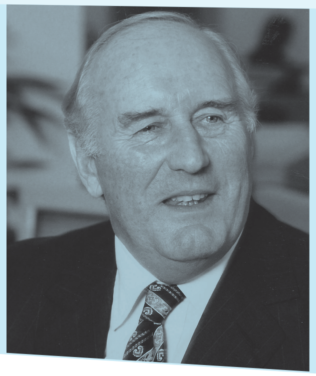
Notes



Chairman's Statement

Results

The Company had turnover in the year ended 31 March 2005 of £136,958 (2004 £360,185), whilst operating expenses for the year were £2,189,908, some 13% less than in the preceding year. These expenses included development expenditure of £653,896 and amortization of intangible fixed assets of £94,589. The Loss on Ordinary Activities Before Tax was £1,867,390 – some £417,833 more than in 2004 during which year the Company benefited from £552,856 of gains on exceptional items.

Loss After Tax for the year was £1,867,390. This compares with a Profit After Tax of £527,260 during the year ended 31 March 2004 following receipt of £1,976,817 in tax credits in respect of development work during earlier years.

The cash position as at 31 March 2005 was £4,015,126 – some £1,953,074 less than on the corresponding day in 2004.

In line with the resolution passed at the last Annual General Meeting, the Share Premium Account has been cancelled, and this is reflected in the statutory Accounts included in this Annual Report.

Business review and activities

The progress made at AorTech in Financial Year 2005 is a story that began with the vigorous turnaround of FY 2003 and the foundation building in the year of 2004. The turnaround was comprised of a number of key strategic actions, including:

- The appointment of new management
- Termination of £30 million Becton Dickinson acquisition
- Sale of the loss making heart valve business
- Voluntary withdrawal of TruCCOMs from market
- Sale of TruCCOMs intellectual property
- Termination of in-house development of Tri-leaflet heart valve
- Start up of Biomaterial licensing and supply business
- A reduction in cash burn from £10m in FY 2003 to under £1m in 2004
- Biomaterial technology licenses and supply agreements executed June 2003

Having accomplished these critical changes, management set out to develop a strategy for the new business and to put a number of foundation elements in place.

During the foundation year of 2004, the business:

- generated 17 new materials evaluation programmes reflecting the expansion of Elast-Eon platform into new areas
- progressed 2 step-out projects through to advanced stages of product development
- increased its scientific profile through World Biomaterials Congress presentations
- provided support for key client relationships, resulting from dramatic improvements in quality of materials achieved through process optimisation to facilitate higher yields in device production
- submitted its first master file to FDA
- developed a supplier management programme and the expansion of the supplier base
- successfully completed research programmes on drug-eluting stents and spinal discs
- achieved advances in breast implant potential
- succeeded in developing the Melbourne manufacturing and technology centre into a key strategic asset

Frank Maguire and I would like to acknowledge the contributions made by Laurie Rostron, Chairman of the Company until May 2005, to the turnaround and foundation phases of this reincarnated business. His guidance and steady hand were instrumental in setting this new business off in a positive direction.

The accomplishments of the past year reflect the beginnings of commercial as well as strategic, regulatory and technical progress.

Milestones of note include:

- Expansion of the Elast-Eon Master technology data base
- Maintenance of high quality and stable supply of Elast-Eon
- Development of new abrasion resistant, low creep grades for orthopaedic applications, in particular the rapidly growing spinal disc segment
- Major internal developments in next generation breast implants that address material selection and preliminary toxicity and biostability results
- Validation of superiority of Elast-Eon for breast implant shell, particularly in comparison with silicone
- Completion of sterilization feasibility for the Elast-Eon breast implant
- Meeting with the FDA to assess the use of Elast-Eon in breast implants
- Development of specific Elast-Eon formulations suitable for minimally invasive devices, injectable in situ cure and progress in defining the regulatory road map for the ultimate approval of this product
- Development of form-stable, metal-free and ultra-low extractable gels
- Successful bench testing of formulations for spinal disc applications
- Support for client manufacturing as part of first human use project

Outlook

The Company believes that first human use of Elast-Eon and the generation of the first royalty income for the business will occur within one year.

The effect that this event will have on the biomaterial licensing and supply business will be positive and manifest itself along with steadily growing revenue streams - in terms of an increasing number of licensing deals and projects and the individual value of these projects to AorTech.

It will be the result of the consistent diligent and expert work by all of our valued employees.

It will be the point in time where the work of the past 3 years can be acknowledged and the 'new' AorTech can be considered officially on its way. In light of these considerations and after considering the feedback from the investment community and a number of key shareholders, the Board has reached a decision to re-name the company AorTech Biomaterials plc.

I am delighted at the progress we have made with the both our "generation 5", safer surgical type breast implant and the breakthroughs we are experiencing with the development of a true minimally invasive breast implant technology.

The AorTech Board is looking forward to increasingly positive commercial results in the coming year with a number of new application developments, new licensees and the expansion of clinical use of Elast-Eon for a number of long-term implants where there is a high demand for extraordinary fatigue performance, abrasion resistance, blood compatibility and general physical strength.

Board Changes

We announced at the end of October 2004 that Ian Cameron was stepping down from his position as Finance Director but would remain as a Non Executive Director and Company Secretary in the short term. Ian retired from the Board with effect from 20th December 2004 to concentrate on his role as Finance Director at i-mate plc., having contributed substantially to AorTech during his six years with the Company. He has been succeeded as Company Secretary by David Parsons.

In May 2005, my predecessor as Chairman, Laurie Rostron, and Peter Gibson, Non-Executive Director of the Company, stepped down as a consequence of the restructuring of the business. Earlier in this Statement I have acknowledged the contribution made by Laurie Rostron, but I would also take this opportunity to express my warm thanks to both gentlemen for their considerable efforts and input during what was a difficult, transitional period for the Company.

As part of the restructuring process, we also announced the appointment of Dr Stuart Rollason as a Non-Executive Director in May 2005. Dr Rollason brings a wealth of experience, both medical and corporate, to the Board and it has become clear that his input will prove of much value in the months ahead.

Auditors

The Company's current auditors, PricewaterhouseCoopers LLP, have resigned with effect from the forthcoming Annual General Meeting. PricewaterhouseCoopers LLP have confirmed to us that there are no circumstances connected with their resignation that they consider should be brought to the attention of members. Grant Thornton UK LLP have confirmed that they would be pleased to accept appointment as the Company's auditors.

I am grateful to the partners and staff of PricewaterhouseCoopers LLP for the professionalism and services they have provided during their tenure.

Conclusion

The task ahead remains challenging, but I believe that the credibility attained from the successful completion of the long, arduous process of qualifying Elast-Eon for human use will provide a substantive boost for our heart valve and breast implant projects with investors, regulators and potential industry partners.

