SC 170071

ANNUAL REPORT and ACCOUNTS

2003 2004 AORTECH INTERNATIONAL PLC

AorTech

CONTENTS

AorTech
INTERNATIONAL

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CHAIRMAN'S STATEMENT

RESULTS

For the year ended 31 March 2004, the Company had a turnover of £360,185, which consisted largely of up front payments from four licencees and purchases of Elast Eon™. Operating expenses for the year were £2,527,045, which included development expenditure of £559,032, amortisation of intangible fixed assets of £97,863, and costs of £466,740 which will not be incurred in future periods following the restructuring of the Group and the discontinuance of businesses in the previous year. This led to a Loss on Ordinary Activities Before Tax of £1,449,557.

During the year the Company received cash in respect of research and development tax credits totalling £1,976,817 relating to development expenditure incurred in prior years This is shown in the Profit and Loss Account as a taxation credit and resulted in a Profit After Tax for the year of £527,260.

The cash position at the end of the year was £5,968,200 compared to £6,851,343 at the end of the previous year. Cash outflow from operating activities before exceptional items included expenditure of £636,518 which will not be incurred in future periods following the restructuring of the Group and the discontinuance of business in the previous year.

BIOMATERIALS

As reported in the Interim Statement for the year, good progress was made in the period through to October 2003, with four technology/material supply agreements signed and detailed discussions in progress with a number of other potential licencees.

It was at this time, after a series of announcements regarding biomaterials licensing activities, that the Company received an approach from a third party expressing interest in acquiring the Company. In late January 2004, after a series of detailed discussions, the Board unanimously recommended that the negotiations be taken to the next stage. However, before this could be formalised, it became apparent that the Company could not meet all of the pre-conditions of the approach and this led to the third party withdrawing from the negotiations.

This process proved very time consuming for the small management team and their time was inevitably deflected from the major operating tasks at a critical period.

However in spite of this, considerable progress was made on three fronts:

- **Development of new materials for new market segments**
- **Completion of new technology/material supply agreements**
- **Development of relationships with existing Partners**

DEVELOPMENT OF NEW MATERIALS FOR NEW MARKET SEGMENTS

A new class of Elast-Eon™ technology, which has been named Elast-Eon XL™ in reference to its cross linked composition, has been developed specifically for orthopaedic applications. This material is currently being evaluated by a number of the leading suppliers of spinal disc implant products for use as the material of choice for an emerging class of flexible spinal disc implants. Another version of this new class of Elast-Eon™ has been developed with the intent of providing a material that may be injected directly into the interior of the disc to compensate for loss of native disc material. New patents applications have been filed for this material.

• The Company has developed a new class of Elast-Eon™ with the intent of providing a safer, softer substitute for silicone gel in breast implant products. In pursuit of its goals in this area, the Company has produced "All Elast-Eon™" proto-type breast implants incorporating an Elast-Eon™ shell as well as an Elast-Eon™ filler. Additionally, these devices were produced utilizing novel device manufacturing processes developed in-house. The Company believes this "All Elast-Eon™" device offers a number of improvements over existing silicone technology with respect to safety and strength and to a significant degree can demonstrate these improvements with respect to the guidance documents issued by the United States Food and Drug Administration in January of this year. The Company has filed new intellectual property for this material in this application.

• Operationally, the Company has qualified a second tier of suppliers for its key raw materials and upgraded its quality systems to comply with current ISO requirements. Manufacturing processes have been fully validated as the Company prepares to make the transition into routine production and supply of its polymer biomaterials.

• The establishment of an alliance with Xceed Pty of Australia under which Xceed's novel biodegradable polyurethane technology will be scaled-up, stabilised and manufactured at AorTech's ISO certified Technology Centre.

• Continued progress with the qualification of the Elast-Eon™ 2 for use in the insulation of pacing leads and the development of a softer second generation material for the same application.

• Seven technical papers on the use of Elast-Eon™ were published and delivered at the 7th World Biomaterial Congress in May 2004 in Sydney, Australia.

COMPLETION OF TECHNOLOGY/SUPPLY AGREEMENTS

• Spinal Discs - detailed negotiations were held with an orthopaedic company regarding an exclusive agreement to use the orthopaedic version of Elast Eon,™ i.e. Elast Eon XL,™ for minimally invasive spinal surgery devices. However, for reasons not connected with the material, these negotiations were terminated shortly before the agreement was due to be signed. This was obviously very disappointing but at least it demonstrated that Elast Eon XL™ is a leading edge material for this high growth market segment. Negotiations are now proceeding with alternative major spinal surgery companies.

• Breast Implants - as reported previously, discussions have been held with the two market leaders regarding an Elast-Eon™ material licence and supply agreement. However the Company has decided to move further up the value chain by developing prototype implants and is seeking a partner in this device development effort. If successful, this would be the Company's first move forward from its basic business model of technology/material supply agreements and could provide a platform with significantly greater revenue generating potential for future growth.

• Successful co-development activities directed at qualifying Elast-Eon™ for applications in neuro-vascular stenting with a major US based partner.

