Hygea vct plc

# ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Company No: 04221489

# CONTENTS



# FINANCIAL HEADLINES

91.85p Total return at 31 December 2011

70.6p Net Asset Value at 31 December 2011

£630k Amount invested during the year into investee companies

# SHAREHOLDER INFORMATION AND CONTACT DETAILS

## Financial Calendar

The Company's financial calendar is as follows:

| | |
|---|---|
| 9 May 2012 | Annual General Meeting |
| September 2012 | Half-yearly results to 30 June 2012 published |
| April 2013 | Annual results for year to 31 December 2012 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
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4BR
www.capitaregistrars.com

## 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 (19 March 2012) | 44p 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
020 3206 7176 chris.lloyd@matrixgroup.co.uk

Paul Nolan
020 3206 7177 paul.nolan@matrixgroup.co.uk

Sharemark can be contacted as follows:

Sophie Murr
01296 439432 sophie.murr@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 2011 | Year to 31 December 2010 |
|---|---|---|
| Net assets (£'000s) | 5,733 | 6,282 |
| Return on ordinary activities after tax (£'000s) | (143) | 94 |
| Earnings per share | (1.8p) | 1.2p |
| Net asset value per share | 70.6p | 77.4p |
| Dividends paid since inception | 21.25p | 16.25p |
| Total return (NAV plus dividends paid) | 91.85p | 93.65p |

# CHAIRMAN'S STATEMENT

I am pleased to present the 2011 annual report to shareholders in Hygea vct plc.

In a time of austerity and with the NHS in well publicised turmoil, I felt that I should explain why your board continues to be optimistic about MedTech companies conforming to Hygea's investment template. The reasoning is as follows:

**a) Healthcare costs/emerging technologies**
We cannot assume that the NHS can continue to be allocated funds representing a growing proportion of GDP. However, this need not be as worrying as it appears because there are new technologies which not only improve patient outcomes but can also significantly reduce costs.

Hygea shareholders saw this with DxS (sold in 2009), which developed innovative companion diagnostics to accompany cancer treatments. Until these diagnostic techniques were available, some cancer treatments (which are expensive) were given to every patient with a particular cancer, but were only effective in respect of c.15% of patients.

Another example of scope for significant cost reduction (and better patient outcomes) is through the intelligent use of telemedicine and IT in a clinical setting. Hygea is involved in this through Axon, where I am now actively involved in a similar role to that which I carried out at Hallmarq Veterinary Imaging from 2006 to 2009. Telemedicine will be able to both dramatically reduce the quantum of resource required to deliver healthcare and make relevant patient records available in a timely manner, allowing healthcare professionals to spend more time with patients and less on routine administration.

**b) Health Economics**
One of the key elements of Hygea's investment template is the need for investees to compete on the basis of value provided not on price. This is a vital ingredient in businesses which are going to be winners in an era of austerity.

**c) Step Change Innovation**
There is a great propensity on the part of large companies to run the business for profit and to overlook the need for the step change innovation required to sustain a business over the longer term. I now see this situation turning to Hygea's advantage because these companies are finding that they lack pricing power with their customers and are needing to acquire step change technologies in order to restore their margins. Hygea and its investees are having a range of constructive discussions with business development executives from these larger companies, many of which have reduced their efforts in R&D and are now short of genuine innovations.

Hygea is a small fund but has exposure to some very interesting step change technologies. An example is Scancell which is now in Phase I clinical trials with a treatment for melanoma – the underlying principle is to instruct the human immune system how to respond. NASDAQ-listed Dendreon has developed similar technology (Provenge), which already has a successful sales pattern, but at a higher estimated cost than Scancell's. Results from Phase I clinical trials using Scancell's technology will be available during 2012, following which it is anticipated that Phase II trials will commence with results expected to be published in early 2014. Should these trials prove successful, we expect to be able to realise our investment at a significant uplift on the current valuation.

**d) Pensions**
Many people will find that their pension expectations will not be met in full and that they will need to continue to work until they are older in order to maintain their standard of living. This will result in growing demand for healthcare solutions, which enable people to remain economically active for longer.

For the reasons outlined above, your board is confident that over the next three years intrinsic but presently unrecognised value within the portfolio will be emerging. In addition, we are working on proposals to enable those shareholders who would like to exit in the shorter term to do so.

2011 has been a year of consolidation for Hygea. In a year which has seen the reduction in the value of our AIM portfolio and the payment of a dividend of 5p per share, we are pleased to be able to report that our Net Asset Value per share ('NAV') at the year-end is 70.6p (after the payment of the 5p dividend) compared to 77.4p at 31 December 2010 and 68.3p at 30 June 2011. In part this has been achieved by further earnout proceeds from the sale of our investment in DxS Limited. This means that at 31 December 2011 the Total Return per share is now 91.85p per share compared to a Total Return per share at 31 December 2010 of 93.65p per share.