My sincere thanks go to Frank Maguire, and his highly skilled team, for their considerable achievements, efforts and support during the past year.

Jon Pither
Chairman

Board of Directors & Advisors

Directors

Jon Pither Chairman (non-Executive Director; appointed Chairman 12 May 2005)
Laurie Rostron Chairman (resigned 12 May 2005)
Frank Maguire Chief Executive
Ian Cameron Finance Director (resigned 20 December 2004)
Peter Gibson non-Executive Director (resigned 12 May 2005)
Dr Stuart Rollason non-Executive Director (appointed 13 May 2005)

Company Secretary

Ian Cameron (resigned 1 December 2004)
David Parsons (appointed 1 December 2004)

Registered Office

Dalmore House, 310 St Vincent Street, Glasgow G2 5QR

Head Office

Prestige Travel Suite, Barclays Bank House, 81-83 Victoria Road, Surbiton, Surrey, KT6 4NS, England

Registered Auditors

PricewaterhouseCoopers LLP, Kintyre House, 209 West George Street, Glasgow G2 2LW

Brokers

Bell Lawrie White (a division of Brewin Dolphin Securities Ltd), 48 St Vincent Street, Glasgow G2 5TS

Solicitors

Biggart Baillie, Dalmore House, 310 St. Vincent Street, Glasgow G2 5QR
Beachcroft Wansbroughs, 100 Fetter Lane, London, EC4A 1BN

Bankers

Bank of Scotland, 123 St. Vincent Street, Glasgow G2 5EA

Registrars

Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1WQ
Shareholder helpline: 0870 6015366,
Shareholder website: www.shareview.co.uk

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 March 2005.

Principal activities

The Company is the holding company of a Group whose principal activities are the development and exploitation of a range of innovative biomaterials.

Review of business and future developments

A review of the results for the year and of future developments in the business is given in the Chairman's Statement.

During the financial year, the Company continued to develop and exploit its biomaterial products, with discussions taking place with a number of interested parties. The Company's offices in Scotland were vacated at the end of 2004, with the UK administrative activities being transferred to its current address in Surrey, England.

During the year, costs of £653,896 (2004: £559,032) were charged to the Profit and Loss Account as development expenditure. The consolidated profit and loss account is set out on page 16, indicating the Group's loss for the financial year of £1,867,390 (2004: profit of £527,260) which will be deducted from reserves.

No dividends have been paid or proposed for the years ended 31 March 2005 and 2004.

Fixed assets

Details of the fixed assets of the Company and the Group are set out in notes 12 to 14 of the financial statements.

Directors and their interests

At 31 March 2005, the Chairman of the Company was L Rostron, the Executive Director was F Maguire, and the non-Executive Directors were P Gibson and J Pither. The other Director who served during the year was I Cameron, who resigned on 20 December 2004.

At each Annual General Meeting one third of Directors shall be subject to retirement by rotation. F Maguire retires from the Board at the Annual General Meeting and, being eligible, offers himself for re-election. As the 2005 Annual General Meeting is the first following J Pither's 70th birthday, he is required under the Companies Act 1985 to vacate his office, but remains eligible, and offers himself for re-election.

The interests of the Directors at 31 March 2005 in the ordinary share capital of the Company (all beneficially held) were as follows:

	31 March 2005 number	31 March 2004 number
L. Rostron	**-**	-
F. Maguire	**1,200**	1,200
P. Gibson	**5,500**	5,500
J. Pither	**-**	-

During the period from the end of the financial year to 20 September 2005, no Director increased his interest in the issued ordinary share capital of the Company.

The interests of Directors in share options are disclosed in the Report of the Remuneration Committee on page 14.

Substantial shareholdings
With the exception of the following shareholdings, the Directors have not been advised of any individual interest, or group of interests held by persons acting together, which at 20 September 2005 exceed 3% of the Company's issued share capital:

	number	%
Chase Nominees Limited	**1,035,576***	27.2%
Nordea Bank Danmark A/S	**477,713****	12.5%
Caricature Investments Limited	**447,107**	11.7%
Melody Investments Limited	**437,107**	11.5%
Goldman Sachs International	**180,000**	4.7%
Mr Craig Pickup	**118,636**	3.1%

*Included in the interests of Chase Nominees Limited above is the following fund whose shareholding at 20 September 2005 exceeds 3% of the Company's issued share capital:

Bluehone Investors LLP	**912,841**	24.0%

which includes the interests of Active Capital Trust of 861,861 shares (22.6%) in the Company.

**Included in the interests of Nordea Bank Danmark A/S above is the following shareholding at 20 September 2005 which exceeds 3% of the Company's issued share capital:

Erudite UK Limited, a company wholly owned by Mr P Gyllenhammar	**427,213**	11.2%

Share capital
On 1 September 2003, the Company carried out a one for ten consolidation of its share capital resulting in an issued share capital of 3,810,278 shares of £2.50 each.

Employees
The Group places considerable value on the involvement of its employees and they are regularly briefed on the Group's activities through consultative meetings.

Equal opportunity is given to all employees regardless of their sex, colour, race, religion or ethnic origin.

Applications for employment from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Creditor payment policy
The Company's current policy concerning the payment of the majority of its trade creditors is to follow the Better Payment Practice Code issued by the Better Payment Practice Group (copies are available from the DTI). For other suppliers, the Company's policy is to:

(a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;

(b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and

(c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

Wherever possible UK subsidiaries follow the same policy and the overseas subsidiaries are encouraged to adopt a similar policy applying local best practice. The Group's average creditor payment period at 31 March 2005 was 32 days (2004 : 57 days).

IFRS
The Group is in the process of a review to ensure that it will be able to meet the forthcoming requirements to prepare its financial statements under International Financial Reporting Standards.

Charitable and political donations
During the year the Group made a chartitable donation of £350 (2004 £1,059) to St Andrews Hospice.

Annual general meeting
The notice convening the Annual General Meeting for 12 noon on 26 October 2005 at Buchanan Communications Limited, 107 Cheapside, London EC2V 6DN is set out on page 31. There are a number of resolutions to be passed and further information in relation to these resolutions is set out below.

Resolutions 1 to 6
Resolution 1 provides for the the approval of the Company's financial statements for the year ended 31March 2005. Resolution 2 provides for approval of the Report of the Remuneration Committee for the year ended 31 March 2005. Resolution 3 deals with the re-appointment of the one Director required by the Company's Articles of Association to retire this year. Resolution 4 deals with the formal appointment of Dr Stuart Rollason to the Board. Resolution 5 provides for the re-appointment of Jon Pither, who is required under the Companies Act 1985 to vacate his office at the AGM following his 70th birthday, which does not preclude his being re-elected to the Board. Resolution 6 deals with the acceptance of PricewaterhouseCooper's resignation as the Company's auditors and acceptance of Grant Thornton's appointment as their successors.

