

AORTECH INTERNATIONAL PLC

ANNUAL REPORT AND ACCOUNTS

06 07



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CHAIRMAN'S STATEMENT_I AM PLEASED TO REPORT THAT IN THE YEAR ENDED 31 MARCH 2007 THE GROUP MADE HIGHLY ENCOURAGING PROGRESS IN A NUMBER OF RESPECTS INCLUDING THE FILING OF THREE FURTHER PATENTS.

Moreover since the year end it has entered into a licensing and supply agreement for the evaluation of our patented polymer, Elast-Eon™, with a global medical device company. Accordingly, despite reporting an increased loss for the year, the Board believes that the Company can look forward to a very promising period ahead.

Group turnover for the year was £276,000. This was lower than the £1.4m in the previous year which included £1.1m from a one-off payment resulting from an agreement signed with St Jude Medical. Operating expenses for the year were £2,348,000, an increase of £481,000 over the previous year due, in the main, to the move to new premises in Australia and up-scaling of our operational capacity to meet the expected increase in demand for Elast-Eon™ polymer. The operating expenses included £821,000 of development expenditure (2006: £634,000) and amortisation of intangible fixed assets amounting to £96,000 (2006: £99,000). The loss after tax for the year was £2.1m (2006: £523,000) and at 31 March 2007 the Group had cash reserves of £1.5m (2006: £2.7m).

THE GREATER PART OF THIS STATEMENT FOCUSES ON THE VERY IMPORTANT COMMERCIAL AND TECHNICAL PROGRESS THAT HAS BEEN AND CONTINUES TO BE ACHIEVED.

OPERATIONAL REVIEW

MANUFACTURING AND SUPPLY OF ELAST-EON™ BULK MATERIAL//

Following the granting of the regulatory approvals in the United States and Europe in 2006 for Elast-Eon™ in human use, our principal operational focus for 2006/07 was to create a capable and reliable manufacturing infrastructure able to support the large scale and life-sustaining nature of our licensees' medical device products.

I AM PLEASED TO REPORT that our new Melbourne technology and manufacturing facility has achieved very positive results during the year, including 100% on-time delivery to customers, 100% quality certification and acceptance of delivered product and an overall reduction in the baseline costs from the previous year.

This has been achieved in a period when we expanded our manufacturing capacity by 67%, which we believe is sufficient to satisfy our customers' growing polymer volume requirements through to the end of 2008.

ELAST-EON™ COMPONENT MANUFACTURING//

In response to our customers' requests for Elast-Eon™ extrusions and mouldings, we have taken steps to improve our capability in the area of medical-grade extrusion. AorTech will benefit directly from the revenue associated with tubing component orders, and indirectly by accelerating the customer evaluation process and, therefore, the achievement of higher-value late stage development milestone payments that are characteristic of our material licence agreements.

WE ARE VERY ENCOURAGED BY THE RESULTS TO DATE AND EXPECT THAT ELAST-EON™ EXTRUSION COMPONENTS WILL COMPRISE A SIGNIFICANT AND INCREASING PROPORTION OF OUR POLYMER BUSINESS REVENUES GOING FORWARD.

DURING THE YEAR THERE WERE A NUMBER OF CUSTOMER EVALUATIONS CARRIED OUT ACROSS A RANGE OF APPLICATIONS FOR ELAST-EON™.

MARKET AND CUSTOMERS //

The major revenue potential and increased value return for the Group is expected to arise from joint venture projects and licensing agreements with major medical device companies. In addition, we estimate the market for our supply of bulk Elast-Eon™ polymer to be approximately US\$100m and growing at a rate of 6-10% per annum. We believe that our customers have recognised Elast-Eon™ as a top quality silicone-urethane material for soft, long-term, high fatigue, blood-contacting implants.

During the year, the technology focus has been towards developing softer materials which compete more directly with medical grade silicone, and we have expanded our patent portfolio by a number of new submissions and approvals. We have concentrated, in particular, on collaboration with major biomaterials research institutes and universities. As a result of this work we have achieved greater profile for Elast-Eon™, different aspects of which were presented at four separate conferences and also featured in three journal publications.

