AORTECH INTERNATIONAL PLC

ANNUAL REPORT AND ACCOUNTS

05/06

05/06

AorTech

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AorTech

CONTENTS//

CHAIRMAN'S STATEMENT _FINANCIAL YEAR ENDED 31 MARCH 2006 SAW THE FIRST SIGNIFICANT INCOME FOR THE BIOMATERIALS-FOCUSED BUSINESS STRATEGY THAT HAS BEEN UNDER DEVELOPMENT SINCE 2003.

RESULTS//

Results to date are reflected in the summary financial performance of the business:

For the year ended 31 March 2006, the Company's turnover was £1,424,944, representing a more than 10-fold increase over the previous year's £136,958. Approximately £1.1million of the 2006 turnover resulted from the agreement signed with St.Jude Medical. As the substance of the transaction is that of a sale of rights to the use of Elast-Eon™ in specified fields of use, this has been recognised as revenue in these financial statements.Operating expenses for the year were £1,867,740, representing a reduction of almost 15% over the previous year and being 26% less than the figure for 2004. The operating expenses included £634,292 of development expenditure (2005: £653,896) and amortisation of intangible fixed assets of £99,491 (2005: £94,589). The Loss after Tax for the year was £523,348, which compares with the loss for 2005 of £1,867,390.

The cash position as at 31 March 2006 was £2,715,804, which compares with £4,015,126 on the corresponding day in 2005. However, the cash position improved significantly in April 2006 with the receipt of the US$2million (approximately £1.1million) initial payment from St.Jude Medical in respect of the agreement concluded prior to the financial year end.

Other tangible measures of progress came in the form of the first US FDA Pre-Market Approval ('PMA') for the use of our Elast-Eon™ material in a long-term, life sustaining application and the agreement reached with St.Jude Medical for exclusive use of Elast-Eon™ as insulation for its cardiac pacing products. Post year end, an extremely important event occurred in July 2006 when Elast-Eon™ achieved first human use as a cardiac rhythm management lead insulator.

OUR GENERAL STRATEGY IS TO BUILD A PROFITABLE, CASH POSITIVE, POLYMER LICENSING AND SUPPLY BUSINESS AND TO LEVERAGE THAT BASE WITH SELECTED DEVICE DEVELOPMENT PROJECTS WITH HIGH POTENTIAL RETURNS, SUCH AS HEART VALVE AND BREAST IMPLANT, WITH WHICH THE DIRECTORS EXPECT TO ENHANCE SHAREHOLDER VALUE.

ELAST-EON™ LICENSING AND SUPPLY_AS FDA APPROVAL OF OUR PRODUCT BECAME KNOWN IN THE MARKETPLACE AND OUR CONTRACT WITH ST.JUDE MEDICAL WAS ANNOUNCED, THERE WAS A SUBSTANTIAL INCREASE IN NEW CUSTOMER ENQUIRIES.

Almost any clinical use of our polymer requires a lengthy cycle of application development and testing followed by a regulatory approval phase. However, as a consequence of PMA approvals and first human use, customer interest has risen and we anticipate an increasing number of clinical applications to be approved during the coming financial year. We would expect these to be focused mainly on orthopaedic and cardiac surgery applications, although there are additional client development programmes underway in cardiology and urology, among others.

During the period, under the guidance of our Chief Scientific Officer, Dr. Ajay Padsalgikar, we also continued to expand our technology offerings with the development of new softer grades of Elast-Eon™, an Elast-Eon™ gel and an injectable form of Elast-Eon™. Patent applications have been made for all of these materials.

DEVICE DEVELOPMENT//

THE TWO MOST SIGNIFICANT INTERNAL PROJECTS I WISH TO REPORT ON ARE THE POLYMER HEART VALVE AND THE BREAST IMPLANT.

POLYMER HEART VALVE//

The global prosthetic heart valve market is in excess of $1 billion and growing at approximately 6% per annum. Various estimates suggest that the potential market for percutaneous heart valves is equivalent in size to the surgical heart valve market.

Over the past several years, Bovine Spongiform Encephalopathy (BSE) has emerged as a risk factor in the use of tissue heart valves manufactured from animal tissue. A polymer heart valve removes this risk.

There has been increased interest from both industry and investors in catheter-delivered (percutaneous) heart valve technology. A percutaneous heart valve has the advantage of being delivered to the heart via a catheter inserted through an incision in the groin, thus avoiding conventional open-chest surgery utilising cardio-pulmonary bypass. This approach provides a therapeutic option for patients not strong enough to undergo a conventional open-chest procedure. The AorTech polymer valve offers significant advantages in size and ease of use as compared with other, tissue-based percutaneous designs, making this therapy available for smaller patients. The strength of this increased industry interest in catheter-delivered heart valves can be demonstrated by the Edwards Lifesciences' acquisition in October 2004 of Percutaneous Valve Technology Company (PVT), for a reported $125million up front payment.

OFFERS A SIGNIFICANT ADVANTAGE IN MANUFACTURED COST VERSUS OTHER COMMERCIALLY AVAILABLE HEART VALVE PRODUCTS, MAKING IT IDEALLY SUITED FOR LARGE EMERGING MARKETS SUCH AS CHINA AND INDIA.

AORTECH'S STRATEGY_Prior to suspending our UK based heart valve development programme in the summer of 2003, two key objectives were attained.

These were the filing of patents for the "high durability" polymer valve known as M-95-C in both surgical and percutaneous forms and the demonstration of a soft failure mode for this valve. This "soft" failure mode is similar, and our data suggests even somewhat superior, to that of commercial tissue heart valve products in widespread distribution. The significance of a soft failure mode is that, unlike a mechanical valve where failure almost always results in death, a patient with a failing polymer or tissue valve will exhibit symptoms of the failing valve, providing an opportunity for an intervention to correct this situation, thus preserving the life of the patient.