Resolution 7
This resolution authorizes the Directors to change the name of the Company from AorTech International plc to AorTech Biomaterials plc.

Resolutions 1 to 6 are termed ordinary business. Resolution 7 is termed special business.

All members are welcome to attend and vote at the Annual General Meeting. Any member not attending should complete and return the Proxy Form enclosed in accordance with the instructions set out in that document.

J C D Parsons
Company Secretary
Surbiton
20 September 2005

Statement of Directors' Responsibilities

Company law requires the directors to prepare Financial Statements for each financial year that give a true and fair view of the state of the affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period.

The directors consider that, in preparing these Financial Statements, they have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and that all accounting standards that they consider to be applicable have been followed.

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

The maintenance and integrity of all AorTech websites is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any Financial Statements or associated information which are contained in these websites.

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

By order of the Board

J C D Parsons
Company Secretary
Surbiton
20 September 2005

Corporate Governance

The Group currently has a reduced Board and Corporate Governance structure, reflecting the current development stage and size of the business and the directors' assessment of the cost benefit balance of full Corporate Governance.

The directors intend to strengthen the Board and Corporate Governance structure as the business moves from the development into the commercial realisation of the current intellectual property.

Directors
The Company is controlled by the Board of Directors which, at 31 March 2005, comprised one Executive and three independent non-Executive Directors. Since that date, two non-Executive Directors have resigned and one new independent non-Executive Director has been appointed. All Directors are able to take independent financial advice in furtherance of their duties if necessary.

The Board is responsible to shareholders for the proper management of the Group and meets formally on a monthly basis to set the overall direction and strategy of the Group, to review trading performance and to advise on senior management appointments. Financial policy and budgets, including capital expenditure, are approved and monitored by the Board. All key operational decisions are subject to Board approval. The Company Secretary is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, one third of Directors are subject to retirement by rotation at each Annual General Meeting.

The posts of Chairman and Chief Executive are separately held. The Chairman is responsible for the running of the Board and ensures that all Directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Chief Executive has responsibility for running the Group's business and implementing Group strategy. The Board believes that this separation results in a clear division of responsibilities at the head of the Company which, with the presence of independent non-Executive Directors, ensures a balance of power and authority, such that no one individual has unfettered powers of decision.

Except as described in the Directors' Report and the Report of the Remuneration Committee, the non-Executive Directors have no financial or contractual interest in the Company. The non-Executive Directors do not participate in the Share Option Schemes and their positions are non-pensionable. It is the intention of the Board that non-Executive appointments will be reviewed regularly and re-appointments will not be automatic.

Directors' Remuneration
The Remuneration Committee comprises the non-Executive Directors. It reviews, inter alia, the performance of the Executive Directors and senior management and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. The Remuneration Committee also determines the allocation of options under the Share Option Scheme and the Unapproved Share Option Scheme and sets objective conditions governing their exercise.

No Director has a service agreement exceeding one year.

It is a policy of the Remuneration Committee that no individual participates in discussions or decisions concerning his own remuneration.

A separate report of the Remuneration Committee is set out on pages 12 to 14.

Nomination Committee
The Nomination Committee consists of the non-Executive Directors. Its responsibilities are to assist the full Board with the selection process for the appointment of new Directors.

Relations with shareholders
The Company encourages dialogue with both its institutional and private investors and responds promptly to all questions received verbally or in writing. Directors regularly attend meetings with analysts and institutional shareholders throughout the year. All shareholders have at least 21 days' notice of the Annual General Meeting.

Accountability and Audit

Financial Reporting
The Board includes a detailed review of the performance of the Company in the Chairman's Statement on pages 1 to 5. Reading this alongside the Report of the Directors on pages 7 to 9, the Board seeks to present a balanced and understandable assessment of the Company's position and prospects.

Internal Control
The Board has formalised the review and reporting of the main internal controls within the business. In previous periods, the Directors commissioned a risk review exercise in the course of which the key risks facing the Company were identified. These areas included regulatory, research and development, commercial, human resources and information technology. The Board will continue to review the system of internal controls within the Group.

The Board of Directors is responsible for the Group's system of internal financial controls. However, it should be recognised that such a system can provide only reasonable and not absolute assurance against material mis-statement or loss.

The principal elements of the system include:

- A clearly defined structure which delegates authority, responsibility and accountability.
- A comprehensive system for reporting financial results. Actual results are measured monthly against budget which together with a commentary on variances and other unusual items allows the Board to monitor the Group's performance on a regular basis.
- A comprehensive annual planning and budgeting programme.
- A revision of annual forecasts on a periodic basis.

There is no independent internal audit function. The Directors believe that such a function would not be cost effective given the current size of the Group but they will continue to monitor the situation as the Group goes forward.

The Board has reviewed the effectiveness of the system of internal controls as outlined above and considers the Group has an established system which the Directors believe to be appropriate to the business.

Audit Committee
The Audit Committee, comprising the non-Executive Directors, meets at least twice per year and overviews the monitoring of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without Executive Board members present.

Going Concern
After making appropriate enquiries and reviewing budgets, profit and cash flow forecasts, and business plans, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors consider that the adoption of the going concern basis in preparing the Group's financial statements is appropriate.

Report of the Remuneration Committee

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

Remuneration committee
The Remuneration Committee comprises the non-Executive Directors as follows:

P Gibson (Chairman) (resigned 12 May 2005)
Dr S Rollason (Chairman) (appointed 13 May 2005)
L Rostron (resigned 12 May 2005)
J Pither

As appropriate the Committee may invite the Chief Executive to participate in some of its discussions. No Director plays a part in any discussion about his own remuneration.

The Committee is responsible for determining the terms and conditions of employment of Executive Directors. It is also responsible for considering management recommendations for remuneration and employment terms of the Company's staff, including incentive arrangements for bonus payments and grant of share options.

The constitution and operation of the Committee is in compliance with the provisions of the Combined Code on Corporate Governance. When setting its remuneration policy the Committee gives full consideration to the provisions and principles of the Combined Code. In setting the policy it considers a number of factors including:

- the basic salaries and benefits available to Executive Directors and senior management of comparable companies.
- the need to attract and retain Directors and senior management of an appropriate calibre.
- the need to ensure Executive Directors' and senior management's commitment to the future success of the Company by means of incentive schemes.