In addition to the work already underway in the areas of cardiac surgery, cardiology, orthopaedics and urology, we have invested and will invest further in other potential applications including neurostimulation, pulmonary, drug delivery, women's health, ventricular assist and non-coronary stent-based drug delivery, all of which are being developed within customer partnerships.

TECHNOLOGY DEVELOPMENTS

POLYMER HEART VALVE//

During the past year, our heart valve technology has been evaluated in the in-house laboratories of major medical device companies who could become our partners in the future. This strategy is to enable us to demonstrate and verify the durability and performance characteristics of our heart valve product.

We believe that good progress is being made towards the commercialisation of the Company's heart valve products within a co-development or partnership structure, and that these products have the potential to contribute significantly to our future revenues when regulatory and clinical milestones are achieved.

In the short term, the leading suppliers of these products are placing a strong focus on the re-introduction of such implants into the US. They have devoted significant resources to manufacturing processes, surgeon training and patient awareness programmes and the establishment of a clinical monitoring function capable of supporting the conditions upon which the US FDA approved these silicone-gel implants. In the longer term, and because of the re-approval of the silicone-gel device, the market is seeking the next-generation product which we believe AorTech is well positioned to provide.

During the past year, we have continued to refine our breast implant shell and filler materials, and to carefully examine these materials in relation to the guidelines published by FDA. We believe that the way forward for this technology is to secure a co-development deal with a suitable partner and we remain optimistic of achieving this. During the last year, we have filed three patents covering the use of our materials and newly invented processes in the fields of gel technology, in-situ cure and the development of a minimally invasive breast implant.

In addition to the breast implant and heart valve projects, the Group has commenced new projects in the areas of urology, vascular grafts and non-coronary stent-based drug delivery. I look forward to reporting on progress with these projects in the coming year.

BREAST IMPLANTS//

THE CONDITIONAL RE-APPROVAL OF THE GEL-FILLED BREAST IMPLANT BY THE US FDA IN NOVEMBER 2006 HAS HAD A SUBSTANTIAL, IMMEDIATE AND LONG-TERM IMPACT ON BREAST IMPLANT TECHNOLOGY AND THE RELATED MARKET DYNAMICS.

SUMMARY//

We have made very significant progress during the past two years in particular, having achieved multinational regulatory approvals, a reputation for quality and service, thousands of human implants of our premier biostable polymer, Elast-Eon™, and significantly increased operational capacity.

YOUR BOARD BELIEVES THAT THE RECENT ANNOUNCEMENT OF A PARTNERSHIP DEAL FOR ONE OF OUR MAJOR DEVELOPMENT PROGRAMMES WHICH, SUBJECT TO AORTECH FULFILLING SPECIFIC MILESTONE TARGETS, COULD REALISE INCOME OF UP TO APPROXIMATELY US\$32M IN THE YEARS AHEAD TOGETHER WITH FUTURE ROYALTY PAYMENTS AND THEREFORE VALIDATES OUR STRATEGY TO GENERATE SHAREHOLDER VALUE THROUGH LICENSING AND SUPPLY OF AN INNOVATIVE, WORLD-CLASS POLYMER. MUCH CREDIT FOR THIS PROGRESS GOES TO OUR AUSTRALIAN TEAM BASED IN THEIR NEW MELBOURNE FACILITY.

Since the year end, we have raised £5.1m by way of a placing of 1,000,000 new Ordinary Shares which will provide us with the necessary resource to carry through our development plans.

Finally I take this opportunity to thank all of our staff for their continued commitment to the Company and to our shareholders for their continued support over the past twelve months. Your Board is confident that AorTech has the technology, resources, partners and resolve to realise fully the potential of our unique Elast-Eon™ polymer and thereby to build shareholder value over the coming years.

JON PITHER
CHAIRMAN

BOARD OF DIRECTORS & ADVISORS//

DIRECTORS//

Jon Pither non-Executive Chairman
Frank Maguire Chief Executive
Eddie McDaid non-Executive Director
Dr Stuart Rollason non-Executive Director
Gordon Wright non-Executive Director

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//

Grant Thornton UK LLP, 8 West Walk, Leicester LE1 7NH

NOMINATED ADVISORS & BROKERS//

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 2007.