As a result of these technology and market factors there has been a general level of renewed interest by outside parties in our AorTech polymer valve. This interest level has been significant and has led to our decision to recommence the AorTech polymer valve programme. We have recruited Dr. Jason Beith, the inventor of the recently patented M-95-C valve to lead our development project team.

We are seeking an industry partner to assist in the development programme and believe that we have made progress towards identifying a partner who will provide the necessary resources to continue the pre-clinical development and testing on our polymer valve. This would enable the valve project to be taken successfully to clinical trials in future years with the ultimate objective being the commercialisation of this heart valve in areas of surgical, minimally invasive and percutaneous manifestations. I look forward to reporting on the progress towards a partnership for the development of the AorTech polymer valve within the next year.

On 26 March 2006 our M-95-C patent was issued in the UK and we anticipate that it will be issued in all major territories over the next 18-24 months.

DEVICE DEVELOPMENT// →

BREAST IMPLANT_WORLDWIDE, 800,000 WOMEN WILL RECEIVE BREAST IMPLANT PRODUCTS IN THE COMING YEAR. MORE THAN 90% OF THESE WILL BE FOR PURELY COSMETIC REASONS.

Although some form of re-approval by US FDA of a silicone gel-filled implant is anticipated in the near future, we believe that the case for the use of an Elast-Eon™ gel filler in existing implants can be made on the basis of both product and patient safety. Our product avoids the use of platinum or tin – or indeed any metal catalyst in the material – and offers a substantive reduction in low molecular weight compounds compared with the silicone material that characterises existing silicone breast implant products.

It is our opinion, therefore, that the anticipated US FDA approval of silicone gel products will be a positive development for AorTech as it will reintroduce a technology factor into market competition for devices that have been in regulatory limbo for 14 years.

We have been developing a minimally invasive gel implant technology that we believe may be of significant interest to both the industry and the market. This technology will permit a gel implant procedure, without damage to the shell, and secure the benefits of the safer Elast-Eon™ gel. We are not aware of any other next generation breast implant technology like this. Our future development programme over the coming months is to pursue proof of concept for the minimally invasive breast implant and to select a partnership where the development programme can be taken to clinical trials and ultimately commercial use. Patents have been filed for this minimally invasive breast implant device.

OPERATIONAL UPDATE//

In May 2006, our Australian operation moved into a new and expanded facility located on a technology campus in Scoresby, Melbourne, approximately 3 miles from our prior location.

AS A RESULT OF THIS RELOCATION WE HAVE BEEN ABLE TO BOTH SCALE UP AND STABILISE OUR PILOT POLYMER SYNTHESIS MANUFACTURING CAPABILITY. TOGETHER WITH THE IMPROVEMENT IN POLYMER QUALITY LEVELS, WE ARE ABLE TO ACHIEVE A SIGNIFICANT REDUCTION IN THE POLYMER MANUFACTURING COST.

We anticipate that our new capacity levels are adequate for the foreseeable future. Substantive funding for the infrastructure elements of this move were obtained from the Australian State of Victoria. This move is an endorsement of the success of AorTech's team in Victoria and the quality of local support available to a high technology business.

BOARD CHANGES//

In November 2005, we announced the appointment of Eddie McDaid and Gordon Wright as Non-Executive Directors of the Company. Their knowledge of the Company and the industry in which we operate is wide ranging, and their input has been much welcomed by their colleagues on the Board.

OUTLOOK//

Over the coming year we expect the early adopters of Elast-Eon™ technology in the fields of cardiology, orthopaedics and urology to provide the momentum for moving this segment of the business forward. We have prepared our operations for this new business and are confident of our product quality, capacity of manufacturing and new cost basis.

During the same period, we expect to be announcing significant developments in the use of Elast-Eon™ in orthopaedic applications and we anticipate the formation of a co-development partnership with an industry partner for our heart valve technology.

Current trading remains in line with the Board's expectations.

IN CONCLUSION//

The positive results for the year are a culmination of the efforts of the past three years, following the downsizing of the organisation and its activities during 2002/2003.

These efforts have enabled the Company to focus on realising the potential of its Elast-Eon™ material and to deliver the first major commercialisation of Elast-Eon™ in a medical device product through our licence and supply agreement with St.Jude Medical. Having achieved this first commercialisation agreement I am confident that it will be the first of several licence and supply agreements over the coming years. Our Company is now achieving a financial and cash flow stability that we have been seeking to create since 2003.

None of this progress or these achievements would have been possible without the expertise, drive and commitment of our employees in Australia, whom I thank, on behalf of myself and the Board, for their outstanding service. I have to also thank my fellow Board members and in particular our Chief Executive, Frank Maguire, for his sterling work during the past twelve months in delivering the positive results and indeed the major turnaround that the Company has achieved during the year ended 31 March 2006.

FINALLY_I TAKE THIS OPPORTUNITY TO THANK OUR SHAREHOLDERS FOR THEIR CONTINUED SUPPORT OVER THE YEARS. I AM CONFIDENT THAT AORTECH CAN BUILD ON ITS ACHIEVEMENTS OF THE PAST TWELVE MONTHS AND THAT THE POTENTIAL OF OUR UNIQUE ELAST-EON™ MATERIAL WILL CONTINUE TO ADD VALUE TO THE COMPANY OVER ENSUING YEARS.