• Successful co-development demonstrating the feasibility of an Elast-Eon™ application in neuro-stimulation products with the global leader in the field.

The Company is also currently pursuing additional licensing opportunities in:

• Cochlear implants
• Small replacement joint prostheses
• Long-term catheters

DEVELOPMENT OF RELATIONSHIPS WITH EXISTING PARTNERS

Three of the first four licencees anticipate revenue generating co-development work occurring as part of the licencee's application activities. At this point there are four of these co-development projects underway and more are expected as the relationships develop.

Additionally, two of these agreements contain provisions for exclusivity options for the licencee. In both cases, the feasibility work required to support the option decisions is progressing positively.

• On going support and co-development of Elast-Eon™ for drug eluting and non-drug eluting stent technology. Elast-Eon™ stents have successfully concluded the feasibility phase of their development with three major partners and are moving forward into the product development phase for a number of new stent products for both coronary and peripheral vascular applications.

• The Company has produced a series of next generation Elast-Eon™ heart valves of its own design. The valves have been tested by the Company and have demonstrated superior performance and durabilitiy.

The intellectual property associated with this heart valve technology continues to move forward in its approval process. This polymer valve technology has applications for both conventional surgical approaches as well as for a percutaneous or interventional cardiology technique approach to the implantation of the heart valve in patients incapable of withstanding full open-chest surgery on cardio-pulmonary bypass.

COMPANY OUTLOOK

The Board continues to believe that there are considerable opportunities for the Company in the specialist biomaterials market, particularly for implants where material specifications are challenging and added value can be high.

The early interest from a third party to acquire the Company appears, in the Directors' opinion, to support this view.

As indicated in the last year's Statement, it is not intended that the Company should remain solely a material supplier but should enhance shareholder value by moving up the value chain through the development of new applications utilising new materials, such application work being funded by commercial partners. At some point in the future the Company may move into the manufacture of proprietary components and /or products.

The Board believes that, whilst not without risk, this early stage company has an opportunity to generate shareholder value.

BOARD CHANGES

During the year, Bill Strachan and Jonathan Brooks, both Non-Executive Directors, decided that it would be in the best interests of the Company if the Board could be strengthened by the addition of Non-Executive Directors with small company experience and entrepreneurial backgrounds. As a result they resigned and have been replaced by:

Peter Jeremy Gibson, age 58, previously the CEO and Chairman of the Corin Group PLC, a major UK manufacturer of orthopaedic implants. Peter founded Corin in 1985 and managed it through to a public flotation in 2002 before retiring in 2003. He has significant experience of the challenges facing early stage companies in the orthopaedic implant market.

Jon Peter Pither, age 69, brings a wealth of Board and City institutional experience. His knowledge and experience of the challenges facing quoted small cap companies with emerging technologies will be particularly valuable at this stage in the development of the Company.

I would like to thank both Bill and Jonathan for their significant contributions during their time with the Company.

CAPITAL REDUCTION

At the Annual General Meeting, a resolution will be proposed to cancel the Share Premium Account of the Company and to apply this cancellation to eliminate the accumulated deficit on the Company's Profit and Loss Account which stood at £62,020,656 on 31 March 2004. The Board believes that the resulting balance sheet will be more suitable for an early stage business and will give the Company the potential to make distributions in the future if appropriate.

SUMMARY

The Company has completed its first year as an early stage biomaterials business. In general, good progress has been made, although there is little doubt that this progress was slowed by the negotiations concerning the third party approach.

The Board remains encouraged by the very positive response from most of the large global medical device companies and their significant interest in the Company's material technology and its development and manufacturing capabilities.

The strategic plan has been agreed, the technology is in place and the market appears to be receptive. The challenge is to create a solid business from this opportunity.

Finally, my sincere thanks to all employees, ably led by Frank Maguire, for their very considerable efforts during the year.

Laurie Rostron
Chairman

2003 2004
BOARD OF DIRECTORS & ADVISORS

DIRECTORS

Laurie Rostron	Chairman
William Strachan	Chief Executive (resigned as Executive Director 1 July 2003 and appointed non-Executive Director. Resigned 1 March 2004)
Frank Maguire	Chief Executive (appointed 1 July 2003)
Ian Cameron	Finance Director
Alistair Gray	non-Executive Director (resigned 11 August 2003)
Jonathan Brooks	non-Executive Director (resigned 1 March 2004)
Peter Gibson	non-Executive Director (appointed 1 March 2004)
John Pither	non-Executive Director (appointed 1 March 2004)

COMPANY SECRETARY
Ian Cameron

REGISTERED AND HEAD OFFICE
Phoenix Crescent,
Strathclyde Business Park, Bellshill,
Scotland ML4 3NJ

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

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

Solicitors
Biggart Baillie,
Dalmore House, 310 St. Vincent Street,
Glasgow G2 5QR

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 2004.

Principal activities

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

Review of business and future developments

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

During the financial year, the Company continued the exploitation of its range of biomaterials with the signing of four supply and licensing agreements. Discussions continue with a number of other interested parties. During the year, costs of £559,032 (2003: £4,182,296) were charged to the profit and loss account as development expenditure.

