December 2010.

Realisations	Carrying value at 31 December 2009 (£'000)	Cost of investment (£'000)	Proceeds of investment (£'000)	Total loss (£'000)
Stemcells plc	9	250	9	(241)
Total	9	250	9	(241)

In addition, a further £896,000 was received or accrued by way of additional proceeds from the previous investment in DxS, which was disposed of in 2009.

DETAILS OF DIRECTORS

James Otter

(Non-Executive Chairman - age 53)

James is currently CEO of Glide Pharmaceutical Technology Ltd, a solid formulation and drug delivery company based near Oxford. He remains an observer on the Board of Hallmarq Veterinary Imaging. He is also an active investor in TCS Cellworks, a supplier of primary human cell cultures, and is Chairman of Octopus VCT plc. Previous positions include being a main board director of Spectris plc working on a turnaround project in Denmark. The bulk of his career was spent in international commercial roles with Zeneca Agrochemicals (formerly ICI and now Syngenta). James has an MBA from INSEAD and a degree in Natural Sciences from Cambridge.

John Hustler

(Non-Executive Director - age 64)

John joined Peat Marwick, now KPMG, in 1965 and became a 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 both Northern Venture Trust plc and Octopus Titan VCT 2 plc and Chairman of Renaissance Re Syndicate Management Limited. He was also a member of the Council of The Institute of Chartered Accountants in England and Wales and Chairman of its Corporate Finance Faculty from 1997-2000, and was a member of the Council of the British Venture Capital Association from 1989-1991.

Charles Breese

(Non-Executive Director - age 64)

Charles has nearly 30 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. Charles is also a director of Octopus VCT plc.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2010

This report has been prepared by the Directors in accordance with the requirements of s415 of the Companies Act 2006. The Company's independent auditor is required by law to report on whether the information given in the Directors' Report (including the Business Review) is consistent with the financial statements. The auditor's opinion is included in their report on page 25.

Principal Activity and Status

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

On 21 January 2010, the Company revoked investment company status.

The Company has been granted full approval as a Venture Capital Trust by HMRC. In order to maintain approved status, the Company must comply on a continuing basis with the provisions of s274 of the Income Tax Act 2007, in particular, the Company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT qualifying holdings, of which at least 30% must comprise eligible ordinary shares.

For this purpose, a "VCT qualifying holding" consists of up to £1 million invested in any one year in new shares or securities of a UK AIM quoted company or an unquoted company which is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed a prescribed limit. The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing.

The accounts have been prepared in accordance with the requirements of the Companies Act 2006. The Directors are required by the articles of association to propose an ordinary resolution at the Company's annual general meeting in 2012 that the Company should continue as a Venture Capital Trust for a further three year period, and at three yearly intervals thereafter. If any such resolution is not passed, the Directors shall within four months convene a general meeting to consider the proposals for the reorganisation or winding-up of the Company.

Review of Business Activities

The Directors are required by s417 of the Companies Act 2006 to include a Business Review to shareholders. The Business Review is set out below and also includes the Chairman's Statement on pages 6 and 7, and the Investment Review on pages 8 to 12 by reference.

The purpose of this review is to provide shareholders with a snapshot summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators used to measure performance.

Since the year end the following significant post balance sheet events have occurred,

- January 2011 - £72,340 investment in Archimed LLP for a 3.57% share in the partnership
- March 2011 - £250,000 investment in Freehand 2010 Limited for the interest of 250,000 shares
- April 2011 - £50,000 investment in Axon Limited for the interest of 2,500 shares

Performance and Key Performance Indicators

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 and total return per share, is also measured against the FTSE All-Share index. This is shown in the graph on page 23 of the Directors' Remuneration Report. This index has been adopted as an informal benchmark.

Results and dividend

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Net return attributable to shareholders	94	2,070
Appropriations		
Interim dividend paid since the year end - Op per share (2009 - 10p)	-	812
Final dividend proposed 5p per share (2009 - 5p)	405	405

The proposed final dividend will, if approved by shareholders, be paid on 1 July 2011 to shareholders on the register on 27 May 2011.

Objective and Investment Policy

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

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

The Directors control the overall risk of the portfolio by ensuring that the Company has exposure to a diversified range of quoted and unquoted companies from the MedTech sector. The Directors will continually monitor the investment process and ensure compliance with the investment policy

VCT regulation

Compliance with required rules and regulations is considered with all investment decisions made. The company is further monitored on a continual basis to ensure compliance. The main criteria to which the company must adhere include

- At least 70% of investments must be made in qualifying shares or securities
- At least 30% of the 70% of qualifying investments must be invested into Ordinary shares with no preferential rights
- No single investment made can exceed 15% of the total company value at the time the investment is made
- A minimum of 10% of each qualifying investment must be in Ordinary shares with no preferential rights

Principal Risks, Risk Management and Regulatory Environment

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

VCT qualifying status risk: the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the Company and, in certain

circumstances, to investors being required to repay the initial income tax relief on their investment

The Board keeps the Company's VCT qualifying status under regular review. The Board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role

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

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

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

Reputational risk: inadequate or failed controls might result in breaches of regulation or loss of shareholder trust

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

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance section on pages 19 to 21

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

DIRECTORS' REPORT (continued)

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

Directors

The Directors of the Company during the period and their interests (in respect of which transactions are notifiable under Disclosure and Transparency Rule 312R) in the issued ordinary shares of 50p are shown in the table below

	31 December 2010	31 December 2009
James Otter (Chairman)	14,050	14,050
John Hustler	102,500	92,500
Charles Breese	105,000	105,000

All of the Directors' shares were held beneficially. There have been no changes in the Director's share interests between 31 December 2010 and the date of this report.