Remuneration of non-executive directors
The remuneration of the non-Executive Directors is determined by the Board with reference to the annual survey of independent directors carried out by Independent Remuneration Solutions.

The non-Executive Directors do not receive any pension or other benefits from the Company, nor do they participate in any of the bonus schemes or the Share Option Schemes.

The non-Executive Directors have service agreements which are reviewed by the Board annually and they are also included in the one third of Directors subject to retirement by rotation at each Annual General Meeting.

Remuneration of executive directors
The Executive Directors have service contracts which can be terminated on one year's notice by either party. The Remuneration Committee will review each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances, taking care to ensure that poor performance is not rewarded. The most recent executed contracts for the Executive Directors was for F. Maguire - 6 December 2002.

The Company's remuneration policy for Executive Directors is to:

- have regard to the individual's experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality.
- link individual remuneration packages to the Group's long term performance through the award of share options and bonus schemes.
- provide post retirement benefits through defined contribution pension schemes.
- provide employment related benefits including the provision of a company car, life assurance, medical insurance and insurance relating to the individual's duties.

Salaries and benefits
The Remuneration Committee meets twice each year to consider and set the annual salaries and benefits for Executive Directors, having regard to personal performance and independent advice concerning comparable organisations.

Performance related bonuses
An annual performance related bonus scheme is operated by the Group. Under the scheme bonuses are payable to Executive Directors subject to terms laid down by the Remuneration Committee from time to time. No performance related bonuses are payable for the year ended 31 March 2005.

Share options
The Company operates a Share Option Scheme and an Unapproved Share Option Scheme.

Only Executive Directors and employees of the Group resident in the UK are eligible to participate in the Share Option Scheme which has been approved by the Inland Revenue under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988.

Any person who at the date of grant is approved by the Board is entitled to participate in the Unapproved Share Option Scheme.

The award of options under both schemes is at the discretion of the Remuneration Committee.

The options issued to date under both schemes will only be exercisable if the average mid market closing price of the Company's shares on the five business days prior to the date of exercise exceeds the option price by 15% or more.

Pensions
The Group made contributions to a personal pension plan for F. Maguire and I. Cameron at the rate of 30% and 13% respectively.

Directors' emoluments
Details of individual Directors' emoluments for the year are as follows:

The following information has been audited.

	salary and fees £	benefits in kind £	pension contributions £	2005 total £	2004 total £
Executive					
W. Strachan (resigned 1 July 2003)	-	-	-	-	49,286
F. Maguire (appointed 1 July 2003)	125,000	9,600	37,500	172,100	110,559
I. Cameron (resigned 1 November 2004)	57,450	3,798	7,750	68,998	105,700
Non-executive					
L. Rostron (resigned as Chairman 12 May 2005)	52,250	-	-	52,250	58,250
A. Gray (resigned 11 August 2003)	-	-	-	-	4,000
J. Brooks (resigned 1 March 2004)	-	-	-	-	15,500
W. Strachan (appointed 1 July 2003, resigned 1 March 2004)	-	-	-	-	18,750
P. Gibson (appointed 1 March 2004)	18,000	-	-	18,000	1,500
J. Pither (appointed as Chairman 12 May 2005)	18,000	-	-	18,000	1,500
	270,700	13,398	45,250	329,348	365,045

Benefits in kind include the provision of a company car and medical insurance.

L. Rostron is a partner in Linn Medical. All the emoluments of L. Rostron above are represented by payments made by the Company to Linn Medical in respect of the provision of the services of L. Rostron to the Company.

P. Gibson is employed by Ad Quo Associates Limited ("Ad Quo") in the provision of services to the Company. Included in the emoluments of P. Gibson above are payments of £16,800 made to Ad Quo in respect of these services.

J. Pither is employed by Surrey Management Services Limited ("Surrey") in the provision of services to the Company. All of the emoluments of J. Pither above are represented by payments made by the Company to Surrey in respect of these services.

Directors' interests in shares
The interests of Directors in the shares of the Company are included in the Directors' Report on page 7.

Directors' interests in share options
Details of options held by Directors are set out below:

The following information has been audited.

(i) Share Option Scheme

	Number of Options					
	at 1 april 2004	granted/(expired) during year	at 31 march 2005	exercise price	date from which exercisable	expiry date
F. Maguire	12,000	-	12,000	250p	11/07/2005	11/07/2012
I. Cameron	3,000	(3,000)	-	875p	24/06/2002	01/11/2004

(ii) Unapproved Share Option Scheme

	Number of Options					
	at 1 april 2004	granted/(expired) during year	at 31 march 2005	exercise price	date from which exercisable	expiry date
F. Maguire	7,000	-	7,000	250p	11/07/2005	10/07/2012
	19,000	-	19,000	280p	08/08/2005	07/08/2012
	25,000	-	25,000	165p	14/07/2006	13/07/2013
		200,000	200,000	168p	30/06/2007	29/06/2014
I. Cameron	1,000	(1,000)	-	5,625p	17/07/2002	01/11/2004
	2,500	(2,500)	-	7,350p	10/07/2003	01/11/2004
	7,500	(7,500)	-	3,325p	29/06/2004	01/11/2004
	-	50,000	50,000	168p	01/11/2004	31/10/2005

The range in the mid-market price of the Company's shares during the year ended 31 March 2005 was from 147.5p to 202.5p. The mid market price on 31 March 2005 was 196p.

On behalf of the Board

Stuart Rollason
Chairman of the Remuneration Committee
20 September 2005

Report of the Auditors

Independent auditors' report to the members of AorTech International plc
We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the directors' remuneration report, and the chairman's statement.

Basis of audit opinion
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2005 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
20 September 2005

Consolidated Profit and Loss Account for the year ended 31 March 2005

	Notes	2005 £	2004 £
Turnover	2	**136,958**	360,185
Cost of Sales	3	**(31,339)**	(30,649)
Gross profit		**105,619**	329,536
Net operating expenses	3	**(2,189,908)**	(2,527,045)
Net operating expenses include:			
Development expenditure		**(653,896)**	(559,032)
Amortisation of intangible fixed assets		**(94,589)**	(97,863)
Group operating loss	4	**(2,084,289)**	(2,197,509)
Exceptional items	5	**-**	552,856
Loss on ordinary activities before interest		**(2,084,289)**	(1,644,653)
Interest receivable	6	**216,899**	195,096
Loss on ordinary activities before taxation	2	**(1,867,390)**	(1,449,557)
Taxation	9	**-**	1,976,817
(Loss) / Profit for the financial year	22	**(1,867,390)**	527,260
(Loss) / Profit per ordinary share	11		
Basic		**(49.01p)**	13.84p
Diluted		**(49.01p)**	13.84p

There is no difference between the losses stated above and their historical cost equivalent.
All results are derived from continuing operations.