## Results and Dividends

During the year our revenue return on ordinary activities saw a reduced loss of 1.1p per share compared to 1.6p last year. I am pleased to report that the total expense ratio remains below 3% and we intend that, subject to unforeseen circumstances, this will continue.

The continuing progress made by Hallmarq, allied to a further fundraising round, allowed that company to repay our loan together with interest of £54,237 which had not previously been accrued. We have rolled over the loan principal amounting to £135,000 into a new loan stock which will yield 7.5% per annum.

The capital return per share amounted to a loss of 0.7p compared to a profit in 2010 of 2.8p in view of the fact that the reduction in the value of the AIM portfolio more than offset the additional proceeds received from the sale of DxS Limited in 2009.

As reported in the 2010 accounts, £300,000 was accrued at 31 December 2010 in respect of the final instalment of the DxS escrow fund and in the event we received £332,348. We are delighted to report that in addition to this we received a further £313,032 in respect of the earnout provisions included in the sale agreement. We expect to receive additional proceeds should DxS achieve further milestones, which would further confirm the success of the DxS deal to all parties.

Overall the total return for the year amounted to a loss of 1.8p compared to a profit in 2010 of 1.2p.

As I wrote in my report which accompanied the half year results, we intend to maintain an annual dividend of 5p per share. However, as I intimated at the half year, the timing of such dividends will be dependent on the timing of realisations. As will be seen from this report, our only realisation in 2011 has been the receipt of extra sale proceeds from DxS Limited and therefore the Board feels unable to recommend a final dividend at this time.

In addition, due to the structure of our share capital, we do not presently have sufficient distributable reserves to allow us to pay a dividend. As will be seen under the section relating to the AGM, we are proposing a resolution to convert our share premium account into a distributable reserve which, if passed and subsequently approved by the Court, will allow the continuation of dividend payments.

The Board intends to declare an interim dividend as soon as cash resources and distributable reserves allow.

## Portfolio Review

**Follow on investments in existing investee companies**
It is our policy to continue to support our existing investee companies with further investment, where a good business case continues to be made. 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 (£12,905), Axon (£50,000), Glide (£20,000), OR Productivity/Freehand (£425,000) and Archimed (£122,340). We have not invested in any new investments during the year.

**Selected operational highlights**
Further details of our most significant investments are included in the Investment Review.

## 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.

## Future Prospects

Your Board have been considering the future direction of the Company. As has always been envisaged for a fund investing in earlier stage businesses conducting step change innovation, realisation of significant gains is not a realistic short term objective. Nevertheless we have been pleased to achieve two excellent exits in 2009 but since then both the AIM and M&A markets have not been conducive to further exits. However we believe that good progress is being made in a number of investee companies and we remain optimistic that, when conditions improve, we will see an enhancement of our NAV which VCT rules will allow us to distribute to shareholders. For this reason we strongly recommend shareholders to vote in favour of the resolution regarding company's continuation at the AGM.

It is also clear that it is difficult for a small fund to continue to support its investee companies and retain our stake without dilution and to date we believe we have been successful in balancing the needs of our investee companies with those of our shareholders. However we are currently exploring ways in which we might attract further funds into Hygea and we hope to be in a position to communicate these to shareholders later in the year.

## Annual General Meeting

The Company's Annual General Meeting will take place on Wednesday 9 May 2012 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.

As mentioned above, we do not have sufficient distributable reserves to pay dividends until we make further significant realised gains. We are therefore proposing to seek Court approval for the Share Premium account to be made distributable. Prior to seeking Court approval we need to pass a Special Resolution and this is included in the notice for the AGM.

The Company's Articles require that at the tenth Annual General Meeting an Ordinary Resolution should be put to Shareholders regarding the continuation of the company. As this occurs at the 2012 AGM we have

# CHAIRMAN'S STATEMENT (continued)

included such a resolution in the notice for the AGM. Your Board have carefully considered the future of the Company and for the reasons outlined in the introductory paragraphs unanimously recommend that you vote in favour of the continuation of the Company.

## Outlook

We now have a balanced portfolio of 6 AIM quoted companies and 11 unquoted companies. Many companies in the Medtech sector continue 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 in our unlisted companies.

Your Board remains optimistic about the prospects for the MedTech sector, especially for those companies which conform to the Company's investment template by providing better healthcare outcomes at lower cost, and believe this provides a sound foundation for your Company's future, even in a tough economic climate.