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
Peter Gibson non-Executive Director (resigned 12 May 2005)
Eddie McDaid non-Executive Director (appointed 14 November 2005)
Dr Stuart Rollason non-Executive Director (appointed 13 May 2005)
Gordon Wright non-Executive Director (appointed 14 November 2005)

COMPANY SECRETARY//
David Parsons ACIS

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

REGISTERED AUDITORS//
PricewaterhouseCoopers LLP, Kintyre House, 209 West George Street, Glasgow G2 5TS (resigned 20 January 2006)
Grant Thornton UK LLP, 8 West Walk, Leicester LE1 7NH (appointed 20 January 2006)

NOMINATED ADVISORS & BROKERS//
Bell Lawrie White (a division of Brewin Dolphin Securities Limited), 48 St Vincent Street, Glasgow G2 5TS (resigned 13 April 2006)
Evolution Securities Limited, 100 Wood Street, London EC2V 7AN (appointed 13 April 2006)

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 2006.

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 Group continued to develop and exploit its biomaterial products, with discussions taking place with a number of interested parties. The Group's manufacturing and research facility in Australia was transferred during 2006 to larger premises near Melbourne.

During the year, costs of £634,292 (2005: £653,896) 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 £523,348 (2005: loss of £1,867,390) which will be added to the deficit on reserves.

No dividends have been paid or proposed for the years ended 31 March 2006 and 2005.

DIRECTORS AND THEIR INTERESTS_
At 31 March 2006, the Chairman of the Company was J Pither who took over the role from L Rostron upon the latter's resignation from the Board on 12 May 2005; the Executive Director was F Maguire, and the non-Executive Directors were E McDaid, Dr S Rollason and G Wright. The other Director who served during the year was P Gibson, who resigned on 12 May 2005.

At each Annual General Meeting one third of Directors shall be subject to retirement by rotation. Dr S Rollason retires from the Board at the Annual General Meeting and, being eligible, offers himself for re-election. Mr E McDaid and Mr G Wright, being Directors appointed since the last Annual General Meeting, will retire and seek re-election.

The interests of the Directors at 31 March 2006 and 31 March 2005 (or date of appointment if later) in the ordinary share capital of the Company (all beneficially held) were as follows:

	31 March 2006 number	31 March 2005 (or date of appointment) number
J Pither	**-**	-
L Rostron*	**-**	-
F Maguire	**1,200**	1,200
P Gibson*	**-**	5,500
E McDaid**	**499,383**	499,383
S Rollason	**-**	-
G Wright**	**447,107**	447,107

* not a member of the Board of Directors on 31 March 2006
** not a member of the Board of Directors on 31 March 2005

During the period from the end of the financial year to 30 August 2006, no Director increased his interest in the issued ordinary share capital of the Company. The 437,107 shares formerly registered in the name of Melody Investments Limited were transferred into the names of Mr E McDaid and his wife on 30 June 2006: there has been no change in the beneficial ownership of these shares.

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

REPORT OF THE DIRECTORS// continued

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 14 August 2006 exceed 3% of the Company's issued share capital:

	number	%
Chase Nominees Limited	**941,810***	24.7%
Mr Edward McDaid & Mrs Kathleen McDaid	**499,383**	13.1%
Caricature Investments Limited	**447,107**	11.7%
Nordea Bank Danmark A/S	**247,000****	6.5%
Goldman Sachs International	**138,000**	3.1%
Mr Craig Pickup	**118,636**	3.1%

*Included in the interests of Chase Nominees Limited above is the following fund whose shareholding at 14 August 2006 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 14 August 2006 which exceeds 3% of the Company's issued share capital:

Forvaltnings AB Bronsstädet, a company wholly owned by Mr P Gyllenhammar	**247,000**	6.5%

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 gender, 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.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES_

The Group uses various financial instruments, including cash, equity investments 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 raise finance for the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are market risk, currency risk, liquidity risk, interest rate risk and credit risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

MARKET RISK_

Market risk encompasses two types of risk, being currency risk and fair value interest rate risk. The Group's policies for managing fair value interest rate risk are considered along with those for managing cash flow interest rate risk and are set out in the subsection entitled "Interest rate risk" below.

CURRENCY RISK_

The Group is exposed to translation and transaction foreign exchange risk. In relation to translation risk, as far as possible the assets held in the foreign currency are matched to an appropriate level of borrowings in the same currency. Transaction exposures, including those associated with forecast transactions, are hedged when known, principally using forward currency contracts. Whilst the aim is to achieve an economic hedge the Group does not adopt an accounting policy of hedge accounting for these financial statements.

The majority of the Group's sales are to customers in Australia or the United States. These sales are priced in either Australian or US dollars and invoiced in the currencies of the customers involved. The Group policy is to try to match the timing of the settlement of these sales and purchase invoices so as to eliminate, as far as possible, currency exposures. Where there is a material residual exposure the Group uses forward currency contracts to minimise the risk associated with that exposure.

The tables below show the extent to which the Group has residual financial assets and liabilities, after taking account of forward currency contracts, in currencies other than Sterling. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group.

	Net foreign currency monetary asset/(liability)			
Functional currency of operation	Australian Dollar £000	Euro £000	US Dollar £000	total £000
2006				
Sterling	420	8	224	652
2005				
Sterling	183	8	91	282

LIQUIDITY RISK_

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

INTEREST RATE RISK_

The Group finances its operations through retained cash reserves.

The interest rate exposure of the financial assets and liabilities of the Group as at 31 March 2006 is shown in the table below. The table includes trade debtors and creditors as these do not attract interest and are therefore subject to fair value interest rate risk.