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

During the financial year under review, the Company continued to achieve key operational milestones in the use of its core product, being Elast-Eon™ polymer. These included the development and refinement of this material for the medical community, with the aim of providing a wide range of high performance Elast-Eon™ materials in a variety of application specific formulations and densities for use in medical devices. The Company however remains at present principally focused on the use of Elast-Eon™ in breast implants, and new cardiovascular and orthopaedic applications alongside existing licensing and supply agreements. The Company continues to pursue a number of opportunities with the breast implant product, following the FDA re-approval of the silicone gel-filled implant in the United States, and the Directors believe the market is becoming increasingly receptive to a next-generation breast implant product.

The Company's manufacturing and research facility in Australia was transferred during 2006 to larger premises near Melbourne, thereby inter alia facilitating increased polymer production capacity.

During the year, costs of £821,161 (2006: £634,292) 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 £2,121,321 (2006: loss of £523,348) which will be deducted from reserves.

No dividends have been paid or proposed for the years ended 31 March 2007 and 2006.

DIRECTORS AND THEIR INTERESTS

At 31 March 2007, the Chairman of the Company was J Pither; the Executive Director was F Maguire, and the non-Executive Directors were E McDaid, Dr. S Rollason and G Wright. No other Director served during the year which ended on 31 March 2007.

At each Annual General Meeting one third of Directors shall be subject to retirement by rotation. Jon Peter Pither retires from the Board at the Annual General Meeting and, being eligible, offers himself for re-election.

The interests of the Directors at 31 March 2007 and 31 March 2006 in the ordinary share capital of the Company (all beneficially held) were as follows:

	31 March 2007 number	31 March 2006 number
J Pither	-	-
F Maguire	1,200	1,200
E McDaid	375,383	499,383
S Rollason	-	-
G Wright	347,107	447,107

During the period from the end of the financial year to 6 September 2007, Dr S Rollason subscribed for 8,825 Placing shares at a price of 510p each, representing 0.18% of the Company's issued share capital following the Placing. No other Director increased his interest in the issued ordinary share capital of the Company. On 26 April 2007, E McDaid and G Wright each transferred 4,000 ordinary shares to each of three former Directors of the Company. These transfers were done for nil consideration.

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 21 August 2007 exceed 3% of the Company's issued share capital:

	number	%
* Chase Nominees Limited	995,810	20.7%
Mr Edward McDaid & Mrs Kathleen McDaid	363,383	7.6%
** Caricature Investments Limited	335,107	7.0%
Goldman Sachs Securities Nominees Limited	232,327	4.8%
The Bank of New York (Nominees) Limited	187,000	3.9%
Deutsche Bank Aktiengesellschaft London	184,092	3.8%

*the holding of Chase Nominees Ltd includes 962,841 shares held by Bluehone Investors LLP which accounts for 20.0% of the Company's issued share capital. Dr Stuart Rollason is also a Director of Bluehone Investors LLP. Dr Rollason owns 8,825 shares in the Company

**Caricature Investments Ltd is a company wholly owned by Mr Gordon Wright, a Director of the Company

Percentage of Shares not in public hands (as defined in the AIM rules): 34.7%.

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 share capital and various other 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, cash flow interest rate risk, liquidity 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 settling 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			
	Australian Dollar £000	Euro £000	US Dollar £000	total £000
2007				
Sterling	449	8	564	1,021
2006				
Sterling	420	8	224	652

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 2007 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	1,187	181	1,480
Other deposits	-	-	-	-
Trade debtors	-	-	-	-
	112	1,187	181	1,480
Financial liabilities				
Overdrafts	-	-	-	-
Bank loans	-	-	-	-
Trade creditors	-	-	188	188
	-	-	188	188

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:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- 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 2007 was 23 days (2006 : 18 days).

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made no charitable or political donations (2006: nil).

POST-BALANCE SHEET EVENTS

In relation to one of its device development applications, on 24 July 2007 the Directors announced a licensing and supply agreement for the evaluation of Elast-Eon™ by a global medical device company. The agreement included an option for the licensee to acquire certain of the Group's intellectual property rights. Under the terms of the agreement, the Group received an up-front licence fee payment intended to compensate the Group for initial costs related to the agreement. Contingent upon a number of key conditions being satisfied, the Group would also be eligible to receive subsequent milestone payments which could total up to approximately \$32 million plus potential material supplies revenue and royalties. In the short-term, this agreement is not expected to have a material impact on the Group's financial position.