James Otter
Chairman
21 March 2012

# INVESTMENT REVIEW

## Investment Portfolio

| Unquoted investments | Investment at cost (£'000) | Unrealised profit/(loss) (£'000) | Carrying value at 31 December 2011 (£'000) | Movement in the year to 31 December 2011 (£'000) |
|---|---|---|---|---|
| **ImmunoBiology Limited** | 818 | 244 | 1,062 | - |
| **Hallmarq Veterinary Imaging Limited** | 1,116 | (257) | 859 | - |
| **Insense Limited** | 509 | (112) | 397 | - |
| **Freehand 2010 Limited/OR Productivity plc** | 425 | - | 425 | - |
| **Exosect Limited** | 250 | - | 250 | - |
| **Axon Limited** | 151 | 81 | 232 | 81 |
| **Arecor Limited** | 126 | - | 126 | - |
| **Archimed LLP** | 122 | - | 122 | - |
| **Glide Pharmaceutical Technologies Limited** | 326 | (206) | 120 | - |
| **Eykona Technologies Limited** | 100 | - | 100 | - |
| **Wound Solutions Limited** | 350 | (262) | 88 | - |
| **Total unquoted investments** | **4,293** | **(512)** | **3,781** | **81** |
| **Quoted Investments** | | | | |
| **Scancell plc** | 1,061 | (170) | 891 | (192) |
| **EKF Diagnostics plc** | 260 | 23 | 283 | (129) |
| **Omega Diagnostics plc** | 356 | (116) | 240 | (105) |
| **EpiStem Holdings plc** | 66 | 110 | 176 | (16) |
| **Reneuron plc** | 50 | (8) | 42 | (21) |
| **Tristel plc** | 55 | (17) | 38 | (22) |
| **Total quoted investments** | **1,848** | **(178)** | **1,670** | **(485)** |
| **Total investments** | **6,141** | **(690)** | **5,451** | **(404)** |

## 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 of the Objective and Investment Policy on page 16.

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 33, 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.

# INVESTMENT REVIEW (continued)

## Ten largest holdings (by value)

### 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 below) for use in certain treatments – both approaches seek to educate the immune system how to respond.

Update since 2010: 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 2011 |
| **Turnover:** | £nil |
| **Loss before tax:** | £1.3 million |
| **Net liabilities:** | £2.1 million |

### Scancell plc

Background: Scancell is an AIM listed 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.

Update since 2010: The Phase I trial for the melanoma treatment has continued to plan, with completion scheduled for end Q1 2012 – the Phase II trial is expected to start in Q2 2012 and be completed during 2013. The funding position was assisted by receipt of deferred consideration of £2.85 million from the sale of the antibodies portfolio in 2006 – the trigger was the first use in a patient of one of the antibodies sold. Scancell is expected to become an acquisition opportunity once the Phase II trial has been successfully completed.

| | |
|---|---|
| **Initial investment date:** | December 2003 |
| **Cost:** | £1,061,000 |
| **Valuation:** | £891,000 |
| **Equity held:** | 7.6% |
| **Last audited accounts:** | 30 April 2011 |
| **Turnover:** | £nil |
| **Loss before tax:** | £1.7 million |
| **Net assets:** | £4.6 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 2010: Hallmarq has continued to expand its installed base of equine systems. The companion animal scanner is due for launch in 2012. The audited accounts to August 2011 showed sales of £2.7 million (2010: £2.7 million) and operating profit of £188,000 (2010: £50,280) – sales comprised reduced sales of systems and increased scan fee income, hence the increased profitability.

| | |
|---|---|
| **Initial investment date:** | August 2005 |
| **Cost:** | £1,116,000 |
| **Valuation:** | £859,000 |
| **Equity held:** | 11.0% |
| **Last audited accounts:** | 31 August 2011 |
| **Turnover:** | £2.6 million |
| **Loss before tax:** | £12,000 |
| **Net assets:** | £2.8 million |

## Freehand 2010 Limited/OR Productivity plc

As explained in last year's accounts, Hygea was in the process of acquiring a shareholding in Freehand 2010 to replace its investment in Freehand Surgical. Freehand 2010 owns the intellectual property to technology incorporated in a product for robotically controlling the laparoscope (part of the camera system) used by keyhole surgeons - the camera system is used to put an image of the inside of the patient's body onto a screen, and the surgeon uses this screen when operating to view the procedure. Keyhole surgery is growing in relation to open surgery because the smaller incisions required by the former result in reduced pain and reduced recovery time (hospital stays are very expensive). Version 1 ('V1') of the product is CE marked and has 510(k) approval. The business model is free placement of the system and sales of consumables to generate recurring income.

Update since 2010: following use in the field, it was learned that several modifications were required to V1 in order to make it easier to set up and make it applicable to a much higher percentage of keyhole operations – in 2008 there were estimated to be c.3.8 million keyhole operations in Europe and the US (Medtech Insight 2010), a sector predicted to grow at 9% pa (Medtech Insight 2007) – V1.2 incorporating these modifications is due for launch in Q2 2012. A key market development is the emergence of HD and 3D for use by keyhole surgeons to provide improved depth of vision – viewers of 3D generally become nauseous if the picture is not steady – the Freehand product appears to be being regarded as the leading solution worldwide for enabling 3D camera systems for keyhole surgery to provide rock steady images – this is borne out by approaches being received from major OEMs which have developed 3D camera systems. At the end of 2011, Freehand 2010 was in the process of being acquired by OR Productivity plc (ORP) in exchange for ORP shares – ORP was founded by two people with very senior MedTech experience in order to commercialise products able to enhance the productivity of Minimally Invasive Surgery, which embraces keyhole surgery – the Freehand product is perceived as a platform product for other productivity enhancing products which are appearing. During the year the Company invested £304,000 into Freehand 2010, which has been exchanged for shares in OR Productivity plc, and £121,000 into OR Productivity plc directly.