	Interest rate			
	fixed £000	floating £000	zero £000	total £000
Financial assets				
Cash	112	2,591	13	2,716
Other deposits	-	-	-	-
Trade debtors	-	-	1,106	1,106
	112	2,591	1,119	3,822
Financial liabilities				
Overdrafts	-	-	-	-
Bank loans	-	-	-	-
Trade creditors	-	-	202	202
	-	-	202	202

CREDIT RISK_

The Group's principal financial assets are cash and trade debtors. The credit risk associated with the cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from its trade debtors.

In order to manage credit risk the Directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

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 2006 was 18 days (2005 : 32 days).

CHARITABLE AND POLITICAL DONATIONS_

During the year the Group made no charitable nor political donations (2005: charitable £350).

POST-BALANCE SHEET EVENTS_

Subsequent to the year end, the Group has made announcements regarding: (1) the first FDA approved human use of its polymer technology Elast-Eon™ pursuant to its exclusive licence agreement with St.Jude Medical (STJ : NYSE) which was announced on March 20, 2006; and (2) the creation of a Medical Advisory Board, with the appointment of the esteemed plastic surgeons, V. Leroy Young, M.D., and Mark L Jewell, M.D.. Between them they bring eighty years combined experience in plastic surgery. The Medical Advisory Board will play a key role in the development and promotion of AorTech's unique and highly versatile Elast-Eon™ product, in a range of surgical applications.

ANNUAL GENERAL MEETING _

The notice convening the Annual General Meeting for 12 noon on 28 September 2006 at at the offices of Biggart Baillie, Solicitors, 310 St Vincent Street, Glasgow G2 5QR, is set out on page 30. There are a number of resolutions to be passed and further information in relation to these resolutions is set out below.

RESOLUTIONS 1 TO 8_

Resolution 1 provides for the approval of the Company's financial statements for the year ended 31 March 2006. Resolution 2 provides for approval of the Report of the Remuneration Committee for the year ended 31 March 2006. Resolution 3 deals with the re-appointment of the one Director required by the Company's Articles of Association to retire this year. Resolutions 4 and 5 deal with the formal appointment of Eddie McDaid and Gordon Wright respectively to the Board, as required by Article 100 of the Company's Articles of Association. Resolution 6 deals with the re-appointment of Grant Thornton UK LLP as the Company's auditors.

Resolution 7 authorises the Directors to allot shares up to a nominal value of £3,175,232. This number represents one third of the Company's issued share capital. Resolution 8 disapplies pre-emption rights in relation to a specified number of shares. This figure represents 5% of the issued share capital.
Resolutions 1 to 6 are termed ordinary business. Resolutions 7 and 8 are termed special business.

J C D Parsons
Company Secretary, Surbiton, 30 August 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES//

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Directors to prepare Financial Statements for each financial year that give a true and fair view of the state of 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.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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.

By order of the Board

J C D Parsons
Company Secretary, Surbiton, 30 August 2006

CORPORATE GOVERNANCE//

The Group currently has a reduced Corporate Governance structure, reflecting the present development stage, the size of the business and the Directors' assessment of the cost benefit balance of full Corporate Governance. The situation will however be kept under review in the light of ongoing corporate developments and up-scaling of activities.

The Directors have strengthened the Board structure in line with the undertaking made in the previous year's Annual Report, by appointing two further non-Executive Directors, both of whom have considerable experience of the industry and of the Company itself. The two recently appointed non-Executive Directors, E McDaid and G Wright have, within the preceding five years, been Executive Directors of the Company and each remains in beneficial ownership of shareholdings in excess of 11% of the issued share capital.

DIRECTORS_

The Company is controlled by the Board of Directors which, at 31 March 2006, comprised one Executive and three non-Executive Directors, and a non-Executive Chairman. All Directors are able to take independent financial advice in furtherance of their duties if necessary.

ACCOUNTABILITY AND AUDIT//

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 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
G Wright (appointed 14 November 2005)

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.

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 contract 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 2006.

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 at the rate of 10.8% of gross salary.

DIRECTORS' EMOLUMENTS_

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

	salary and fees £	benefits in kind £	pension contributions £	2006 total £	2005 total £
Executive					
F Maguire (appointed 1 July 2003)	124,989	9,600	13,542	148,131	172,100
I Cameron (resigned 1 November 2004)	-	-	-	-	68,998
Non-executive					
J Pither (Chairman) (appointed as Chairman 12 May 2005)	37,000	-	-	37,000	18,000
L Rostron (resigned as Chairman 12 May 2005)	6,000	-	-	6,000	52,250
P Gibson (resigned 12 May 2005)	3,000	-	-	3,000	18,000
Dr S Rollason (appointed 13 May 2005)	19,500	-	-	19,500	-
E McDaid (appointed 14 November 2005)	7,750	-	-	7,750	-
G Wright (appointed 14 November 2005)	6,750	-	-	6,750	-
	204,989	9,600	13,542	228,131	329,348

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 £3,000 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.

Dr S Rollason is employed by Bluehone Investors LLP ("Bluehone") in the provision of services to the Company. All of the emoluments of Dr S Rollason above are represented by payments made by the Company to Bluehone 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.

REPORT OF THE REMUNERATION COMMITTEE// continued

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

(i) Share Option Scheme

	Number of Options					
	at 1 april 2005	granted/(expired) during year	at 31 march 2006	exercise price	date from which exercisable	expiry date
F Maguire	12,000	-	12,000	250p	11/07/2005	11/07/2012

(ii) Unapproved Share Option Scheme

	Number of Options					
	at 1 april 2005	granted/(expired) during year	at 31 march 2006	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

The range in the mid market price of the Company's shares during the year ended 31 March 2006 was from 87.5p to 540p. The mid market price on 31 March 2006 was 482.5p.