Also on 24 July 2007, the Board announced that, subject to the passing of the Resolutions at the Extraordinary General Meeting which was held on 20 August 2007, the Company had raised £5.1 million, before expenses, through the Placing of 1,000,000 new Ordinary Shares, at a price of 510p per share. The proceeds of the Placing were intended:

- to expand the manufacturing capability of its Melbourne facility in order to enhance manufacturing margins by bringing Elast-Eon™ raw material manufacture in-house;
- to fund additional component manufacture to supplement the Company's existing technology in heart valves and breast implants;
- to fund the hire of further employees for the sales and marketing department and a full time Finance Director; and
- to provide working capital for the Company.

Dealings in the Placing Shares as issued commenced on 21 August 2007.

ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting for 10:00am on 2 October 2007 at The Hogarth Partnership, 2nd Floor Upstream, No.1 London Bridge, London SE1 9BG 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 6

Resolution 1 provides for the approval of the Company's financial statements for the year ended 31 March 2007. Resolution 2 provides for approval of the Report of the Remuneration Committee for the year ended 31 March 2007. 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 re-appointment of Grant Thornton UK LLP as the Company's auditors.

Resolution 5 authorises the Directors to allot shares up to a nominal value of £4,008,565. This number represents one-third of the Company's issued share capital following the Placing in August 2007. Resolution 6 disapplies pre-emption rights in relation to a specified number of shares. This figure represents 5% of the issued share capital. Resolutions 1 to 4 are termed ordinary business. Resolutions 5 and 6 are termed special business.

STATEMENT OF DIRECTORS' RESPONSIBILITIES//

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law. The financial statements have been prepared under 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 judgements 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 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, 6 September 2007

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 continue to be kept under review in the light of ongoing corporate developments and up-scaling of activities.

DIRECTORS

The Company is controlled by the Board of Directors which, at 31 March 2007, 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 misstatement 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 oversees 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:

Dr S Rollason (Chairman)
E McDaid
J Pither
G Wright

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. In July 2006, F Maguire was awarded a bonus of £15,000 by the Remuneration Committee in recognition of Elast-Eon™ in human use.

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% of pensionable salary.

DIRECTORS' EMOLUMENTS

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

	salary and fees £	benefits in kind £	pension contributions £	2007 total £	2006 total £
Executive					
F Maguire (appointed 1 July 2003)	207,678	7,200	13,810	228,688	148,131
Non-executive					
J Pither (Chairman) (appointed as Chairman 12 May 2005)	32,000	-	-	32,000	37,000
L Rostron (resigned as Chairman 12 May 2005)	-	-	-	-	6,000
P Gibson (resigned 12 May 2005)	-	-	-	-	3,000
Dr S Rollason (appointed 13 May 2005)	20,500	-	-	20,500	19,500
E McDaid (appointed 14 November 2005)	20,000	-	-	20,000	7,750
G Wright (appointed 14 November 2005)	18,000	-	-	18,000	6,725
	298,178	7,200	13,810	319,188	228,131

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

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 2006	granted/(expired) during year	at 31 march 2007	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 2006	granted/(expired) during year	at 31 march 2007	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	250p	14/07/2006	13/07/2013
	200,000	-	200,000	250p	30/06/2007	29/06/2014
J Pither	-	20,000	20,000	325p	01/09/2009	01/09/2016
Dr S Rollason	-	13,000	13,000	325p	01/09/2009	01/09/2016

The range in the mid market price of the Company's shares during the year ended 31 March 2007 was from 310p to 592.5p. The mid market price on 31 March 2007 was 550p.

On behalf of the Board

Dr Stuart Rollason
Chairman of the Remuneration Committee
6 September 2007

REPORT OF THE 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 2007 which comprise the consolidated profit and loss account, the Group and Company balance sheets, the consolidated cashflow 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 and whether the financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement that is cross referred from the Review of Business and Future Developments section of the Report of the Directors.