| | |
|---|---|
| **Initial investment date:** | March 2011 |
| **Cost:** | £425,000 |
| **Valuation:** | £425,000 |
| **Equity held:** | 34% |
| **Last audited accounts:** | N/A |
| **Turnover:** | N/A |
| **Loss before tax:** | N/A |
| **Net assets:** | N/A |

## 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) and dermatology

Update since 2010: the technology has been developed to make the products easier to use, capable of personalisation to the needs of individual patients, and cheaper to manufacture – a patent has been applied for. A NED with 'deal-making' skills within the healthcare sector has been appointed to assist with securing partners to commercialise the technology.

| | |
|---|---|
| **Initial investment date:** | July 2003 |
| **Cost:** | £509,000 |
| **Valuation:** | £397,000 |
| **Equity held:** | 9.2% |
| **Last audited accounts:** | 31 December 2010 |
| **Turnover:** | £371,000 |
| **Loss before tax:** | £379,000 |
| **Net assets:** | £1,483,000 |

# 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.

Update since 2010: In June 2011, Stanbio (a US based medical diagnostic devices distribution and manufacturing business) was acquired for $19.5 million – its product range included EKF's Haemo-Control device. The January 2012 update re the final results to December 2011 reported that they will show sales of £21.6 million (2010: £6.5 million) and year end net cash of £2.8 million.

| | |
|---|---|
| **Initial investment date:** | June 2010 |
| **Cost:** | £260,000 |
| **Valuation:** | £283,000 |
| **Equity held:** | <1% |
| **Last audited accounts:** | 31 December 2010 |
| **Turnover:** | £6.5 million |
| **Loss before tax:** | £2,089,000 |
| **Net assets:** | £23.2 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.

Update since 2010: good progress has been made demonstrating the efficacy of the Exosect technology in major applications such as seed treatment and grain storage, where traditional chemicals are under concerted regulatory pressure.

| | |
|---|---|
| **Initial investment date:** | January 2010 |
| **Cost:** | £250,000 |
| **Valuation:** | £250,000 |
| **Equity held:** | 2.7% |
| **Last audited accounts:** | 31 December 2010 |
| **Turnover:** | £215,000 |
| **Loss before tax:** | £1.6million |
| **Net assets:** | £3.6million |

## 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.

In December 2010 Allergopharma was acquired for £7.75 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, which has been licensed from AIM listed Immunodiagnostic Systems Holdings.

Update since 2010: a distribution agreement for Food Detective in the US was signed, with the distributor bearing the costs of obtaining FDA approval. The interim results to September 2011 showed sales of £5.5 million (2010: £3.3 million) and adjusted pre-tax profit of £427,000 (2010: £403,000).

| | |
|---|---|
| **Initial investment date:** | August 2007 |
| **Cost:** | £356,000 |
| **Valuation:** | £240,000 |
| **Equity held:** | <1% |
| **Last audited accounts:** | 31 March 2011 |
| **Turnover:** | £7.9 million |
| **Profit before tax:** | £105,000 |
| **Net assets:** | £13.0 million |

## Axon Limited

Background: Axon is a telemedicine company - it was founded in early 2006 and has developed a web-based communication platform to enable the more effective delivery of healthcare at a time when the prevalence and related cost of managing chronic illness (eg diabetes, chronic wound care etc) is overwhelming healthcare resources worldwide. A Software-as-a-Service business model is being pursued.

Update since 2010: James Otter has become actively involved, carrying out a similar role to that which he carried out at Hallmarq Veterinary Imaging from 2006 to 2009. The company is in the process of negotiating collaborations which if successful will result in a step change to the business.

| | |
|---|---|
| **Initial investment date:** | May 2010 |
| **Cost:** | £150,000 |
| **Valuation:** | £232,000 |
| **Equity held:** | 4.6% |
| **Last audited accounts:** | 31 December 2010 |
| **Turnover:** | £245,000 |
| **Loss before tax:** | £339,000 |
| **Net assets:** | £133,000 |

# INVESTMENT REVIEW (continued)

## EpiStem Holdings plc

Background: EpiStem listed on AIM in April 2007. Its knowledge is based on over 30 years research at The Christie NHS Foundation Trust, 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 2009, the launch of Genedrive, a point-of-care molecular diagnostic instrument, was announced.