On behalf of the Board

Dr Stuart Rollason
Chairman of the Remuneration Committee
30 August 2006

REPORT OF THE INDEPENDENT AUDITORS//

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF AORTECH INTERNATIONAL PLC_

We have audited the Group and parent Company financial statements (the ''financial statements'') of AorTech International plc for the year ended 31 March 2006 which comprise the principal accounting policies, the consolidated profit and loss account, the Group and Company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS_

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Report of the Directors, the Corporate Governance statement and the Report of the Remuneration Committee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION _

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 March 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements for the year ended 31 March 2006.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Leicester
30 August 2006

The maintenance and integrity of the Company's website 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 changes that may have occured to the financial statements since they were initially presented on the website.

CONSOLIDATED PROFIT AND LOSS ACCOUNT//
FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 £	2005 £
Turnover	2	1,424,944	136,958
Cost of Sales	3	(222,751)	(31,339)
Gross profit		1,202,193	105,619
Net operating expenses	3	(1,867,740)	(2,189,908)
Net operating expenses include:			
Development expenditure		(634,292)	(653,896)
Amortisation of intangible assets		(99,491)	(94,589)
Group operating loss	3	(665,547)	(2,084,289)
Interest receivable	5	142,199	216,899
Loss on ordinary activities before taxation	2	(523,348)	(1,867,390)
Taxation	8	-	-
Loss for the financial year	21	(523,348)	(1,867,390)
Loss per ordinary share	10		
Basic		(13.74p)	(49.01p)
Diluted		(13.74p)	(49.01p)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006

	2006 £	2005 £
Loss for the financial year	(523,348)	(1,867,390)
Currency translation differences arising on consolidation	(22,981)	(45,215)
Total losses recognised since last annual report	(546,329)	(1,912,605)

BALANCE SHEETS//
AS AT 31 MARCH 2006

	notes	group 2006 £	group 2005 £	company 2006 £	company 2005 £
Fixed assets					
Intangible assets	11	1,360,209	1,449,366	-	-
Tangible assets	12	239,775	189,678	-	-
Investment in subsidiary undertakings	13	-	-	-	-
		1,599,983	1,639,044	-	-
Current assets					
Stocks	14	139,637	68,852	-	-
Debtors: amounts falling due within one year	15	1,304,424	278,948	175,290	192,527
Debtors: amounts falling due after more than one year	15	-	-	7,629,448	6,478,231
Cash at bank		2,715,804	4,015,126	2,061,841	3,726,583
		4,159,865	4,362,926	9,866,579	10,397,341
Creditors: amounts falling due within one year	16	(508,371)	(348,460)	(116,932)	(88,554)
Net current assets		3,651,494	4,014,466	9,749,647	10,308,787
Total assets less current liabilities		5,251,478	5,653,510	9,749,647	10,308,787
Creditors: amounts falling due after more than one year	16	(144,297)	-	-	-
Net assets		5,107,181	5,653,510	9,749,647	10,308,787
Capital and reserves					
Called up share capital	18	9,525,695	9,525,695	9,525,695	9,525,695
Other reserve	20	(2,003,143)	(2,003,143)	-	-
Profit and loss account	20	(2,415,371)	(1,869,042)	223,952	783,092
Equity shareholders' funds	21	5,107,181	5,653,510	9,749,647	10,308,787

The financial statements on pages 16 to 29 were approved by the Board of Directors on 30 August 2006 and were signed on its behalf by:

J Pither, Chairman
F Maguire, Chief Executive

CONSOLIDATED CASHFLOW STATEMENT//
FOR THE YEAR ENDED 31 MARCH 2006

	notes	2006 £	2005 £
Net cash outflow from operating activities	22	**(1,188,804)**	(2,119,791)
Returns on investment and servicing of finance			
Interest received		**142,199**	216,899
Taxation			
Research and development tax credits refunded		**(98,899)**	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(119,759)**	(28,000)
Net cash outflow from capital expenditure and financial investment		**(119,759)**	(28,000)
Cash outflow before management of liquid resources and financing		**(1,265,263)**	(1,930,892)
Management of liquid resources			
Cash released from short term deposit		**1,658,461**	1,994,364
Increase in cash in the year	23	**393,198**	63,472

NOTES TO THE FINANCIAL STATEMENTS//
FOR THE YEAR ENDED 31 MARCH 2006

1 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, up to and including Financial Reporting Standard ('FRS') 28. A summary of the more important Group accounting policies, which have been applied consistently, is set out below. The principal accounting policies represent the most appropriate in accordance with FRS 18. The new standards that are appropriate to the Group (namely FRSs 21, 22, 25 and 28) had no material impact on the financial statements.

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 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 instalments 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 diminishing value 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. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate.

NOTES// continued

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 delivered to customers.
Licence 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 in return for their contractual performance. In the specific case of the St.Jude Medical licence agreement, the Group has entered into a two year licence agreement for consideration of US$2 million, with St.Jude Medical having the option to pay a further US$2 million to extend that licence in perpetuity. The terms constitute in substance a sale of these rights in respect of the specified fields of use. Therefore the US$2 million initial payment has been recognised as revenue in these financial statements. If received, the additional US$2 million will be recognised as revenue at the time of receipt.
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. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on the rates and laws enacted or substantially enacted at the balance sheet date.