In addition we 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, the Accountability and Audit 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 judgements 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 2007 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 2007.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Leicester
6 September 2007

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 occurred to the financial statements since they were initially presented on the website.

CONSOLIDATED PROFIT AND LOSS ACCOUNT// FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 £000	2006 £000
Turnover Continuing operations	2	276	1,425
Cost of sales	3	(158)	(223)
Gross profit		118	1,202
Net operating expenses	3	(2,348)	(1,867)
Net operating expenses include:			
Development expenditure		(821)	(634)
Amortisation of intangible assets		(96)	(99)
Group operating loss	3	(2,230)	(665)
Interest receivable	5	109	142
Loss on ordinary activities before taxation	2	(2,121)	(523)
Taxation	8	-	-
Loss for the financial year	21	(2,121)	(523)
Loss per ordinary share Basic and diluted	10	(55.67p)	(13.74p)

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2007

	2007 £000	2006 £000
Loss for the financial year	(2,121)	(523)
Currency translation differences arising on consolidation	(25)	(23)
Total losses recognised since last annual report	(2,146)	(546)

BALANCE SHEETS//

AS AT 31 MARCH 2007

		group		company	
	notes	2007 £000	2006 £000	2007 £000	2006 £000
Fixed assets					
Intangible assets	11	1,262	1,360	-	-
Tangible assets	12	472	240	-	-
Investment in subsidiary undertakings	13	-	-	-	-
		1,734	1,600	-	-
Current assets					
Stocks	14	89	140	-	-
Debtors: amounts falling due within one year	15	374	1,304	152	175
Debtors: amounts falling due after one year	15	-	-	8,715	7,630
Cash at bank		1,480	2,716	458	2,062
		1,943	4,160	9,325	9,867
Creditors: amounts falling due within one year	16	(520)	(508)	(180)	(117)
Net current assets		1,423	3,652	9,145	9,750
Total assets less current liabilities		3,157	5,252	9,145	9,750
Creditors: amounts falling due after more than one year	16	(195)	(144)	-	-
Net assets		2,962	5,108	9,145	9,750
Capital and reserves					
Called up share capital	18	9,526	9,526	9,526	9,526
Other reserve	20	(2,003)	(2,003)	-	-
Profit and loss account	20	(4,561)	(2,415)	(381)	224
Equity shareholders' funds	21	2,962	5,108	9,145	9,750

The financial statements on pages 16 to 29 were approved by the Board of Directors on 6 September 2007 and were signed on its behalf by

J Pither, Chairman
F Maguire, Chief Executive

CONSOLIDATED CASHFLOW STATEMENT//

FOR THE YEAR ENDED 31 MARCH 2007

	notes	2007 £000	2006 £000
Net cash outflow from operating activities	22	(904)	(1,189)
Returns on investment and servicing of finance			
Interest received		109	142
Taxation			
Research and development tax credits received		-	(99)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(420)	(119)
Net cash outflow from capital expenditure and financial investment		(420)	(119)
Cash outflow before management of liquid resources and financing		(1,215)	(1,265)
Management of liquid resources			
Cash released from short term deposit		1,592	1,658
Increase in cash in year	23	377	393

NOTES TO THE FINANCIAL STATEMENTS// FOR THE YEAR ENDED 31 MARCH 2007

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.

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 included in the consolidated 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

RESEARCH & 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 its contractual performance.

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

	2007		2006	
	Sales by destination £000	Sales by origin £000	Sales by destination £000	Sales by origin £000
Geographical segment				
United Kingdom	8	-	36	-
Rest of Europe	-	-	-	-
Rest of World	268	276	1,389	1,425
	276	276	1,425	1,425

(ii) Loss before taxation

	2007 £000	2006 £000
Geographical segment		
United Kingdom	(818)	(689)
Rest of Europe	-	-
Rest of World	(1,412)	24
Loss before interest	(2,230)	(665)
Net interest receivable	109	142
Loss on ordinary activities before taxation	(2,121)	(523)

(iii) Net assets

	2007 £000	2006 £000
Geographical segment		
United Kingdom	445	2,128
Rest of Europe	-	-
Rest of World	2,516	2,979
	2,961	5,107