Update since 2010: A three year collaboration has been entered into with Sanofi-Aventis to assist the latter's oncology programmes. Genedrive was successfully evaluated in India's TB programme, resulting in commercial launch on the programme expected in 2012 – India has the largest number of TB sufferers in the world.

| | |
|---|---|
| **Initial investment date:** | April 2007 |
| **Cost:** | £66,000 |
| **Valuation:** | £176,000 |
| **Equity held:** | <1% |
| **Last audited accounts:** | 30 June 2011 |
| **Turnover:** | £5.8 million |
| **Profit before tax:** | £357,000 |
| **Net assets:** | £6.2 million |

## Disposals

A further £345,000 was received by way of additional consideration from the previous investment in DxS, which was disposed in 2009 and a further £2,000 was received on the liquidation of Stemcell Sciences.

During the year Freehand Surgical Limited, Prosurgics Limited, Purely Proteins Limited and York Pharma plc were all put into Administration or Liquidation.

# DETAILS OF DIRECTORS

### James Otter (Non-Executive Chairman – Age 54)

James is currently CEO of Axon Limited, a Hygea investee that specialises in medical IT. He remains an observer on the Board of Hallmarq Veterinary Imaging Limited and is a Director of Glide Pharmaceutical Technologies Limited. 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 65)

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 65)

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 Holdings Limited 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 2011.

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 27.

## 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 to 8, and the Investment Review on pages 9 to 14 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 there have been no significant post balance sheet events.

## 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 25 of the Directors' Remuneration Report. This index has been adopted as an informal benchmark.

**Results and dividend**

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| Net return attributable to shareholders | (143) | 94 |
| Appropriations:<br>Final dividend proposed<br>– 0p per share (2010 – 5p) | – | 406 |

## 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:** 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 21 to 23.

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

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

# DIRECTORS' REPORT (continued)

## Directors

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

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| James Otter (Chairman) | 24,050 | 14,050 |
| John Hustler | 190,000 | 102,500 |
| Charles Breese | 105,000 | 105,000 |

All of the Directors' shares were held beneficially. There have been no changes in the Directors' share interests between 31 December 2011 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 Board is satisfied that, following individual performance evaluations, Mr James Otter continues to be effective and to demonstrate commitment to the role.

Brief biographical notes on the Directors are given on page 15.

## 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 (2010 – nil 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 2011 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 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.

# DIRECTORS' REPORT (continued)

## 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. Trade creditors at 31 December 2011 were £8,714 (2010: £9,131).

## 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 14. 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 2012 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

James Cowper LLP are engaged as the Company's auditors 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 2013, to allot up to 811,537 ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 December 2011).

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 2011). 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.

Resolution 9 gives the Company the requisite authority to seek Court approval for the cancellation of the entire Share Premium Account following which the amount standing to the credit of this account will become distributable. The sum standing to the credit of the Share Premium account at the date of the Court approval will be added to the Special Distributable Reserve which may be used for the payment of dividends and the buyback of the Company's shares, if shareholders have so authorised. Application will be made to the Court following the passing of the Resolution in the summer.

By Order of the Board

Craig Hunter
Company Secretary
21 March 2012

# 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 23.

## 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 | 5 | 5 | N/A | N/A |
| John Hustler | 5 | 5 | 2 | 2 |
| Charles Breese | 5 | 5 | 2 | 2 |

Additional meetings were held as required to address specific issues. A brief biographical summary of each Director is given on page 15.

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.

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

## Audit Committee:

The Audit Committee, chaired by John Hustler, consists of two independent Directors. The Audit Committee believes John Hustler possesses appropriate and

# CORPORATE GOVERNANCE (continued)

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 2011, 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 2011 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 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
21 March 2012

# 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 2011. 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 27.

## 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.

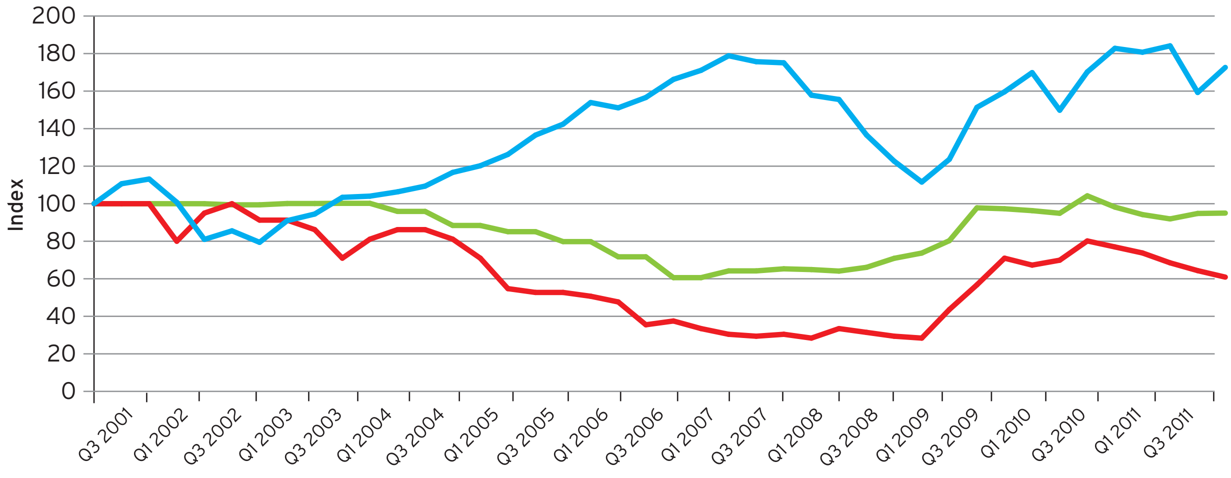
The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. The fee for the Chairman is £20,000 per annum and for Directors is £17,500 per annum. It is not proposed to increase these fees in 2012.