Statement of Total Recognised Gains/(Losses) for the year ended 31 March 2005

	Notes	2005 £	2004 £
(Loss)/profit for the financial year		**(1,867,390)**	527,260
Currency translation differences arising on consolidation		**(45,215)**	130,024
Total (losses)/gains recognised since last annual report		**(1,912,605)**	657,284

Balance Sheets as at 31 March 2005

	notes	group 2005 £	group 2004 £	company 2005 £	company 2004 £
Fixed assets					
Intangible assets	12	**1,449,366**	1,565,806	**-**	-
Tangible assets	13	**189,678**	235,608	**-**	-
Investment in subsidiary undertakings	14	**-**	-	**-**	-
		1,639,044	1,801,414	**-**	-
Current assets					
Stocks	15	**68,852**	48,853	**-**	-
Debtors	16	**278,948**	185,848	**6,670,758**	5,240,185
Cash at bank		**4,015,126**	5,968,200	**3,726,583**	5,671,857
		4,362,926	6,202,901	**10,397,341**	10,912,042
Creditors: amounts falling due within one year	17	**(348,460)**	(438,200)	**(88,554)**	(47,409)
Net current assets		**4,014,466**	5,764,701	**10,308,787**	10,864,633
Total assets less current liabilities		**5,653,510**	7,566,115	**10,308,787**	10,864,633
Net assets		**5,653,510**	7,566,115	**10,308,787**	10,864,633
Capital and reserves					
Called up share capital	19	**9,525,695**	9,525,695	**9,525,695**	9,525,695
Share premium account	21	**-**	63,359,594	**-**	63,359,594
Other reserve	21	**(2,003,143)**	(2,003,143)	**-**	-
Profit and loss account	21	**(1,869,042)**	(63,316,031)	**783,092**	(62,020,656)
Equity shareholders' funds	22	**5,653,510**	7,566,115	**10,308,787**	10,864,633

The financial statements on pages 16 to 30 were approved by the Board of Directors on 20 September 2005 and were signed on its behalf by:

J Pither, Chairman
F Maguire, Chief Executive

Consolidated Cashflow Statement for the year ended 31 March 2005

	notes	2005 £	2004 £
Net cash outflow from operating activities			
Net cash outflow before exceptional items		**(2,139,103)**	(1,898,890)
		(2,139,103)	(1,898,890)
Outflow related to exceptional items		**-**	(1,335,862)
Net cash outflow from operating activities	23	**(2,139,103)**	(3,234,752)
Returns on investment and servicing of finance			
Interest received		**216,899**	188,359
Taxation			
Research and development tax credits received		**-**	2,075,716
Capital expenditure and financial investment			
Purchase of intangible fixed assets		**-**	-
Purchase of tangible fixed assets		**(28,000)**	(14,908)
Sale of tangible fixed assets		**-**	136,440
Net cash inflow/(outflow) from capital expenditure and financial investment		**(28,000)**	121,532
Disposals			
Disposal of commercial valve operations		**-**	(50,000)
Cash outflow before management of liquid resources and financing		**(1,950,204)**	(899,145)
Management of liquid resources			
Cash released from short term deposit		**1,994,364**	734,983
Increase/(decrease) in cash in the year	24	**44,160**	(164,162)

Notes to the Financial Statements for the year ended 31 March 2005

1 Principal Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March each year. Intra-group sales and profits are eliminated on consolidation.

As permitted by the Companies Act 1985, a separate profit and loss account for AorTech International plc is not presented as the results of the Company are consolidated in the Group profit and loss account.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiary and associated undertakings is capitalised and amortised over its economic useful life, subject to a maximum of 20 years. A full impairment review is performed at the end of each financial year in accordance with FRS 10 “Goodwill and Intangible Assets” and any excess of the carrying value over the resulting recoverable amount is charged to the profit and loss account in that year.

Intellectual property

Intellectual property represents the cost of acquisition of patents, trademarks and copyrights. Amortisation is provided on intellectual property to write off the cost in equal annual installments over its estimated economic life of up to 20 years.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation commences once an asset is brought into use and is calculated so as to write off the cost less estimated residual value of tangible fixed assets on a straight line basis over their expected useful economic lives as follows:

Property improvements	over term of lease or 10 years if less
Plant and equipment	10 years
Fixtures and fittings	4 - 10 years
Motor vehicles	4 years

Development expenditure

All research and development expenditure is written off as incurred.

Hire purchase and lease commitments

Hire purchase and leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the hire purchase and leasing commitments are shown as obligations under hire purchase contracts and finance leases.

The rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the profit and loss account evenly over the period of the contract. Assets held under hire purchase contracts and finance leases are depreciated over the useful lives of equivalent owned assets.

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Stocks

Stocks are valued at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis. In the case of manufactured products, cost includes all direct expenditure plus attributable overheads based on a normal level of activity. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Foreign currencies

Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rates of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in the subsidiary undertakings, and from the translation of the results of those companies at average rates, are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Turnover

Turnover excludes value added tax and sales between Group companies and is recognised as follows:
Revenue relating to the supply of material and finished goods to customers is recognised when products are shipped to customers.
License revenues, in respect of upfront payments for access by third parties to the Company's technology, and milestone payments are recognised once the Company's obligations for each milestone have been met and the Company has achieved a right to be paid.
Royalty revenues are recognised as earned in accordance with third parties sales of the underlying products.

Deferred taxation

Full provision is made on a non-discounted basis for deferred tax liabilities arising from timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

Pensions

The Group operates defined contribution pension schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

2 Segmental Analysis by Class of Business and Geographical Area

(a) Class of business - The Group operates one class of business.