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

	2007 £000	2006 £000
Turnover	276	1,425
Cost of sales	(158)	(223)
Gross profit	118	1,202
Selling and marketing costs	(147)	(244)
Administrative expenses:		
Development expenditure	(821)	(634)
Amortisation of intangible fixed assets	(148)	(99)
Other	(1,232)	(890)
Total administrative expenses	(2,201)	(1,623)
Net operating expenses	(2,348)	(1,867)
Group operating loss	(2,230)	(665)

4 OPERATING LOSS

	2007 £000	2006 £000
The operating loss is stated after charging:		
Depreciation and amortisation charge for the year:		
Intangible owned assets	96	99
Tangible owned fixed assets	133	72
Operating lease rentals:		
Other	139	91

	2007 £000	2006 £000		
	Grant Thornton UK LLP	Grant Thornton UK LLP	Pricewaterhouse Coopers LLP	
Services to the Company and its subsidiaries				
Fees payable to the Company's auditors and its associates for the audit of the financial statements	29	28	4	
Fees payable to the Company's auditors and its associates for other services:				
Audit of the financial statements of the Company's subsidiaries pursuant to legislation	4	7	-	
Other services relating to taxation	6	4	5	
	39	39	9	

The audit fee analysis above includes amounts paid to the associates of the Company's auditors in Australia for review work in connection with the Australian subsidiary totalling £12,000 (2006 : £13,000).

NOTES// continued

5 INTEREST RECEIVABLE

	2007 £000	2006 £000
Bank interest	109	142

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.

	2007 £000	2006 £000
Aggregate emoluments	305	215
Company pension contributions to money purchase schemes	14	14

Included in aggregate emoluments for the year ended 31 March 2007 are payments of £52,500 (2006: £65,500) made by the Company to third parties. The highest paid Director received total emoluments of £228,688 including pension contributions of £13,810 (2006 : total emoluments of £148,131 including pension contributions of £13,542).

7 EMPLOYEE INFORMATION

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:

	2007 number	2006 number
By activity		
Production	3	3
Sales	-	1
Development & Quality Control	11	10
Administration	3	3
	17	17
Staff costs (for the above persons):	£000	£000
Wages and salaries	723	624
Social security costs	59	70
Other pension costs	25	24
	807	718

Staff costs incurred include redundancy payments of £nil (2006: £27,282).

8 TAXATION

No tax arises on the loss for the year (2006: nil)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are explained as follows:

	2007 £000	2006 £000
Loss on ordinary activities before tax	(2,121)	(523)
Loss on ordinary activities multiplied by standard rate in the UK of 30% (30%)	(636)	(157)
Effects of:		
Depreciation for the period in excess of capital allowances and other timing differences	17	1
Expenses not deductible for tax purposes and other permanent tax differences	59	18
Losses utilised	-	(30)
Losses not utilised	560	168
Tax charge	-	-

Unrelieved tax losses remain available to offset against future taxable profits. 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 (2006: £2,401,000 - tax effect is £720,000). Losses carried forward in Australia total £4,304,906 - tax effect £1,291,472 (2006: £4,305,000 - tax effect £1,292,000).

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 £610,164 (2006 : £559,892).

10 LOSS PER ORDINARY SHARE

The basic loss per ordinary share is calculated on the loss of the Group of £2,121,321 (2006: loss of £523,348) and on 3,810,278 (2006 : 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 FIXED ASSETS

Group:

	intellectual property £000	goodwill £000	total £000
Cost			
At 1 April 2006	1,943	19,501	21,444
Exchange differences	(1)	-	(1)
At 31 March 2007	1,942	19,501	21,443
Amortisation			
At 1 April 2006	583	19,501	20,084
Exchange differences	1	-	1
Charge for year	96	-	96
At 31 March 2007	680	19,501	20,181
Net book value			
At 31 March 2007	1,262	-	1,262
Net book value			
At 31 March 2006	1,360	-	1,360

NOTES// continued

12 TANGIBLE FIXED ASSETS

Group	property improvements £000	plant & equipment £000	fixtures & fittings £000	total £000
Cost				
At 1 April 2006	2	509	302	813
Transfers	196	-	(196)	-
Additions	307	87	26	420
Disposals	(188)	-	(8)	(196)
At 31 March 2007	317	596	124	1,037
Depreciation				
At 1 April 2006	1	361	211	573
Charge for year	53	68	12	133
Disposals	(137)	-	(6)	(143)
Transfers	129	-	(129)	-
Exchange differences	1	1	-	2
At 31 March 2007	47	430	88	565
Net book value				
At 31 March 2007	270	166	36	472
Net book value At 31 March 2006	1	148	91	240

No assets were held under hire purchase contracts at 31 March 2007 and 31 March 2006.