GOVERNMENT GRANTS_

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account on a diminishing value basis over the expected useful lives of the relevant assets. Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

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	2006 Sales by destination £	2006 Sales by origin £	2005 Sales by destination £	2005 Sales by origin £
Geographical segment				
United Kingdom	35,870	-	13,024	-
Rest of World	1,389,074	1,424,944	123,934	136,958
	1,424,944	1,424,944	136,958	136,958

(ii) (Loss) / Profit before taxation	2006 £	2005 £
Geographical segment		
United Kingdom	(689,206)	(957,192)
Rest of World	23,659	(1,127,097)
Loss before interest	(665,547)	(2,084,289)
Net interest receivable	142,199	216,899
Loss on ordinary activities before taxation	(523,348)	(1,867,390)

(iii) Net assets	2006 £	2005 £
Geographical segment		
United Kingdom	2,127,732	3,733,878
Rest of World	2,979,449	1,919,632
	5,107,181	5,653,510

3 TURNOVER, COST OF SALES, GROSS PROFIT, SELLING AND MARKETING COSTS AND ADMINISTRATIVE EXPENSES

	2006 £	2005 £
Turnover	1,424,944	136,958
Cost of sales	(222,751)	(31,339)
Gross profit	1,202,193	105,619
Selling and marketing costs	(243,739)	(185,384)
Administrative expenses:		
Development expenditure	(634,292)	(653,896)
Amortisation of intangible fixed assets	(99,491)	(94,589)
Other	(890,218)	(1,256,039)
Total administrative expenses	(1,624,001)	(2,004,524)
Net operating expenses	(1,867,740)	(2,189,908)
Group operating loss	(665,547)	(2,084,289)

4 OPERATING LOSS

	2006 £	2005 £
The operating loss is stated after charging:		
Depreciation and amortisation charge for the year:		
Intangible owned assets	99,491	94,589
Tangible owned fixed assets	72,406	70,948
Operating lease rentals:		
Other	90,931	138,689

The above results for the year relate to continuing operations.

	2006 £ Grant Thornton UK LLP	2006 £ Pricewaterhouse Coopers LLP	2005 £ Grant Thornton UK LLP	2005 £ Pricewaterhouse Coopers LLP
Services provided by the Group's auditors				
Audit services				
Statutory Audit	30,000	3,950	-	51,000
Audit related regulatory reporting	5,000	-	-	-
Tax services				
Compliance services	4,000	-	-	16,590
Advisory services	-	4,800	-	9,050
Other services	-	-	-	-
	39,000	8,750	-	76,640

Included in the analysis above are Group audit fees paid to the Group's auditors (former and present) of £38,950 (2005: £51,000), of which £27,450 (2005: £32,500) was paid in respect of the parent company.

NOTES// continued

5 INTEREST RECEIVABLE

	2006 £	2005 £
Bank interest	**142,199**	216,899

6 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.

	2006 £	2005 £
Aggregate emoluments	**214,589**	284,098
Company pension contributions to money purchase schemes	**13,542**	45,250

Included in aggregate emoluments for the year ended 31 March 2006 are payments of £65,500 (2005: £87,050) made by the Company to third parties.
The highest paid Director received total emoluments of £148,131 including pension contributions of £13,542 (2005: total emoluments of £172,100 including pension contributions of £37,500)

7 EMPLOYEE INFORMATION

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:	2006 number	2005 number
By activity		
Production	**3**	3
Sales	**1**	1
Development	**10**	9
Administration	**3**	4
	17	17
Staff costs (for the above persons):	**£**	£
Wages and salaries	**624,288**	702,519
Social security costs	**69,741**	75,543
Other pension costs	**23,665**	66,362
	717,694	844,424

Staff costs incurred include redundancy payments of £nil (2005: £27,282).

8 TAXATION

No tax arises on the loss for the year (2005: nil)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained as follows:

	2006 £	2005 £
Loss on ordinary activities before tax	**(523,348)**	(1,867,390)
Loss on ordinary activities multiplied by standard rate in the UK 30% (30%)	**(157,004)**	(560,217)
Effects of:		
Depreciation for the period in excess of capital allowances and other timing differences	**1,164**	-
Expenses not deductible for tax purposes and other permanent tax differences	**17,527**	3,755
Losses utilised	**(29,913)**	(8,464)
Losses not utilised	**168,225**	564,926
Current tax charge	**-**	-

Unrelieved tax losses remain available to offset against future taxable profits of the same trade in the same country. These losses have not been recognised as deferred tax assets within the financial statements as they do not meet the conditions required in accordance with FRS 19. Losses carried forward in the UK total £2,401,144 - tax effect is £720,343 (2005: £1,840,679 - tax effect is £552,204). Losses carried forward in Australia total £4,304,906 - tax effect £1,291,472 (2005: £4,404,615 - tax effect £1,321,384).

9 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 £559,140 (2005 : £555,846).

10 LOSS PER ORDINARY SHARE

The basic loss per ordinary share is calculated on the loss of the Group of £523,348 (2005: loss of £1,867,390) and on 3,810,278 (2005 : 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 per share are the same.