Under the Company's Articles of Association, one-third of the Directors are required to retire by rotation each year. The Chairman is satisfied that, following individual performance evaluations, Mr John Hustler continues to be effective and to demonstrate commitment to the role.

Brief biographical notes on the Directors are given on page 13.

Directors' and Officers' Liability Insurance

The Company has maintained directors' and officers' liability insurance cover on behalf of the Directors and Company Secretary. The Company's Articles of Association provide, subject to provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgement is given in their favour by the Court.

Whistleblowing

The Board has considered and implemented arrangements in accordance with the Combined Code's recommendations, to encourage staff of the Administration Manager or Secretary of the Company to raise concerns, in confidence, within their organisation about possible improprieties in matters of financial reporting or other matters. It is therefore satisfied that adequate arrangements are in place to allow an independent investigation, and follow on action where necessary, to take place within the organisation.

Management

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

Share Issues and Open Offers

During the year, the Company did not issue any shares (2009: 327,185 shares).

Share Capital, Rights Attaching to the Shares and Restrictions on Voting and Transfer

The Company's issued ordinary share capital as at 31 December 2010 is 8,115,376 ordinary shares of 50p each.

Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's Articles of Association, the shares confer on their holders the following principal rights:

- (a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the Board as approved by shareholders in a general meeting or in the case of an interim dividend in an amount determined by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company,
- (b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the Company remaining after payment of its liabilities *pari passu* with the other holders of Ordinary shares, and
- (c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the Company.

On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder, the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the

case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the Company's Articles of Association with a notice pursuant to s793 of the Companies Act 2006 (notice by the Company requiring information about interests in its shares), the Company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the Company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares

Shareholders, either alone or with other shareholders, have other rights as set out in the Company's Articles of Association and in company law

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his shares, subject in the case of certificated shares, to the rules set out in the Company's Articles of Association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the Directors to refuse to register a transfer as therein set out), the transferor remains the holder of the shares until the name of the transferee is entered in the register of members

The Directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The Directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the Company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the Directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares

Whilst there are no squeeze-out and sell out rules relating to the shares in the Company's Articles of Association, shareholders are subject to the compulsory acquisition provisions in s974 to s991 of the Companies Act 2006

Appointment and Replacement of Directors

A person may be appointed as a Director of the Company by the shareholders in general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the Directors, no person, other than a Director retiring by rotation or otherwise, shall be appointed or reappointed a Director at any general meeting unless he is recommended by the Directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's Articles of Association

Each Director who is appointed by the Directors (and who has not been elected as a Director of the Company by the members at a general meeting held in the interval since his appointment as a Director of the Company) is to be subject to election as a Director of the Company by the members at the first Annual General Meeting of the Company following his appointment. At each Annual General Meeting of the Company one third of the Directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one-third, are to be subject to re-election. However in accordance with the UK Corporate Governance Code, all the Directors submit themselves for annual re-election by shareholders

The Companies Act allows shareholders in a general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant Resolution) to remove any Director before the expiration of his or her period of office, but without prejudice to any claim for damages which the Director may have for breach of any contract of service between him or her and the Company

A person also ceases to be a Director if he or she resigns in writing, ceases to be a Director by virtue of any provision of the Companies Act, becomes prohibited by law from being a Director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the Board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the Company's Articles of Association

Powers of the Directors

Subject to the provisions of the Companies Act, the Memorandum and Articles of Association of the Company and any directions given by shareholders by Special Resolution, the Articles of Association specify that the business of the Company is to be managed by the directors, who may exercise all the powers of the

DIRECTORS' REPORT (continued)

Company, whether relating to the management of the business or not. In particular the directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders

International Financial Reporting Standards

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

Creditor Payment Policy

The Company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. The Company does not follow any code or standard with regard to creditor payment practice. At 31 December 2010 there were no trade creditors (2009: £nil)

Environmental Policy

The Company always makes full effort to conduct its business in a manner that is responsible to the environment. This responsibility is always maintained in investment decisions where possible

Going Concern

The Company's business activities and the factors likely to affect its future performance and position are set out in the Chairman's Statement and Investment Review on pages 6 to 12. Further details on the management of financial risk may be found in note 14 to the Financial Statements

The Board receives regular reports from the Administration Manager and the Directors believe that, as no material uncertainties leading to significant doubt about going concern have been identified, it is appropriate to continue to adopt the going concern basis in preparing the financial statements