13 FIXED ASSET INVESTMENTS

(a) Investment in subsidiary undertakings

	group		company	
	2007 £000	2006 £000	2007 £000	2006 £000
Cost				
Historical cost	-	-	23,159	23,159
Exchange differences	-	-	-	-
Provision for impairment	-	-	(23,159)	(23,159)
Net book value - at 31 March 2007 and 31 March 2006	-	-	-	-

(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
(iv) AorTech Medical Devices (USA), Inc	USA	common US \$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 in the UK.
- (ii) A dormant company in the UK.
- (iii) The development of new biostable polyurethanes, operating principally in Australia.
- (iv) Marketing in the Americas.

14 STOCKS

All stocks at 31 March 2007 and 31 March 2006 comprise raw materials.

15 DEBTORS

	group		company	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts falling due within one year				
Trade debtors	68	1,106	-	-
Other debtors	194	22	44	37
Prepayments	112	176	108	138
	374	1,304	152	175
Amounts falling due after more than one year				
Amounts owed by Group undertakings*	-	-	8,715	7,630
Total debtors	374	1,304	8,867	7,805

*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		company	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade creditors	187	202	10	23
Other taxes and social security	-	12	-	12
Deferred Income - Government grants towards capital expenditure	247	247	-	-
deduct: amount of grant to be released in more than one year	(195)	(144)	-	-
Other creditors	86	107	-	-
Accruals	195	84	170	82
	520	508	180	117

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 2007, the Group had no borrowings.

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 and US subsidiary whose costs are denominated in Australian and US Dollars respectively. The Board will continue to review the situation as activities in these subsidiaries 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 2007 and 31 March 2006.

NOTES// continued

17 FINANCIAL INSTRUMENTS (CONTINUED)

Profile of financial assets

The profile of the Group's cash and deposits at 31 March 2007 and 2006 was:

	cash at bank and in hand		short term deposits		total	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Currency:						
Sterling	-	13	459	2,051	459	2,064
US Dollars	36	224	528	-	564	224
Australian Dollars	262	35	187	385	449	420
Euros	8	8	-	-	8	8
As at 31 March 2007	306	280	1,174	2,436	1,480	2,716

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 2007 was 4.66%. (2006 : 4.59%)

18 CALLED UP SHARE CAPITAL

	2007 £000	2006 £000
Authorised		
5,600,000 (2006 : 5,600,000) Ordinary shares of 250p each	14,000	14,000
Issued		
3,810,278 (2006 : 3,810,278) Ordinary shares of 250p each allotted, called up and fully paid	9,526	9,526

At an EGM of Members held on 20 August 2007, the Company's authorised share capital was increased to £17,500,000, comprising 7,000,000 Ordinary shares of 250p each. On 22 August 2007, there were 4,810,278 Ordinary shares of 250p each allotted, called up and fully paid.

19 OPTIONS IN SHARES OF AORTECH INTERNATIONAL PLC

At 31 March 2007, 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 2007.

(ii) unapproved share option scheme

number of shares	subscription price per share	period of option
1,000	1,025p	Between 9 January 2001 and 8 January 2008
2,000	5,625p	Between 17 December 2002 and 16 December 2009
1,500	8,100p	Between 16 June 2003 and 15 June 2010
5,000	7,425p	Between 11 July 2003 and 10 July 2010
1,050	9,035p	Between 18 December 2003 and 17 December 2010
1,600	4,175p	Between 29 May 2004 and 28 May 2011
1,350	1,725p	Between 18 December 2004 and 17 December 2011
7,000	250p	Between 11 July 2005 and 10 July 2012
19,000	280p	Between 8 August 2005 and 7 August 2012
25,000	250p	Between 14 July 2006 and 13 July 2013
30,500	168p	Between 30 June 2007 and 29 June 2014
200,000	250p	Between 30 June 2007 and 29 June 2014
20,000	196p	Between 22 November 2007 and 21 November 2014
78,000	325p	Between 1 September 2009 and 1 September 2016

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 2007.