11 INTANGIBLE ASSETS

Group:	intellectual property £	goodwill £	total £
Cost			
At 1 April 2005	1,932,488	19,501,141	21,433,629
Exchange differences	10,668	-	10,668
At 31 March 2006	1,943,156	19,501,141	21,444,297
Amortisation			
At 1 April 2005	483,122	19,501,141	19,984,263
Exchange differences	334	-	334
Charge for year	99,491	-	99,491
At 31 March 2006	582,947	19,501,141	20,084,088
Net book value			
At 31 March 2006	1,360,209	-	1,360,209
Net book value			
At 31 March 2005	1,449,366	-	1,449,366

NOTES// continued

12 TANGIBLE FIXED ASSETS

Group	property improvements £	plant & equipment £	fixtures & fittings £	motor vehicles £	total £
Cost					
At 1 April 2005	2,224	919,098	294,815	25,634	1,241,771
Exchange differences	13	3,894	1,627	-	5,534
Additions	-	114,229	5,530	-	119,759
Disposals	-	(528,026)	-	(25,634)	(553,660)
At 31 March 2006	**2,237**	**509,195**	**301,972**	**-**	**813,404**
Depreciation					
At 1 April 2005	1,179	842,188	183,092	25,634	1,052,093
Exchange differences	37	1,742	1,011	-	2,790
Charge for year	179	45,202	27,025	-	72,406
Disposals	-	(528,026)	-	(25,634)	(553,660)
At 31 March 2006	**1,395**	**361,106**	**211,128**	**-**	**573,629**
Net book value					
At 31 March 2006	**842**	**148,089**	**90,844**	**-**	**239,775**
Net book value					
At 31 March 2005	1,045	76,910	111,723	-	189,678

No assets were held under hire purchase contracts at 31 March 2006 and 31 March 2005

13 FIXED ASSET INVESTMENTS

(a) Investment in subsidiary undertakings	group 2006 £	group 2005 £	company 2006 £	company 2005 £
Cost				
Historical cost	**-**	-	**23,158,823**	23,158,823
Exchange differences	**-**	-	**(41)**	(41)
Provision for impairment	**-**	-	**(23,158,782)**	(23,158,782)
Net Book Value - at 31 March 2006 and 31 March 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 Biomaterials Limited (formerly 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

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.

14 STOCKS

All stocks at 31 March 2006 and 31 March 2005 comprise raw materials.

15 DEBTORS

	group 2006 £	group 2005 £	company 2006 £	company 2005 £
Amounts falling due within one year				
Trade debtors	**1,106,077**	34,501	**-**	-
Other debtors	**22,329**	30,996	**36,955**	28,049
Prepayments	**176,018**	213,451	**138,335**	164,478
	1,304,424	278,948	**175,290**	192,527
Amounts falling due after more than one year				
Amounts owed by Group undertakings*	**-**	-	**7,629,448**	6,478,231
Total debtors	**1,304,424**	278,948	**7,804,738**	6,670,758

*AorTech International plc has agreed not to seek repayment of the amount owing by its subsidiary, AorTech Biomaterials Pty Ltd, within 12 months.

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	group 2006 £	group 2005 £	company 2006 £	company 2005 £
Trade creditors	**201,901**	54,276	**22,226**	-
Other taxes and social security	**12,506**	(169)	**12,506**	(169)
Deferred Income - Government grants towards capital expenditure	**247,169**	-	**-**	-
deduct: amount of grant to be released in more than one year	**(144,297)**	-	**-**	-
Other creditors	**107,391**	63,731	**-**	-
Accruals	**83,701**	131,723	**82,200**	88,723
Corporation tax	**-**	98,899	**-**	-
	508,371	348,460	**116,932**	88,554

The government grants received towards capital expenditure are being released to the profit and loss account on a diminishing value basis over a period equal to the useful economic life of the assets to which they relate. On average, this equates to a period of 5 years.

17 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.

Liquidity risk

As at 31 March 2006, 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 increase.

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 2006 and 31 March 2005.

NOTES// continued

17 FINANCIAL INSTRUMENTS (CONTINUED)

Profile of financial assets

The profile of the Group's cash and deposits at 31 March 2006 and 2005 was:

	cash at bank and in hand		short term deposits		total	
	2006	2005	2006	2005	2006	2005
	£	£	£	£	£	£
Currency:						
Sterling	12,866	23,345	2,051,010	3,709,470	2,063,876	3,732,815
US Dollars	224,413	91,621	-	-	224,413	91,621
Australian Dollars	34,386	71,364	385,210	111,582	419,596	182,946
Euros	7,919	7,744	-	-	7,919	7,744
At 31 March 2006	**279,584**	194,074	**2,436,220**	3,821,052	**2,715,804**	4,015,126

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 2006 was 4.59%. (2005 : 4.40%). In the opinion of the Directors, there are no financial assets or liabilities that require restating at fair value, and therefore all such items are held at book value which is deemed to approximate to fair value.

18 CALLED UP SHARE CAPITAL

	2006	2005
	£	£
Authorised **5,600,000 (2004 : 5,600,000) Ordinary shares of 250p each**	**14,000,000**	14,000,000
Issued **3,810,278 (2005 : 3,810,278) Ordinary shares of 250p each allotted, called up and fully paid**	**9,525,695**	9,525,695

19 OPTIONS IN SHARES OF AORTECH INTERNATIONAL PLC

At 31 March 2006, options were exercisable over the following 250p Ordinary shares:

(i) approved share option scheme

number of shares	subscription price per share	period of option
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 2006.

(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
1,350	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 2006.

(iii) other

The range in the mid market price of the Company's shares during the year ended 31 March 2006 was from 87.5p to 540p.
The mid market price on 31 March 2006 was 482.5p.

20 RESERVES

Group

	other reserve	profit and loss reserve
	£	£
At 1 April 2005	(2,003,143)	(1,869,042)
Loss for the year	-	(523,348)
Exchange differences arising on consolidation	-	(22,981)
At 31 March 2006	**(2,003,143)**	**(2,415,371)**

The 'other reserve' represented the difference arising on consolidation between the nominal value of AorTech International plc shares issued (£3,206,884) and the nominal value of AorTech Biomaterials Limited (formerly AorTech Europe Limited) shares acquired (£1,001,884) and the associated share premium account (£201,857) in the company.