The assets of the Company consist mainly of cash resources and securities, some of which are readily realisable. As such, the Company has adequate financial resources to continue in operational existence for the foreseeable future

Substantial Shareholdings

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

Annual General Meeting

Notice convening the 2011 Annual General Meeting of the Company and a form of proxy in relation to the meeting can each be found at the end of this document

Independent Auditor

Hyman Capital Services Limited ceased to be the Company's auditor during the year. The Company has now engaged James Cowper LLP and they offer themselves for reappointment as auditor. A resolution to re-appoint James Cowper LLP will be proposed at the forthcoming Annual General Meeting

Directors' Authority to Allot Shares, to Disapply Pre-emption Rights

Resolution 7 renews the Directors' authority to allot Ordinary shares. This would enable the Directors until May 2012, to allot up to 811,537 ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 December 2010)

Resolution 8 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This Resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue Ordinary shares for cash without pre-emption rights applying by way of an offer to existing shareholders, or re-issuing shares out of Treasury up to a maximum of 811,537 Ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 December 2010). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders, as a whole

By Order of the Board



Craig Hunter
Company Secretary
8 April 2011

CORPORATE GOVERNANCE

The Board of Hygea vct plc has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide)

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2008 Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against principles and recommendations of the AIC Code, by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the period under review, complied with the provisions set out in the 2008 Combined Code on Corporate Governance with the exceptions set out in the Compliance Statement on page 21

Board of Directors

The Company has a Board of three independent non-executive Directors. The Board meets regularly to review the investment performance and monitor compliance with the investment policy previously laid down by the Board

The Board has a formal schedule of matters specifically reserved for its decision which include

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation,
- consideration of corporate strategy,
- approval of the appropriate dividend to be paid to the shareholders,
- the appointment, evaluation, removal and remuneration of a Manager,
- the performance of the Company, including monitoring of the discount of the net asset value to the share price, and
- monitoring shareholder profiles and considering shareholder communications

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives

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

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All of the Directors have access to the advice and services of the Company Secretary, who has administrative responsibility for the meetings of the Board and its committees. Directors may also take independent professional advice at the Company's expense where necessary in the performance of their duties

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

During the year the following were held

	Full Board meetings held	No. of meetings attended	Audit Committee meetings held	Audit Committee meetings attended
James Otter	7	7	N/A	N/A
John Hustler	7	7	2	2
Charles Breese	7	7	2	2

Additional meetings were held as required to address specific issues. A brief biographical summary of each Director is given on page 13

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 following appointment. All Directors are required to submit themselves for re-election at least every three years. This practice was followed during the year under review. However in accordance with the UK Corporate Governance Code, all the Directors submit themselves for annual re-election by shareholders

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

CORPORATE GOVERNANCE (continued)

Audit Committee:

The Audit Committee, chaired by John Hustler, consists of two independent Directors. The Audit Committee believes John Hustler possesses appropriate and relevant financial experience as per the requirements of the Combined Code. The Board considers that the members of the Committee are independent and have collectively the skills and experience required to discharge their duties effectively.

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

- reviewing and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance,
- reviewing and making recommendations to the Board in relation to the Company's internal control (including internal financial control) and risk management systems,
- periodically considering the need for an internal audit function,
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor,
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional regulatory requirements,
- monitoring the extent to which the external auditor is engaged to supply non-audit services, and
- ensuring that the administration manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to propriety of financial reporting or other matters.

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary. The Committee meets twice per year and has direct access to James Cowper LLP, the Company's external auditor. The Audit Committee has reviewed the non-audit services provided by the external auditor and does not believe they are sufficient to influence their independence or objectivity.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However, the Committee considers annually

whether there is a need for such a function and if so would recommend this to the Board.

During the year ended 31 December 2010, the Audit Committee discharged its responsibilities by:

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

Nomination Committee:

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.

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 continually reviews financial results and investment performance.

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments

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.

Internal control systems include the production and review of monthly bank and management accounts. All outflows made from the VCT's accounts require the authority of two signatories from Octopus. The VCT is subject to a full annual audit. Further to this, the Audit Partner has open access to the Directors of the VCT and the Administration Manager is subject to regular review by the Octopus Compliance Department.

Financial Risk Management Objectives and Policies

The Company is exposed to the risks arising from its operational and investment activities. Further details can be found in note 14 to the Financial Statements.

Relations with Shareholders

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

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 the Company's registered office, 39 Alma Road, St Albans AL1 3AT.

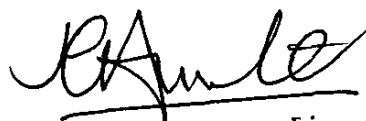
Compliance Statement

The Listing Rules require the Board to report on compliance with the 48 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 2010 with the provisions set out in the UK Corporate Governance Code.