(b) Geographical area - The analysis by geographical area of the Group's turnover, loss before tax and net assets is set out below:

(i) Turnover

	2005		2004	
	Sales by destination £	Sales by origin £	Sales by destination £	Sales by origin £
Geographical segment				
United Kingdom	13,024	-	-	-
Rest of Europe	-	-	-	-
Rest of World	123,934	136,958	360,185	360,185
	136,958	136,958	360,185	360,185

(ii) Loss before taxation

	2005 £	2004 £
Geographical segment		
United Kingdom	(957,192)	(762,991)
Rest of Europe	-	(29,872)
Rest of World	(1,127,097)	(851,790)
Loss before interest	(2,084,289)	(1,644,653)
Net interest receivable	216,899	195,096
Loss on ordinary activities before taxation	(1,867,390)	(1,449,557)

(iii) Net assets

	2005 £	2004 £
Geographical segment		
United Kingdom	3,733,878	5,534,686
Rest of Europe	-	-
Rest of World	1,919,632	2,031,429
	5,653,510	7,566,115

3 Turnover, Cost of Sales, Gross Profit, Selling and Marketing Costs and Administrative Expenses

	2005 £	2004 £
Turnover	136,958	360,185
Cost of sales	(31,339)	(30,649)
Gross profit	105,619	329,536
Selling and marketing costs	(185,384)	(296,492)
Administrative expenses:		
Development expenditure	(653,896)	(559,032)
Amortisation of intangible fixed assets	(94,589)	(97,863)
Other	(1,256,039)	(1,573,658)
Total administrative expenses	(2,004,524)	(2,230,553)
Net operating expenses	(2,189,908)	(2,527,045)
Group operating loss	(2,084,289)	(2,197,509)

4 Operating Loss

	2005 £	2004 £
The operating loss is stated after charging:		
Depreciation and amortisation charge for the year:		
Intangible owned fixed assets	96,625	97,863
Tangible owned fixed assets	70,948	96,049
Operating lease rentals:		
Other	138,689	204,596

The above results for the year relate to continuing operations.

	2005 £	2004 £
Services provided by the Group's auditor		
Audit services		
Statutory Audit	51,000	48,080
Audit related regulatory reporting	-	3,000
Tax services		
Compliance services	16,590	12,235
Advisory services	9,050	111,704
Other services	-	2,400
	76,640	177,419

Included in the analysis above are Group audit fees paid to the Group's auditors of £51,000 (2004: £48,080), of which £32,500 (2004: £20,000) was paid in respect of the parent company.

5 Exceptional Items

	2004 £
Gain on termination of truCCOMS operations	307,660
Gain on disposal of commercial valve operations	111,581
Fundamental restructuring costs	133,615
	552,856
Cash consideration	87,660
held in Escrow for 12 months	220,000
	307,660
Gain on disposal	307,660

The gain during the year ended 31 March 2004 for fundamental restructuring costs arose from the overprovision of estimated costs at 31 March 2003.

6 Interest Receivable

	2005 £	2004 £
Bank interest	216,899	184,221
Other interest	-	10,875
	216,899	195,096

7 Directors' Emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the report of the Remuneration Committee on pages 13 and 14.

	2005 £	2004 £
Aggregate emoluments	284,098	356,420
Company pension contributions to money purchase schemes	45,250	8,625

Included in aggregate emoluments for the year ended 31 March 2005 are payments of £87,050 (2004: £61,150) made by the Company to third parties.

8 Employee Information

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:	2005 number	2004 number
By activity		
Production	3	1
Sales	1	1
Development	9	3
Administration	4	16
	17	21
Staff costs (for the above persons):	£	£
Wages and salaries	702,519	1,301,060
Social security costs	75,543	113,069
Other pension costs	66,362	36,648
	844,424	1,450,777

Staff costs incurred include redundancy payments of £27,282 (2004: £396,315)

9 Taxation

Analysis of charge/(credit) in period	2005 £	2004 £
Current tax:		
UK corporation tax on profits of the year at 30% (2004:30%)	-	-
Adjustments in respect of prior years	-	(1,976,817)
Total current tax	-	(1,976,817)
Deferred tax:		
Origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	(1,976,817)

The tax for the period is different than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £	2004 £
Loss on ordinary activities before tax	(1,867,390)	(1,449,557)
Profit on ordinary activities multiplied by standard rate in the UK 30% (30%)	(560,217)	(434,867)
Effects of:		
Depreciation for the period in excess of capital allowances and other timing differences	-	(47,991)
Expenses not deductible for tax purposes and other permanent tax differences	3,755	-
Losses utilised	(8,464)	-
Losses not utilised	564,926	482,858
Adjustment to tax charge in respect of previous year	-	(1,976,817)
Current tax credit for the year	-	(1,976,817)

The adjustment to the 2004 tax charge in respect of previous periods relates to Research and Development tax credits received by the company for prior periods.

10 Loss for the Financial Year

As permitted by section 230 of the Companies Act 1985, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's loss for the financial year was £493,820 (2004 : £11,939,536).

11 (Loss)/Profit on Ordinary Share

The basic (loss) per ordinary share is calculated on the loss of the Group of £1,867,390 (2004 : profit of £527,260) and on 3,810,278 (2004 : 3,810,278) equity shares, being the weighted average number of shares deemed to be in issue. The exercise of share options would not have been dilutive and accordingly the basic and diluted (loss)/profit per share are the same.

12 Intangible Fixed Assets

Group:	intellectual property £	goodwill £	total £
Cost			
At 1 April 2004	1,957,257	19,501,141	21,458,398
Exchange differences	(24,769)	-	(24,769)
At 31 March 2005	1,932,488	19,501,141	21,433,629
Amortisation			
At 1 April 2004	391,451	19,501,141	19,892,592
Exchange differences	(4,954)	-	(4,954)
Charge for year	96,625	-	96,625
At 31 March 2005	483,124	19,501,141	19,984,263
Net book value			
At 31 March 2005	1,449,366	-	1,449,366
Net book value			
At 31 March 2004	1,565,806	-	1,565,806

13 Tangible Fixed Assets

Group	property improvements £	plant & equipment £	fixtures & fittings £	motor vehicles £	total £
Cost					
At 1 April 2004	2,253	900,979	293,389	25,634	1,222,255
Exchange differences	(29)	(4,742)	(3,713)	-	(8,484)
Additions	-	22,861	5,139	-	28,000
At 31 March 2005	**2,224**	**919,098**	**294,815**	**25,634**	**1,241,771**
Depreciation					
At 1 April 2004	930	803,284	156,799	25,634	986,647
Exchange differences	(12)	(3,505)	(1,985)	-	(5,502)
Charge for year	261	42,409	28,278	-	70,948
At 31 March 2005	**1,179**	**842,188**	**183,092**	**25,634**	**1,052,093**
Net book value At 31 March 2005	**1,045**	**76,910**	**111,723**	**-**	**189,678**
Net book value At 31 March 2004	1,323	97,695	136,590	-	235,608

No assets were held under hire purchase contracts at 31 March 2005 and 31 March 2004.

14 Fixed Asset Investments

(a) Investment in subsidiary undertakings	group 2005 £	group 2004 £	company 2005 £	company 2004 £
Cost as at 31 March 2005 and 1 April 2005	-	-	-	-

(b) interests in subsidiary undertakings

	name of undertaking	country of registration or incorporation	description of shares held	proportion of nominal value of shares held by: group %	company %
(i)	AorTech Europe Limited	Scotland	ordinary £1	100	100
(ii)	AorTech Critical Care Limited	Scotland	ordinary £1	92	92
(iii)	AorTech Biomaterials Pty Limited	Australia	ordinary Aus. $1	100	100
(iv)	Surgical Accessories Limited	Scotland	ordinary £1	76	76
(v)	AorTech Limited	Scotland	ordinary £1	100	100
(vi)	AorTech Critical Care International Limited	Scotland	ordinary £1	100	100

14 Fixed Asset Investments (continued)

The principal business activities and country of operation of the above operations are:

(i) Ownership of tri-leaflet heart valve intellectual property.