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. 21.25p, but excluding any sums returned to shareholders from HMRC in the year of subscription). At 31 December 2011, no performance fee was payable (2010: 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 2011, 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 Director's emoluments:

**Directors' fees**

| | **Year ended 31 December 2011 £** | **Year ended 31 December 2010 £** |
|---|---|---|
| James Otter (Chairman) | 20,000 | 20,000 |
| John Hustler | 17,500 | 17,500 |
| Charles Breese | 17,500 | 17,500 |
| Total | 55,000 | 55,000 |

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

By order of the Board.

Craig Hunter

Craig Hunter
Company Secretary
21 March 2012

# 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
21 March 2012

# 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 2011 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 2011 and of its loss 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 Investment Review, Chairman's statement and Directors' Report 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 UK Corporate Governance 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
21 March 2012

# INCOME STATEMENT

| | Notes | Year to 31 December 2011 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Gain on disposal of fixed asset investments | | - | 347 | 347 |
| Loss on valuation of fixed asset investments | 9 | - | (404) | (404) |
| Income | 2 | 64 | - | 64 |
| Other expenses | 3 | (150) | - | (150) |
| **Return on ordinary activities before tax** | | **(86)** | **(57)** | **(143)** |
| Taxation on return on ordinary activities | 5 | - | - | - |
| **Return on ordinary activities after tax** | | **(86)** | **(57)** | **(143)** |
| **Earnings per share – basic and diluted** | 7 | **(1.1)p** | **(0.7)p** | **(1.8)p** |

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

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

# INCOME STATEMENT

| | Notes | Year to 31 December 2010 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Gain on disposal of fixed asset investments | | - | 896 | 896 |
| Loss on valuation of current asset investments | | - | (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.

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| Shareholders' funds at start of year | 6,282 | 7,404 |
| Return on ordinary activities after tax | (143) | 94 |
| Issue of equity (net of expenses) | - | - |
| Dividends paid | (406) | (1,216) |
| **Shareholders' funds at end of year** | **5,733** | **6,282** |

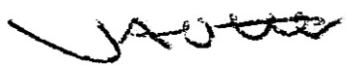
# BALANCE SHEET

| | Notes | As at 31 December 2011 £'000 | £'000 | As at 31 December 2010 £'000 | £'000 |
|---|---|---|---|---|---|
| Fixed asset investments* | 9 | | 5,451 | | 5,225 |
| Current assets: | | | | | |
| Debtors | 10 | 9 | | 323 | |
| Cash at bank | | 303 | | 764 | |
| | | 312 | | 1,087 | |
| Creditors: amounts falling due within one year | 11 | (30) | | (30) | |
| Net current assets | | | 282 | | 1,057 |
| **Net assets** | | | **5,733** | | **6,282** |
| 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 | (52) | | 1,694 | |
| – holding gains and losses | 13 | (690) | | (1,973) | |
| Revenue reserve | 13 | (1,018) | | (932) | |
| **Total equity shareholders' funds** | | | **5,733** | | **6,282** |
| **Net asset value per share** | 8 | | **70.6p** | | **77.4p** |

*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 21 March 2012 and are signed on their behalf by:



James Otter
Chairman

Company No: 04221489

# CASH FLOW STATEMENT

| | Notes | Year to 31 December 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | | 228 | (418) |
| **Financial investment:** | | | |
| Purchase of fixed asset investments | 9 | (630) | (2,743) |
| Disposal of fixed asset investments | | 347 | 1,105 |
| **Financing:** | | | |
| Issue of shares | | - | - |
| **Dividends paid** | | (406) | (1,216) |
| **Decrease in cash resources at bank** | | **(461)** | **(3,272)** |

# RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | Year to 31 December 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|
| (Decrease)/increase in cash resources at bank | (461) | (3,272) |
| Opening net funds | 764 | 4,036 |
| **Net funds at 31 December*** | **303** | **764** |

* Net funds at 31 December 2010 and 31 December 2011 comprised cash at bank

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

| | Year to 31 December 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|
| Return on ordinary activities before tax | (143) | 94 |
| Gain on disposal of fixed asset investments | (347) | (896) |
| Loss on valuation of fixed asset investments | 404 | 668 |
| Decrease/(increase) in debtors | 314 | (294) |
| Increase/(decrease) in creditors | - | 10 |
| **Inflow/(outflow) from operating activities** | **228** | **(418)** |