1 New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise.

- 2 Due to the size of the Board and the nature of the Company's business, a formal performance evaluation process for of the Board, its committees, the individual Directors and the Chairman has not been put in place or a formal evaluation been undertaken. Specific performance issues are dealt with as they arise.
- 3 The Company has three independent Directors, James Otter, John Hustler and Charles Breese as defined by the Combined Code issued in 2008. The Board considers that all directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code.
- 4 The Company does not have a Chief Executive Officer or senior independent Director. The Board does not consider this necessary for the size of the Company.
- 5 The Company conducts a formal review as to whether there is a need for an internal audit function. However, the Directors do not consider that an internal audit would be an appropriate control for a VCT.
- 6 The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts.
- 7 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.
- 8 The Company does not have a remuneration committee given the size of the Company and as such the whole board deal with any matters of this nature.

By order of the Board



Craig Hunter
Company Secretary
8 April 2011

DIRECTORS' REMUNERATION REPORT

Introduction

This report is submitted in accordance with s420 - 422 of the Companies Act 2006, in respect of the year ended 31 December 2010. An Ordinary Resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The Company's auditor, James Cowper LLP, is required to give its opinion on certain information included in this report, this comprises the Directors' emoluments section below only. Their report on these and other matters is set out on page 25.

Consideration by the Directors of Matters Relating to Directors' Remuneration

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

Statement of the Company's policy on Directors' Remuneration

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

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

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on

the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chairman of the Board to be paid higher fees than the other Directors in recognition of his more onerous role.

The 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. Following the successful realisation of two investments in 2009, the Board has resolved to increase the annual fees payable to Directors, which had remained unchanged since the formation of the company, with effect from 1 October 2009 to reflect the increased workload involved in managing the company. The fee for the Chairman has been increased to £20,000 per annum and for Directors to £17,500 per annum.

The Directors are also entitled to participate in a performance bonus calculated as 20% of sums returned to shareholders by way of dividends and capital distributions of whatever nature, which in aggregate exceeds the sum of 80p per share (including dividends paid to date, i.e. 16.25p, but excluding any sums returned to shareholders from HMRC in the year of subscription). At the 31 December 2010, no performance fee was payable (2009 nil). The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors.

Company Performance

The Board is responsible for the Company's investment strategy, management and performance.

The graph below compares the NAV return (rebased to 100) of the Company over the period from October 2001 to December 2010, with the total return from a notional investment (rebased to 100) in the FTSE All-Share index over the same period. This index is considered to be the most appropriate broad equity market index for comparative purposes. However, the Directors wish to point out that VCTs are not able to make qualifying investments in companies quoted on the Main Market in their observance of the VCT rules.

*based on notional investment on 1 October 2001

AIC methodology The NAV total return to the investor including the original amount invested (rebased to 100p) from launch, assuming that dividends paid were re-invested at the NAV of the Company at the time the shares were quoted

Directors' Emoluments (Information Subject to Audit)

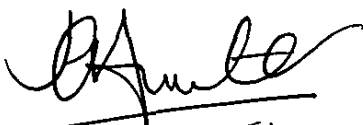
Amount of each Directors' emoluments

Directors' fees

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
James Otter (Chairman)	20,000	16,250
John Hustler	17,500	11,875
Charles Breese	17,500	11,875
Total	55,000	40,000

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

By order of the Board



Craig Hunter
Company Secretary
8 April 2011

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

In so far as each of the Directors is aware,

- there is no relevant audit information of which the Company's auditor is unaware,

- 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,

To the best of my knowledge,

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

On behalf of the Board



James Otter
Chairman
8 April 2011

REPORT OF THE INDEPENDENT AUDITOR

Independent auditor's report to the members of Hygea vct plc

We have audited the financial statements of Hygea vct plc for the year ended 31 December 2010 which comprise the income statement, balance sheet, cashflow statement, accounting policies and related notes. We have also audited the information set out in the Directors' Remuneration Report that is described as having been audited. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Directors' Report and Chairman's Statement for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance statement with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception


We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of director's remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the listing rules we are required to review

- the information given in the Report of the Directors in relation to going concern, and
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Mr Robert Holland
Senior Statutory Auditor
for and on behalf of James Cowper LLP
Chartered Accountants and Statutory Auditors
Oxford


19/5/11

INCOME STATEMENT

	Notes	Year to 31 December 2010		
		Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments	9	-	896	896
Loss on valuation of fixed asset investments	9	-	(668)	(668)
Income	2	37	-	37
Other expenses	3	(171)	-	(171)
Return on ordinary activities before tax		(134)	228	94
Taxation on return on ordinary activities	5	-	-	-
Return on ordinary activities after tax		(134)	228	94
Earnings per share - basic and diluted	7	(1.6)p	2.8p	1.2p

- The 'Total' column of this statement is the profit and loss account of the Company, the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies
- All revenue and capital items in the above statement derive from continuing operations
- The accompanying notes are an integral part of the financial statements
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds

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

INCOME STATEMENT

	Notes	Year to 31 December 2009		
		Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments		-	2,285	2,285
Loss on valuation of current asset investments		-	(198)	(198)
Income	2	113	-	113
Other expenses	3	(130)	-	(130)
Return on ordinary activities before tax		(17)	2,087	2,070
Taxation on return on ordinary activities	5	-	-	-
Return on ordinary activities after tax		(17)	2,087	2,070
Earnings per share - basic and diluted	7	(0.2)p	26.0p	25.8p