(ii) A dormant company.

(iii) The development of new biostable polyurethanes, operating principally in Australia.

(iv) A dormant company.

(v) A dormant company.

(vi) A dormant company.

15 Stocks

All stocks at 31 March 2005 and 31 March 2004 comprise raw materials.

16 Debtors

	group 2005 £	group 2004 £	company 2005 £	company 2004 £
Amounts falling due within one year				
Trade debtors	**34,501**	34,188	**-**	-
Other debtors	**30,996**	23,120	**28,049**	4,681
Prepayments	**213,451**	128,540	**164,478**	8,750
	278,948	185,848	**192,527**	13,431
Amounts falling due after more than one year				
Amounts owed by Group undertakings	**-**	-	**6,478,231**	5,226,754
Total debtors	**278,948**	185,848	**6,670,758**	5,240,185

17 Creditors: Amounts Falling Due Within One Year

	group 2005 £	group 2004 £	company 2005 £	company 2004 £
Trade creditors	**54,276**	121,402	**-**	21,609
Other taxes and social security	**(169)**	4,303	**(169)**	-
Other creditors	**63,731**	35,325	**-**	-
Accruals	**131,723**	178,271	**88,723**	25,800
Corporation tax	**98,899**	98,899	**-**	-
	348,460	438,200	**88,554**	47,409

18 Financial Instruments

The Group's financial instruments comprise cash and liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Board reviews and agrees policies for managing each of the risks associated with interest rates, liquidity and foreign currency although to date the Group's exposure to these risks has not been significant. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

Interest rate risk

The Group's current policy is to finance its operations through equity, although in prior years both bank borrowings and hire purchase finance have been used to a lesser extent.

18 Financial Instruments (continued)

Liquidity risk
As at 31 March 2005, the Group had no borrowings. Liquidity has been maintained through equity financing.

Foreign currency risk
The Board considers that the Group's current exposure to foreign currency risk is not material and therefore, is of the opinion that no steps to minimise this exposure require to be taken for the time being.

The Group has an Australian subsidiary whose costs are denominated in Australian Dollars. The Board will continue to review the situation as activities in this subsidiary increases.

Short term debtors and creditors
Short term debtors and creditors have been excluded from all of the disclosures in this note, other than the currency risk disclosures.

Interest rate profile of financial liabilities
The Group had no financial liabilities at 31 March 2005 and 31 March 2004.

Profile of financial assets
The profile of the Group's cash and deposits at 31 March 2005 and 2004 was:

	cash at bank and in hand		short term deposits		total	
	2005	2004	**2005**	2004	**2005**	2004
	£	£	**£**	£	**£**	£
Currency:						
Sterling	**23,345**	(4,711)	**3,709,470**	5,703,834	**3,732,815**	5,699,123
US Dollars	**91,621**	93,658	**-**	-	**91,621**	93,658
Australian Dollars	**71,364**	167,589	**111,582**	-	**182,946**	167,589
Euros	**7,744**	7,830	**-**	-	**7,744**	7,830
At 31 March 2005	**194,074**	264,366	**3,821,052**	5,703,834	**4,015,126**	5,968,200

Cash at bank is held in interest bearing current accounts. The short term deposits are placed with banks for periods of up to 12 months according to funding requirements. The weighted average rate of interest earned during the year ended 31 March 2005 was 4.40%. (2004 : 3.02%).

Maturity profile of financial liabilities
The Group had no financial liabilities at 31 March 2005 and 31 March 2004.

Borrowing facilities
As at 31 March 2005, the Group had no undrawn committed borrowing facilities.

Fair values of financial assets and financial liabilities
The fair value of all the Group's financial assets and financial liabilities is equivalent to the carrying values reported in the balance sheet.

Hedges
The Group's policy is not to hedge against exposure to interest rate or currency risks, except to the extent that forward purchase contracts may be used when considered appropriate.

19 Called Up Share Capital

	2005	2004
	£	£
Authorised		
5,600,000 (2004 : 5,600,000) Ordinary shares of 250p each	**14,000,000**	14,000,000
Issued		
3,810,278 (2004 : 3,810,278) Ordinary shares of 250p each allotted, called up and fully paid	**9,525,695**	9,525,695

20 Options in Shares of AorTech International plc

At 31 March 2005, options were exercisable over the following 250p Ordinary shares:

(i) approved share option scheme

number of shares	subscription price per share	period of option
100	7,425p	Between 11 July 2003 and 31 December 2005
200	3,325p	Between 29 June 2004 and 31 December 2005
2,000	167p	Between 1 January 2005 and 31 December 2005
12,000	250p	Between 11 July 2005 and 10 July 2012
600	295p	Between 26 July 2005 and 25 July 2012

Only Executive Directors and employees resident in the UK are eligible to participate in this scheme. No options were exercised during the year to 31 March 2005.

(ii) unapproved share option scheme

number of shares	subscription price per share	period of option
9,600	1,250p	Between 5 February 2000 and 4 February 2007
1,000	1,025p	Between 9 January 2001 and 8 January 2008
2,000	5,625p	Between 17 December 2002 and 16 December 2009
5,000	7,425p	Between 11 July 2003 and 10 July 2010
1,500	8,100p	Between 16 June 2003 and 15 June 2010
1,600	4,175p	Between 29 May 2004 and 28 May 2011
1,050	9,035p	Between 18 December 2003 and 17 December 2010
7,000	250p	Between 11 July 2005 and 10 July 2012
19,000	280p	Between 8 August 2005 and 7 August 2012
25,000	165p	Between 14 July 2006 and 14 July 2013
50,000	168p	Between 1 November 2004 and 31 October 2005
1,300	1725p	Between 18 December 2004 and 17 December 2011
240,500	168p	Between 30 June 2007 and 29 June 2014
50,000	196p	Between 22 November 2007 and 21 November 2014

Any person who at the date of grant of the option is approved by the Board of Directors is eligible to participate in this scheme.
No options were exercised during the year to 31 March 2005.

(iii) other
The range in the mid market price of the Company's shares during the year ended 31 March 2005 was from 147.5p to 202.5p.
The mid market price on 31 March 2005 was 196p.