# 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 2010 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 2011 or 31 December 2010. 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 pages 22 and 23 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 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|
| Dividends received | 1 | 1 |
| Underwriting fee | – | 14 |
| Bank interest receivable | – | 14 |
| Loan note interest receivable | 63 | 8 |
| | **64** | **37** |

## 3. Other Expenses

| | Year to 31 December 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|
| Directors' remuneration | 55 | 55 |
| Fees payable to the Company's auditor for the audit of the financial statements | 7 | 8 |
| Fees payable to the Company's auditor for other services – tax compliance | 2 | 2 |
| Legal and professional expenses | 52 | 52 |
| Accounting and administration services | 13 | 29 |
| Other expenses | 21 | 25 |
| | **150** | **171** |

For the year ended 31 December 2011 the running costs were 2.6% (2010: 2.7%) of net assets.

## 4. Directors' Remuneration

| | Year to 31 December 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|
| Directors' emoluments | | |
| James Otter (Chairman) | 20.0 | 20.0 |
| John Hustler | 17.5 | 17.5 |
| Charles Breese | 17.5 | 17.5 |
| | **55** | **55** |

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 (2010: three).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5. Tax on Ordinary Activities

The corporation tax charge for the period was £nil (2010: £nil)

The current rate of tax is the small companies' rate of corporation tax at 20.25% (2010: 21%)

Current tax reconciliation:

| | Year to 31 December 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|
| Return on ordinary activities before tax | (86) | (134) |
| Current tax at 20.25% (2010: 21%) | (17) | (28) |
| Unrecognised tax losses | 17 | 28 |
| **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 2011 £'000 | Year to 31 December 2010 £'000 |
|---|---|---|
| **Recognised as distributions in the financial statements for the period** | | |
| Previous year's interim dividend | - | 811 |
| Previous year's final dividend | 406 | 405 |
| | **406** | **1,216** |
| **Paid and proposed in respect of the year** | | |
| Proposed final dividend – 0p per share (2010: 5p per share) | - | 406 |
| | **-** | **406** |

## 7. Earnings per Share

The total earnings per share is based on 8,115,376 (31 December 2010: 8,115,376) shares, being the weighted average number of shares in issue during the year, and a return for the year totalling (£143,000) (31 December 2010: £94,000).

The revenue and capital earnings per share are based on 8,115,376 (31 December 2010: 8,115,376) shares, being the weighted average number of shares in issue during the year, and a revenue return for the year totalling £(86,000) (31 December 2010: £(134,000)) and a capital return for the year totalling (£57,000) (31 December 2010: £228,000).

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 2011 is based on 8,115,376 (31 December 2010: 8,115,376) ordinary shares in issue at that date.

## 9. Fixed Asset Investments

| | Level 1: AIM-quoted investments Equity investments £'000 | Level 3: Unquoted investments Equity investments £'000 | Level 3: Unquoted investments Loan investments £'000 | Total investments £'000 |
|---|---|---|---|---|
| Valuation and net book amount: | | | | |
| Book cost as at 1 January 2011 | 1,938 | 5,053 | 207 | 7,198 |
| Cumulative revaluation | 217 | (2,118) | (72) | (1,973) |
| Valuation at 1 January 2011 | 2,155 | 2,935 | 135 | 5,225 |
| Movement in the year: | | | | |
| Purchases at cost | - | 610 | 20 | 630 |
| Disposals at cost | (90) | (1,597) | - | (1,687) |
| Disposal proceeds | - | (347) | - | (347) |
| Gain on disposal | - | 347 | - | 347 |
| Realisation of previously recognised losses | 90 | 1,597 | - | 1,687 |
| Loan converted to equity | - | - | - | - |
| Revaluation in year | (485) | 81 | - | (404) |
| **Valuation at 31 December 2011** | **1,670** | **3,626** | **155** | **5,451** |
| **Book cost at 31 December 2011:** | 1,848 | 4,138 | 155 | 6,141 |
| **Revaluation to 31 December 2011:** | (178) | (512) | - | (690) |
| **Valuation at 31 December 2011** | **1,670** | **3,626** | **155** | **5,451** |

Further details of the fixed asset investments held by the Company are shown within the Investment Review on pages 9 to 14.

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.

At the year end there were no further commitments in respect of investments approved by the Board but not yet completed. At 31 December 2010, an investment of £250,000 in Freehand 2010 was committed to but had not yet completed.