- The 'Total' column of this statement is the profit and loss account of the Company, the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies
- All revenue and capital items in the above statement derive from continuing operations
- The accompanying notes are an integral part of the financial statements
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Shareholders' funds at start of year	7,404	5,155
Return on ordinary activities after tax	94	2,070
Issue of equity (net of expenses)	-	179
Dividends paid	(1,216)	-
Shareholders' funds at end of year	6,282	7,404

BALANCE SHEET

	Notes	As at 31 December 2010		As at 31 December 2009	
		£'000	£'000	£'000	£'000
Fixed asset investments*	9		5,225		3,359
Current assets					
Debtors	10	323		29	
Cash at bank		764		4,036	
		1,087		4,065	
Creditors amounts falling due within one year	11	(30)		(20)	
Net current assets			1,057		4,045
Net assets			6,282		7,404
Called up equity share capital	12	4,058		4,058	
Share premium	13	1,737		1,737	
Special distributable reserve	13	1,660		1,660	
Capital redemption reserve	13	38		38	
Capital reserve - gains and losses on disposals	13	1,694		2,256	
- holding gains and losses	13	(1,973)		(1,547)	
Revenue reserve	13	(932)		(798)	
Total equity shareholders' funds			6,282		7,404
Net asset value per share	8		77.4p		91.2p

*At fair value through profit and loss

The accompanying notes are an integral part of the financial statements

The statements were approved by the Directors and authorised for issue on 8 April 2011 and are signed on their behalf by



James Otter
Chairman

Company No 04221489

CASH FLOW STATEMENT

	Notes	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Net cash (outflow)/inflow from operating activities		(418)	21
Financial investment:			
Purchase of fixed asset investments	9	(2,743)	(585)
Disposal of fixed asset investments	9	1,105	4,455
Financing:			
Issue of shares		-	179
Dividends paid		(1,216)	-
(Decrease)/increase in cash resources at bank		(3,272)	4,070

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
(Decrease)/increase in cash resources at bank	(3,272)	4,070
Opening net funds	4,036	(34)
Net funds at 31 December*	764	4,036

* Net funds at 31 December 2009 and 31 December 2010 comprised cash at bank

RECONCILIATION OF OPERATING PROFIT/(LOSS) BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Return on ordinary activities before tax	94	2,070
Gain on disposal of fixed asset investments	(896)	(2,285)
Loss on valuation of fixed asset investments	668	198
(Increase)/decrease in debtors	(294)	50
Increase/(decrease) in creditors	10	(12)
(Outflow)/inflow from operating activities	(418)	21

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP), and the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies" (revised 2009)

The principal accounting policies have remained unchanged from those set out in the Company's 2009 Annual Report and financial statements. A summary of the principal accounting policies is set out below

The Company has designated all fixed asset investments as being held at fair value through profit and loss, therefore all gains and losses arising from investments held are attributable to financial assets held at fair value through profit and loss. Accordingly, all interest income, fee income, expenses and impairment losses are attributable to assets designated as being at fair value through profit and loss

The preparation of the financial statements requires the Board to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates and assumptions mainly relate to the fair valuation of the fixed asset investments particularly unquoted investments. Estimates are based on historical experience and other assumptions that are considered reasonable under the circumstances. The estimates and the assumptions are under continuous review with particular attention paid to the carrying value of the investments

Capital valuation policies are those that are most important to the depiction of the Company's financial position and that requires the application of subjective and complex judgements, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. The critical accounting policies that are declared will not necessarily result in material changes to the financial statements in any given period but rather contain a potential for material change. The main accounting and valuation policies used by the Company are disclosed below. Whilst not all of the significant accounting policies require subjective or complex judgements, the Company considers that the following accounting policies should be considered critical

Although the Company believes that the assumptions concerning the business environment and estimate of future cash flows are appropriate, changes in estimates and assumptions could require changes in the stated values. This could lead to additional changes in fair value in the future

Investments

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

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

In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending upon convention of the exchange on which the investment is quoted. This is consistent with the International Private Equity and Venture Capital (IPEVC) guidelines

In the case of unquoted investments, fair value is established by using measures of value such as the price of recent transactions, earnings multiple and net assets. This is consistent with IPEVC valuation guidelines

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the capital reserve - holding gains/(losses)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Current asset investments

No current asset investments were held at 31 December 2010 or 31 December 2009. Should current assets be held, gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the Income Statement and allocated to the capital reserve - gains/(losses) on disposal.

Income

Investment income includes interest earned on bank balances and from unquoted loan note securities. Fixed returns on debt 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 with the exception of the investment management fee (should there be one), which has been charged 25% to the revenue account and 75% to the capital reserve to reflect, in the Directors' opinion, the expected long-term split of returns in the form of income and capital gains respectively from the investment portfolio.

Revenue and capital

The revenue column of the income statement includes all income and revenue expenses of the Company. The capital column includes gains and losses on disposal and holding gains and losses on investments. Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the appropriate capital reserve on the basis of whether they are readily convertible to cash in full at the balance sheet date.