21 Share Premium Account and Reserves

Group

	share premium account £	other reserve £	profit and loss reserve £
At 1 April 2004	63,359,594	(2,003,143)	(63,316,031)
Loss for the year	-	-	(1,867,390)
Exchange differences arising on consolidation	-	-	(45,215)
Reduction in share premium	(63,359,594)	-	63,359,594
At 31 March 2005	**-**	**(2,003,143)**	**(1,869,042)**

Company

	share premium account £	profit and loss reserve £
At 1 April 2004	63,359,594	(62,020,656)
Loss for the year		(493,820)
Exchange differences arising on consolidation		(62,026)
Reduction in share premium	(63,359,594)	63,359,594
At 31 March 2005	**-**	**783,092**

On 4 March 2005, the Court of Session approved a reduction in the Company's share premium account of £63.3 million, as approved by the Company's shareholders at the Annual General Meeting held on 1 October 2004.

22 Reconciliation of Movements in Group Shareholders' Funds

	2005 £	2004 £
Opening shareholders' funds	7,566,115	6,908,831
(Loss)/Profit for the financial year	(1,867,390)	527,260
Exchange differences arising on consolidation	(45,215)	130,024
Closing shareholders' funds	**5,653,510**	7,566,115

23 Reconciliation of Operating Loss to Net Cash Flow from Operating Activities

	2005 Continuing £	2004 Continuing £
Group operating loss	**(2,084,289)**	(2,197,509)
Amortisation of intangible fixed assets	**96,625**	97,863
Depreciation of tangible fixed assets	**70,948**	96,049
Increase in stocks	**(19,999)**	(48,853)
(Increase) / decrease in trade debtors	**(684)**	204,016
(Increase) / decrease in prepayments	**(85,300)**	69,702
(Increase) / decrease in other debtors	**(7,992)**	82,911
Decrease in trade creditors	**(86,317)**	(2,885)
Decrease in taxes and social security	**(4,472)**	(43,076)
Increase in other creditors	**28,763**	2,386
Decrease in accruals	**(46,386)**	(159,494)
Net cash outflow from operating activities	**(2,139,103)**	(1,898,890)

Net cash outflow from operating activities for the year to 31 March 2004 included expenditure of £636,518 which was not incurred in the current year.

24 Reconciliation of Net Cash Flow to Movement in Net Funds

	2005 £	2004 £
Increase / (decrease) in cash in the year	**44,160**	(164,162)
Cash outflow from decrease in liquid resources	**(1,994,364)**	(734,983)
Change in net debt resulting from cash flows	**(1,950,204)**	(899,145)
Other non-cash items:		
Currency translation differences arising on consolidation	**(2,870)**	16,002
Movement in net funds in the year	**(1,953,074)**	(883,143)
Net funds at 1 April 2004	**5,968,200**	6,851,343
Net funds at 31 March 2005	**4,015,126**	5,968,200

25 Analysis of Net Funds

	1 april 2004 £	cash flow £	exchange differences £	31 march 2005 £
Net cash:				
Cash at bank and in hand	5,968,200	(1,950,204)	(2,870)	4,015,126
Deposits treated as liquid resources	(5,703,834)	1,994,364	-	(3,709,470)
	264,366	44,160	(2,870)	305,656
Liquid resources:				
Deposits included in cash	5,703,834	(1,994,364)	-	3,709,470
Net funds	**5,968,200**	**(1,950,204)**	**(2,870)**	**4,015,126**

26 Pension and Similar Obligations

The Group operates defined contribution pension schemes for employees. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions payable by the Group amounted to £66,362 (2004 : £36,648).

27 Capital Commitments

The Group had no capital commitments at 31 March 2004 and 31 March 2005.

28 Financial Commitments

At 31 March 2005 the Group had annual commitments under non-cancellable operating leases as follows:

	2005		2004	
	land and buildings £	other £	land and buildings £	other £
Expiring within one year	102,657	-	37,254	-
Expiring between one and two years	15,833	-	-	-
Expiring between two and five years	-	-	-	13,932
Expiring over five years	-	-	32,324	-
	118,490	-	69,578	13,932

29 Related Party Transactions

In accordance with FRS 8, "Related Party Disclosures", AorTech International plc has taken advantage of the exemption for over 90% owned subsidiaries not to disclose any transactions or balances between group entities including those that have been eliminated on consolidation.

30 Contingent Liability

The legal action against Artech srl and their counterclaim, reported in the 2004 Annual Report, has been settled by the agreement of each party to withdraw their respective claims.

Notice of Annual General Meeting

Notice is hereby given that the eighth Annual General Meeting of AorTech International plc will be held at Buchanan Communications Limited, 107 Cheapside, London EC2V 6DN on 26 October 2005 at 12 noon for the following purposes:

As Ordinary Business

1 To receive and adopt the financial statements of the Company for the year ended 31 March 2005 together with the Reports of the Directors and Auditors thereon.
2 To approve the Report of the Remuneration Committee for the year ended 31 March 2005.
3 To re-elect as a Director Frank Maguire, who is retiring by rotation.
4 To elect as a Director Dr Stuart Bernard Rollason, who was appointed a Director on 13 May 2005.
5 To elect as a director Jon Peter Pither, notwithstanding that he has attained the age of 70.
6 To appoint Grant Thornton UK LLP as auditors of the Company and to authorise the Directors to fix their remuneration.

As Special Business

To consider; and if thought fit, pass the following resolution as an Ordinary Resolution.

7 That the name of the Company be changed to AorTech Biomaterials plc.

By order of the Board,

J C D Parsons
Company Secretary
9 September 2005

Victoria Road
Surbiton
Surrey KT6 4NS

1 Any member of the Company who is entitled to attend and vote at the Annual General Meeting may appoint another person or persons (whether a member or not) as their proxy to attend and, on a poll, to vote on their behalf.

2 To be valid, Forms of Proxy must be lodged with the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, BN99 6ZR not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting together with any documentation required.

3 In the case of a corporation, the Form of Proxy should be executed under its common seal or signed by a duly authorised officer or attorney of the corporation.

4 Completing and returning a Form of Proxy will not prevent any member from attending the meeting in person and voting should they so wish.

5 The following documents will be available at the registered office of the Company on any weekday (except Saturday) during normal business hours from the date of this notice until the date of the Annual General Meeting:

(a) A copy of the service agreements for the Executive Directors.

(b) A copy of the letters of appointment for the non-Executive Directors.

(c) The register of interests of the Company's Directors in the shares of the Company which is maintained under Section 325 of the Companies Act 1985.

(d) The Memorandum and Articles of Association of the Company.

These documents will also be available for inspection during the Annual General Meeting and for at least fifteen minutes before it begins.