Company

	profit and loss reserve
	£
At 1 April 2005	783,092
Loss for the year	(559,140)
At 31 March 2006	**223,952**

21 RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2006	2005
	£	£
Opening shareholders' funds	5,653,510	7,566,115
Loss for the financial year	(523,348)	(1,867,390)
Exchange differences arising on consolidation	(22,981)	(45,215)
Closing shareholders' funds	**5,107,181**	5,653,510

22 RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2006	2005
	£	£
Group operating loss	**(665,547)**	(2,084,289)
Amortisation of intangible assets	**99,491**	94,589
Depreciation of tangible fixed assets	**72,406**	70,948
Increase in stocks	**(70,785)**	(20,199)
Increase in debtors	**(1,027,476)**	(91,100)
Increase / (decrease) in creditors	**403,107**	(89,740)
Net cash outflow from operating activities	**(1,188,804)**	(2,119,791)

NOTES// continued

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006 £	2005 £
Increase in cash in the year	**393,198**	63,472
Cash outflow from decrease in liquid resources	**(1,658,461)**	(1,994,364)
Change in net debt resulting from cash flows	**(1,265,263)**	(1,930,892)
Other non-cash items:		
Currency translation differences arising on consolidation	**(34,059)**	(22,182)
Movement in net funds in the year	**(1,299,322)**	(1,953,074)
Net funds at 1 April 2005	**4,015,126**	5,968,200
Net funds at 31 March 2006	**2,715,804**	4,015,126

24 ANALYSIS OF NET FUNDS

	1 april 2005 £	cash flow £	exchange differences £	31 march 2006 £
Net cash:				
Cash at bank and in hand	4,015,126	(1,265,263)	(34,059)	2,715,804
Deposits treated as liquid resources	(3,709,470)	1,658,461	-	(2,051,010)
	305,656	393,198	(34,059)	664,794
Liquid resources:				
Deposits included in cash	3,709,470	(1,658,461)	-	2,051,010
Net funds	**4,015,126**	**(1,265,263)**	**(34,059)**	**2,715,804**

25 PENSION AND SIMILAR OBLIGATIONS

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions payable by the Group amounted to £61,281 (2005 : £66,362)

26 POST-BALANCE SHEET EVENTS

Subsequent to the year end, the Group has made announcements regarding: (1) the first FDA approved human use of its polymer technology Elast-Eon™ pursuant to its exclusive licence agreement with St.Jude Medical (STJ : NYSE) which was announced on March 20, 2006; and (2) the creation of a Medical Advisory Board, with the appointment of the esteemed plastic surgeons, V. Leroy Young, M.D., and Mark L Jewell, M.D.. Between them they bring eighty years combined experience in plastic surgery. The Medical Advisory Board will play a key role in the development and promotion of AorTech's unique and highly versatile Elast-Eon™ product, in a range of surgical applications.

27 FINANCIAL COMMITMENTS

At 31 March 2006 the Group had annual commitments under non-cancellable operating leases as follows:

	2006		2005	
	land and buildings £	other £	land and buildings £	other £
Expiring within one year	**102,051**	**-**	102,657	-
Expiring between one and two years	**117,429**	**-**	15,833	-
Expiring between two and five years	**377,526**	**-**	-	-
Expiring over five years	**32,828**	**-**	-	-
	629,834	**-**	118,490	-

28 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.

NOTICE OF ANNUAL GENERAL MEETING//

Notice is hereby given that the ninth Annual General Meeting of AorTech International plc will be held at the offices of Biggart Baillie, Dalmore House, 310 St Vincent Street, Glasgow G2 5QR on 28 September 2006 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 2006 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 2006.
3 To re-elect as a Director Dr Stuart Rollason, who is retiring by rotation.
4 To elect as a Director Edward McDaid, who was appointed a Director on 14 November 2005.
5 To elect as a Director James Gordon Wright, who was appointed a Director on 14 November 2005.
6 To re-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 Directors be hereby generally and unconditionally authorised for the purpose of section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of said Section 80) up to an aggregate nominal amount of £3,175,232 which authority will expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date falling 15 months after the passing of this Resolution save that the Company may, before such expiry, make an offer or agreement which would, or might, require relevant securities to be allotted after such expiry and the Directors may allot such securities in pursuance of such offer or agreement as if the authority so conferred had not expired.

To consider, and if thought fit, pass the following resolution as a Special Resolution:

8 That subject to the passing of Resolution 7 above as an Ordinary Resolution, in substitution for any existing power under Section 95 of the Act, the Directors be and are hereby empowered until the conclusion of the next Annual General Meeting of the Company or the date falling 15 months after the passing of this Resolution, whichever is the earlier ("the period of the Section 95 power"), pursuant to Section 95 of the Act to allot equity securities (as defined by Section 94(2) of the Act) pursuant to the authority granted by Resolution 7 above in accordance with Section 80 of the Act as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with or pursuant to an offer by way of rights in favour of ordinary shareholders subject to such exclusions or arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territories or requirements of any recognised regulatory body or stock exchange in any territory; and
(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities consisting of or related to Ordinary shares up to an aggregate nominal amount of £476,284, or if less, five percent of the issued Ordinary share capital of the Company from time to time but so that this power shall allow the Company to make an offer or enter into an agreement before the expiry of the period of the Section 95 power which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred thereby had not expired.

By order of the Board,

J C D Parsons	Victoria Road
Company Secretary	Surbiton
30 August 2006	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.

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