Taxation

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

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

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities, investment grade bonds and investments in money market managed funds, as well as OEICs. At the year end, no liquid resources were held by the Company.

Loans and receivables

The Company's loans and receivables are initially recognised at cost and subsequently measured at fair value, being amortised cost using the effective interest rate method.

Financing strategy and capital structure

FRS 29 'Financial Instruments: Disclosures' comprises disclosures relating to financial instruments.

We define capital as shareholders' funds and our financial strategy in the medium term is to manage a level of cash that balances the risks of the business with optimising the return on equity.

Financial instruments

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

Capital management is monitored and controlled using the internal control procedures set out on page 16 of this report. The capital being managed includes equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors.

The Company does not have any externally imposed capital requirements.

Dividends

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

2. Income

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Dividends received	1	-
Underwriting fee	14	-
Bank interest receivable	14	10
Loan note interest receivable	8	103
	37	113

3. Other Expenses

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Directors' remuneration	56	40
Fees payable to the Company's auditor for the audit of the financial statements	8	6
Fees payable to the Company's auditor for other services - tax compliance	2	2
Legal and professional expenses	52	42
Accounting and administration services	29	25
Other expenses	24	15
	171	130

For the year ended 31 December 2010 the running costs were 2.7% (2009 1.8%) of net assets.

4. Directors' Remuneration

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Directors' emoluments		
James Otter (Chairman)	20	16
John Hustler	18	12
Charles Breese	18	12
	56	40

None of the Directors received any other remuneration from the Company during the year. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the year was three (2009 three).

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Tax on Ordinary Activities

The corporation tax charge for the period was £nil (2009 £nil)

The current rate of tax is the small companies' rate of corporation tax at 21% (2009 21%)

Current tax reconciliation

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Return on ordinary activities before tax	(134)	(17)
Current tax at 21% (2009 21%)	(28)	(4)
Unrecognised tax losses	28	4
Total current tax charge	-	-

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

6. Dividends

	Year to 31 December 2010 £'000	Year to 31 December 2009 £'000
Recognised as distributions in the financial statements for the period		
Previous year's interim dividend	811	-
Previous year's final dividend	405	-
Current year's interim dividend	-	-
	1,216	-
Paid and proposed in respect of the year		
Interim dividend paid (post-year end) - nil (2009 10p per share)	-	811
Proposed final dividend - 5p per share (2009 5p per share)	405	405
	405	1,216

The final dividend of 5p per share for the year ended 31 December 2010, subject to shareholder approval at the annual general meeting, will be paid on 1 July 2011 to those shareholders on the register on 27 May 2011.

7. Earnings per Share

The total earnings per share is based on 8,115,376 (31 December 2009 8,017,636) shares, being the weighted average number of shares in issue during the year, and a return for the year totalling £94,000 (31 December 2009 £2,070,000)

The revenue and capital earnings per share are based on 8,115,376 (31 December 2009 8,017,636) shares, being the weighted average number of shares in issue during the year, and a revenue return for the year totalling £(134,000) (31 December 2009 £(17,000)) and a capital return for the year totalling £228,000 (31 December 2009 £2,087,000)

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

8. Net Asset Value per Share

The calculation of NAV per share as at 31 December 2010 is based on 8,115,376 (31 December 2009 8,115,376) ordinary shares in issue at that date.

9. Fixed Asset Investments

	Level 1: AIM-quoted investments	Level 3: Unquoted investments	Level 3: Unquoted investments	Total Investments
	Equity investments	Equity investments	Loan investments	Investments
	31 December 2010	31 December 2010	31 December 2010	31 December 2010
	£'000	£'000	£'000	£'000
Valuation and net book amount				
Book cost as at 1 January 2010	1,287	3,062	557	4,906
Cumulative revaluation	(525)	(950)	(72)	(1,547)
Valuation at 1 January 2010	762	2,112	485	3,359
Movement in the year				
Purchases at cost	902	1,641	200	2,743
Disposal proceeds	(9)	(1,096)	-	(1,105)
Gain on disposal	-	896	-	896
Loan converted to equity	-	550	(550)	-
Revaluation in year	500	(1,168)	-	(668)
Valuation at 31 December 2010	2,155	2,935	135	5,225
Book cost at 31 December 2010:	1,938	5,052	207	7,197
Revaluation to 31 December 2010:	217	(2,117)	(72)	(1,972)
Valuation at 31 December 2010	2,155	2,935	135	5,225

Further details of the fixed asset investments held by the Company are shown within the Investment Review on pages 8 to 12

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

When the Company revalues the investments still held during the period, any gains or losses arising are credited/charged to the Capital reserve - holding gains/(losses).

When an investment is sold any balance held on the Capital reserve - holding gains/(losses) is transferred to the Capital reserve - gains/(losses) on disposal as a movement in reserves.

At 31 December 2010, the investment in Freehand 2010 was committed to but had not yet completed. There were no further commitments in respect of investments approved by the Board but not yet completed.