## 10. Debtors

| | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---|---|---|
| Prepayments and accrued income | 9 | 323 |
| | **9** | **323** |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11. Creditors: Amounts Falling Due Within One Year

| | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---|---|---|
| Accruals | 21 | 21 |
| Other creditors | 9 | 9 |
| | **30** | **30** |

## 12. Share Capital

| | 31 December 2011 £'000 | 31 December 2010 £'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 (2010: 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 9. 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 2011 | 1,737 | 1,660 | 38 | 1,694 | (1,973) | (932) |
| Return on ordinary activities after tax | - | - | - | - | - | (86) |
| Current period gains/losses on disposal | - | - | - | 347 | - | - |
| Current period gains/losses on fair value of investments | - | - | - | - | (404) | - |
| Prior years' unrealised losses now realised | - | - | - | (1,687) | 1,687 | - |
| Dividends paid | - | - | - | (406) | - | - |
| **Balance as at 31 December 2011** | 1,737 | 1,660 | 38 | (52) | (690) | (1,018) |

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 2010, the Company revoked investment company status in order to allow payment of dividends from distributable reserves. Distributable reserves are represented by the special distributable reserve, the capital reserve gains/(losses) on disposal and the revenue reserve which total £590,000 as at 31 December 2011.

## 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 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 9. 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 9.

66.0% (2010: 48.9%) 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 2011 would have increased net assets and the total return for the year by £378,000 (2010: £307,000) an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount.

29.1% (2010: 34.3%) 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 2011 would have increased net assets and the total return for the year by £167,000 (2010: £216,000); 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 2011 (2010: 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

| | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---|---|---|
| Cash at bank | 303 | 764 |
| | **303** | **764** |

A 1% increase in the base rate would increase income receivable from these investments and the total return for the period by £3,030 (2010: £7,640); 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 2011 or 31 December 2010.

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 2011 the Company's financial assets exposed to credit risk comprised the following:

| | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---|---|---|
| Cash at bank | 303 | 764 |
| Unquoted investments – loans | 155 | 135 |
| | **458** | **899** |

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 2011, the Company's cash balance was £303,000 (2010: £764,000).

## 15. Post Balance Sheet Events

There have been no material transactions since the balance sheet date and the date of the publication of this report.

## 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 £300,000 based on performance from DxS over the next few years of which £nil has been accrued in the accounts as no amounts have yet been agreed. As at 31 December 2011 deferred consideration of £1,241,000 has been received.

There were no further contingencies, guarantees or financial commitments as at 31 December 2011 (2010: £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. 21.25p, but excluding any sums returned to shareholders from HMRC in the year of subscription). At the 31 December 2011, no performance fee was payable (2010: 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

Craig Hunter
39 Alma Road
St Albans
AL1 3AT

## Administration Manager

Octopus Investments Limited
20 Old Bailey
London
EC4M 7AN

## Solicitors

Pinsent Masons
30 Aylesbury Street
London
EC1R 0ER

## Corporate Broker

Matrix Corporate Capital LLP
1 Vine Street
London
W1J 0AH
Tel: 0203 206 7176

## Independent Auditor and Taxation Adviser

James Cowper LLP
Willow Court
7 West Way
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 9 May 2012 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 2011 be received and adopted.**

2. **That the Directors' Remuneration Report for the year ended 31 December 2011 be received and adopted.**

3. **That James Otter be re-elected as a Director of the Company.**

4. **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.**

5. **That the Directors be authorised to determine the auditor's remuneration.**

6. **That the company should continue as a Venture Capital Trust for a further three year period.**

## 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 the following as Special Resolutions:

**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.

**9. CANCELLATION OF SHARE PREMIUM ACCOUNT**

THAT the amount standing to the credit of the share premium account of the Company, at the date an order is made confirming such cancellation by the Court, be cancelled.

By order of the Board

Registered office
39 Alma Road
St Albans
AL1 3AT

Craig Hunter
Company Secretary
21 March 2012

## 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 9 MAY 2012 AT 11.30 A.M.

I/We ______________________________________________
(BLOCK CAPITALS PLEASE)

of [address] ______________________________________________

Telephone number ____________________ Email ____________________

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 9 May 2012, 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 |
|---|---|---|---|---|
| 1. | To receive and adopt the financial statements | ☐ | ☐ | ☐ |
| 2. | To receive and adopt the Directors' Remuneration Report | ☐ | ☐ | ☐ |
| 3. | To re-elect James Otter as a Director | ☐ | ☐ | ☐ |
| 4. | To re-appoint James Cowper LLP as auditors | ☐ | ☐ | ☐ |
| 5. | To authorise the Directors to agree the remuneration of the auditors | ☐ | ☐ | ☐ |
| 6. | To confirm the company will continue as a Venture Capital Trust for a further three years | ☐ | ☐ | ☐ |
| 7. | To authorise the Directors to allot shares under s551 of the Companies Act 2006 | ☐ | ☐ | ☐ |
| 8. | To dis-apply s561 of the Companies Act 2006 and allot shares on a non-rights issue basis | ☐ | ☐ | ☐ |
| 9. | To agree cancellation of Share Premium Account | ☐ | ☐ | ☐ |

Signed: ______________________ Dated: ______________________2012

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

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