(iii) other

The range in the mid market price of the Company's shares during the year ended 31 March 2007 was from 310p to 592.5p. The mid market price on 31 March 2007 was 550p.

On 1 September 2006, the Company granted options over 78,000 ordinary shares exercisable at 325p during the period 1 September 2009 to 1 September 2016.

20 RESERVES

Group

	other reserve £000	profit and loss reserve £000
At 1 April 2006	(2,003)	(2,415)
Loss for the year	-	(2,121)
Exchange differences arising on consolidation	-	(25)
At 31 March 2007	(2,003)	(4,561)

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 account £000
At 1 April 2006	224
Loss for the year	(610)
Exchange differences arising on consolidation	5
At 31 March 2007	(381)

21 RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2007 £000	2006 £000
Opening shareholders' funds	5,107	5,653
Loss for the financial year	(2,121)	(523)
Exchange differences arising on consolidation	(24)	(23)
Closing shareholders' funds	2,962	5,107

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

	2007 £000	2006 £000
Group operating loss	(2,230)	(665)
Amortisation of intangible fixed assets	133	99
Depreciation of tangible fixed assets	96	72
Loss on sale of fixed assets	53	-
Decrease / (increase) in stocks	51	(71)
Decrease / (increase) in debtors	930	(1,027)
Increase / (decrease) in creditors	63	403
Net cash outflow from operating activities	(904)	(1,189)

NOTES// continued

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2007 £000	2006 £000
Increase in cash in the year	377	393
Cash outflow from decrease in liquid resources	(1,592)	(1,658)
Change in net debt resulting from cash flows	(1,215)	(1,265)
Other non-cash items:		
Currency translation differences arising on consolidation	(21)	(34)
Movement in net funds in the year	(1,236)	(1,299)
Net funds at 1 April 2006	2,716	4,015
Net funds at 31 March 2007	1,480	2,716

24 ANALYSIS OF NET FUNDS

	1 april 2006 £000	cash flow £000	exchange differences £000	31 march 2007 £000
Net cash:				
Cash at bank and in hand	2,716	(1,215)	(21)	1,480
Deposits treated as liquid resources	(2,051)	1,592	-	(459)
	665	377	(21)	1,021
Liquid resources:				
Deposits included in cash	2,051	(1,592)	-	459
Net funds	2,716	(1,215)	(21)	1,480

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 £51,478 (2006 : £61,281).

26 POST-BALANCE SHEET EVENTS

Subsequent to the year end, the Group has made announcements regarding; (1) the entering into a licensing and supply agreement for the evaluation of its patented polymer, Elast-Eon™, with a global medical device company; (2) the increase to £17,500,000 of its authorised share capital; and (3) an increase in the issued and fully paid up share capital of the Company to 4,810,278 Ordinary shares of 250p each, as a result of a Placing of 1,000,000 new Ordinary shares of 250p each at a price of 510p per share, thereby raising £5.1m before expenses.

27 FINANCIAL COMMITMENTS

At 31 March 2007 the Group had annual commitments under non-cancellable operating leases as follows:

	2007		2006	
	land and buildings £000	other £000	land and buildings £000	other £000
Expiring within one year	-	-	-	-
Expiring between one and two years	-	-	-	-
Expiring between two and five years	118	-	103	-
Expiring over five years	-	-	-	-
	118	-	103	-

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 tenth Annual General Meeting of AorTech International plc will be held at the offices of The Hogarth Partnership, 2nd Floor Upstream, No.1 London Bridge, London SE1 9BG on 2 October 2007 at 10:00am for the following purposes:

AS ORDINARY BUSINESS_

1. To receive and adopt the financial statements of the Company for the year ended 31 March 2007 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 2007.
3. To re-elect as a Director Jon Peter Pither, who is retiring by rotation.
4. 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:

- 5 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 £4,008,565 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:

- 6 That subject to the passing of Resolution 5 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 5 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 recognized 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 £601,284, 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
6 September 2007	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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