10. Debtors

	31 December 2010 £'000	31 December 2009 £'000
Prepayments and accrued income	323	29
	323	29

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Creditors: Amounts Falling Due Within One Year

	31 December 2010 £'000	31 December 2009 £'000
Accruals	21	18
Other creditors	9	2
	30	20

12. Share Capital

	31 December 2010 £'000	31 December 2009 £'000
Authorised 50,000,000 Ordinary shares of 50p	25,000	25,000
Allotted and fully paid up 8,115,376 Ordinary shares of 50p (2009 8,115,376)	4,058	4,058

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective as set on page 15. The Company is not subject to any externally imposed capital requirements.

During the year, the Company did not issue any shares.

13. Reserves

	Share Premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve gains/(losses) on disposal £'000	Capital reserve holding gains/(losses) £'000	Revenue reserve £'000
As at 1 January 2010	1,737	1,660	38	2,256	(1,547)	(798)
Return on ordinary activities after tax	-	-	-	-	-	(134)
Current period gains/losses on disposal	-	-	-	896	-	-
Prior period holding gains/losses now crystallised	-	-	-	(242)	242	-
Current period gains/losses on fair value of investments	-	-	-	-	(668)	-
Dividends paid	-	-	-	(1,216)	-	-
Balance as at 31 December 2010	1,737	1,660	38	1,694	(1,973)	(932)

When the Company revalues its investments during the period, any gains or losses arising are credited/ charged to the income statement. Changes in fair value of investments held are then transferred to the capital reserve - holding gains/(losses). When an investment is sold any balance held on the capital reserve - holding gains/(losses) reserve is transferred to the capital reserve - gains/(losses) on disposal as a movement in reserves.

The purpose of the special distributable reserve was to create a reserve which will be capable of being used by the Company to pay dividends and for the purpose of making repurchases of its own shares in the market with a view to narrowing the discount at which the Company's shares trade to net asset value, providing shareholder authority has been granted.

During the year, the Company revoked investment company status in order to allow payment of dividends from capital reserves.

14. Financial Instruments and Risk Management

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

Fixed asset investments (see note 9) are valued at fair value. Unquoted investments are carried at fair value as determined by the Directors in accordance with current venture capital industry guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The Directors believe that the fair value of the assets are held at the year end is equal to their book value.

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

Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 15. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed with regard to the possible effects of adverse price movements and with the objective of maximising overall returns to shareholders. Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is regularly monitored by the Board.

Details of the Company's investment portfolio at the balance sheet date are set out on page 28.

48.9% (2009 35.1%) by value of the Company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the Company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 10% overall increase in the valuation of the unquoted investments at 31 December 2010 would have increased net assets and the total return for the year by £307,000 (2009 £260,000) an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount.

34.3% (2009 10.3%) by value of the Company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM or PLUS. A 10% increase in the bid price of these securities as at 31 December 2010 would have increased net assets and the total return for the year by £216,000 (2009 £76,000), a corresponding fall would have reduced net assets and the total return for the year by the same amount.

Interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial Instruments and Risk Management (continued)

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts, libor rate on one loan note and, where appropriate, within interest bearing money market securities. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0.5% at 31 December 2010 (2009: 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 December 2010 £'000	31 December 2009 £'000
Cash at bank	764	4,036
	764	4,036

A 1% increase in the base rate would increase income receivable from these investments and the total return for the period by £7,640 (2009: £40,000), a corresponding fall would have reduced net assets and the total return for the year by the same amount.

Credit risk

There were no significant concentrations of credit risk to counterparties at 31 December 2010 or 31 December 2009.

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

At 31 December 2010 the Company's financial assets exposed to credit risk comprised the following:

	31 December 2010 £'000	31 December 2009 £'000
Cash at bank	764	4,036
Unquoted investments	135	435
	899	4,471

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

Liquidity risk

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

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

The Company maintains sufficient cash facilities to pay accounts payable and accrued expenses. At 31 December 2010, the Company's cash balance was £764,000 (2009: £4.04 million).

15. Post Balance Sheet Events

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

- January 2011 - £72,340 investment in Archimed LLP for a 3.57% share in the partnership
- March 2011 - £250,000 investment in Freehand 2010 Limited for the interest of 250,000 shares
- April 2011 - £50,000 investment in Axon Limited for the interest of 2,500 shares

16. Contingencies, Guarantees and Financial Commitments

As stated in the Chairman's Statement, the Company may be entitled to further deferred consideration of up to £875,000 based on performance from DxS over the next few years. To date, £896,000 has been received or accrued during the year to 31 December 2010.

The investment in Freehand 2010 made in March 2011 as set out in note 15 above was a financial commitment as at 31 December 2010. There were no further contingencies, guarantees or financial commitments as at 31 December 2010 (2009: Nil).

17. Related Party Transactions

The Board acts as the investment manager of the Company. No remuneration has been paid to the Board during the year in its capacity as investment manager. The Directors are entitled to participate in a performance bonus calculated as 20% of sums returned to shareholders by way of dividends and capital distributions of whatever nature, which in aggregate exceeds the sum of 80p per share (including dividends paid to date, i.e. 16.25p, but excluding any sums returned to shareholders from HMRC in the year of subscription). At the 31 December 2010, no performance fee was payable (2009: nil). The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors.

DIRECTORS AND ADVISERS

Board of Directors

James Otter (Chairman)
John Hustler
Charles Breese

Company Number

Registered in England & Wales
No 04221489

Secretary and Registered Office

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Botley
Oxford
OX2 0JB

VCT Status Adviser

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 4TU
Tel 0871 664 0300 (calls cost 10p per minute plus
network extras)
www.capitaregistrars.com

Financial Adviser

Beaumont Cornish Limited
2nd Floor, Bowman House
29 Wilson Street
London
EC2M 2SJ

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Hygea vct plc ("the Company") will be held at the offices of Matrix Corporate Capital LLP, 1 Vine Street, London W1J 0AH on Wednesday 11 May 2011 at 11.30 a.m. for the following purposes

Ordinary Business

To consider and if thought fit, pass the following as Ordinary Resolutions

1. **That the Directors' Annual Report and Accounts and the auditors' report thereon for the year ended 31 December 2010 be received and adopted.**
2. **That the Directors' Remuneration Report for the year ended 31 December 2010 be received and adopted.**
3. **To approve a final dividend of 5p per ordinary share in respect of the financial year ended 31 December 2010**
4. **That John Huster be re-elected as a Director of the Company.**
5. **That James Cowper LLP be re-appointed as auditors of the Company until the conclusion of the next Annual General Meeting of the Company at which accounts are laid before the Members**
6. **That the Directors be authorised to determine the auditor's remuneration.**

Special Business

7 AUTHORITY TO ALLOT RELEVANT SECURITIES

THAT the Directors be and are generally and unconditionally authorised in accordance with s551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company up to a maximum nominal amount of £405,767 (representing approximately 10% of the Ordinary share capital in issue at today's date) such authority to expire at the later of the conclusion of the Company's Annual General Meeting next following the passing of this Resolution and the expiry of 15 months from the passing of the relevant Resolution (unless previously revoked, varied or extended by the Company in a general meeting but so that such authority allows the Company to make offers or agreements before the expiry thereof, which would or might require relevant securities to be allotted after the expiry of such authority)

NOTICE OF ANNUAL GENERAL MEETING (continued)

To consider and, if thought fit, pass as a Special Resolution

8 EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES

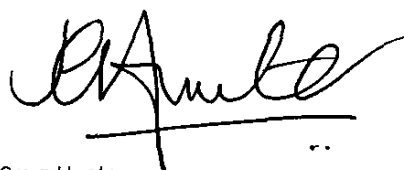
THAT the Directors pursuant to s571 of the Companies Act 2006 be empowered to allot or make offers or agreements to allot equity securities (as defined in s560(1) of the said Act) for cash pursuant to the authority referred to in Resolution 7 as if s561 (1) of the Act did not apply to any such allotments and so that

- (a) reference to allotment in this Resolution shall be construed in accordance with s560(2) of the Act, and
- (b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power

And this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this Resolution

By order of the Board

39 Alma Road
St Albans
AL1 3AT



Craig Hunter
Company Secretary
8 April 2011

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, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU** so as to be received by no later than 48 hours before the time the Annual General Meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the Annual General Meeting.
- (c) Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the Ordinary shares of the Company kept in accordance with the Listing Rules Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the Annual General Meeting, and at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion.

PROXY FORM HYGEA VCT PLC ANNUAL GENERAL MEETING 11 MAY 2011 AT 11.30 A.M.

I/We _____
(BLOCK CAPITALS PLEASE)

of [address] _____

being a member of Hygea vct plc, hereby appoint the Chairman of the meeting or,

Name of Proxy _____ Number of Shares _____

as my/our proxy and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 11 May 2011, notice of which was sent to shareholders with the Directors' Report and the accounts for the year to 31 December 2010, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting.

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

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

Resolution number	For	Against	Withheld
Ordinary Resolutions			
1 To receive and adopt the financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To receive and adopt the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To approve a final dividend	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect John Hustler as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-appoint James Cowper LLP as auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 To authorise the Directors to agree the remuneration of the auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special Resolutions			
7 To authorise the Directors to allot shares under s551 of the Companies Act 2006	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 To disapply s561 of the Companies Act 2006 and allot shares on a non-rights issue basis (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed _____ Dated _____ 2011

If you are unable to attend the AGM and wish to pass on any comments to the Board, please use the box below

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. If delivering by courier please use the full address of Capita set out in the Notice
- 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 Every holder has the right to appoint some other person(s) of their choice who need not be a shareholder as his proxy to exercise all or any of his rights to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement please enter next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder the full voting entitlement for that designated account)
- 4 To appoint more than one proxy, you may photocopy this form. Please indicate next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope
- 5 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
- 6 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
- 7 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6 p.m. on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting
- 8 The address on the envelope containing this notice is how your address appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30 a.m. - 5.30 p.m. Monday - Friday) to request a change of address form)
- 9 The completion and return of this form will not preclude a member from attending the meeting and voting in person

PLEASE USE THE REPLY PAID ENVELOPE PROVIDED