The consolidated profit and loss account for the year is set out on page 16. The Group's profit for the financial year of £527,260 (2003: loss £39,358,178) will be transferred to reserves.

No dividends have been paid or proposed for the years ended 31 March 2004 and 2003.

Fixed assets

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

Directors and their interests

At 31 March 2004, the Chairman of the Company was L. Rostron, the Executive Directors were F. Maguire and I. Cameron, and the non-Executive Directors were P. Gibson and J. Pither. The names of the other Directors who served during the year, together with the dates of their appointment or resignation, are set out on page 6.

At each Annual General Meeting one third of Directors shall be subject to retirement by rotation. L. Rostron 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 2004 in the issued ordinary share capital of the Company (all beneficially held) were as follows:

	31 march 2004 number	31 march 2003 number
L. Rostron	**-**	-
F. Maguire	**1,200**	1,200
I. Cameron	**1,350**	1,350
P. Gibson	**5,500**	-
J. Pither	**-**	-

During the period from the end of the financial year to 11 August 2004, no Director increased his interest in the issued ordinary share capital of the Company.

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

Substantial shareholdings

With the exception of the following shareholdings, the Directors have not been advised of any individual interest, or group of interests held by persons acting together, which at 11 August 2004 exceed 3% of the Company's issued share capital:

	number	%
ISIS Asset Management Plc	**950,000**	24.9%
Caricature Investments Limited	**447,107**	11.7%
Melody Investments Limited	**437,107**	11.5%
Mr. P. Gyllenhammar	**331,713***	8.7%

* Held by Erudite UK Limited and Silverslaggen AB, both companies that are wholly owned by Mr. P. Gyllenhammar

Included in the interests of ISIS Asset Management Plc above is the following fund whose shareholding at 11 August 2004 exceeds 3% of the Company's issued share capital:

Active Capital trust	**861,861**	22.6%

Share capital

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

Employees

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

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

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

Creditor payment policy

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

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

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

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

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

Wherever possible UK subsidiaries follow the same policy and the overseas subsidiaries are encouraged to adopt a similar policy applying local best practice. The Group's average creditor payment period at 31 March 2004 was 57 days (2003 : 52 days).

IFRS

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

Charitable and political donations

During the year the Group made charitable donations of £1,059 (2003: £1,144), comprising Shelter Scotland (£1,000) and Scottish International Relief (£59). The donation to Shelter Scotland was made at the request of one retiring non-Executive Director who waived his final month fee in favour of the Company donation

Annual general meeting

The notice convening the Annual General Meeting for 12 noon on 1 October 2004 at Buchanan Communications Limited, 107 Cheapside, London EC2V 6DN is set out on pages 31 and 32. 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 2004. Resolution 2 provides for approval of the Report of the Remuneration Committee for the year ended 31 March 2004. Resolution 3 deals with the reappointment of the one Director required by the Company's Articles of Association to retire this year and Resolutions 4 and 5 deal with the formal appointment of Peter Gibson and Jon Pither to the Board. Resolution 6 provides for the reappointment of PricewaterhouseCoopers LLP as auditors to the Company and the fixing of their fees.

Resolution 7

This resolution 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

This resolution disapplies pre-emption rights in relation to a specified number of shares. This figure represents 5% of the issued share capital.

Resolution 9

Resolution 9 provides for the cancellation of the Company's Share Premium Account and the application of this cancellation against the accumulated deficit on the Company's Profit and Loss Account. The Board believes that the resulting balance sheet will be more suitable for the Company and will give the Company the potential to make distributions in the future if appropriate.

Resolutions 1 to 6 are termed ordinary business. Resolutions 7 to 9 are termed special business.

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

I. Cameron
Company Secretary
Bellshill
11 August 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by UK company law to prepare financial statements for each financial year and to present them annually to the Company's members at the Annual General Meeting. The financial statements, of which the form and content are prescribed by the Companies Act 1985 and applicable accounting standards, must give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2004. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the AorTech International plc web site 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 web site.

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

CORPORATE GOVERNANCE

In June 1998, the Committee on Corporate Governance published the Combined Code ("the Code") derived by the Committee from the Cadbury, Greenbury and Hampel Reports. The Stock Exchange introduced new rules later in that year obliging listed companies to report on how they applied the Principles of Good Governance set out in the Code's Provisions throughout the accounting period.

The Code establishes 14 Principles of Good Governance which are split into four areas. Statements explaining how the Company has applied the Principles and the extent to which the provisions in the Code have been complied with are set out below.

Directors

The Company is controlled by the Board of Directors which, at 31 March 2004, comprises two Executive and three independent non-Executive Directors. All Directors are able to take independent financial advice in furtherance of their duties if necessary.

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

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

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

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

Directors' Remuneration

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

No Director has a service agreement exceeding one year.

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

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

Nomination Committee

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

Relations with shareholders

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

ACCOUNTABILITY AND AUDIT

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

Internal Control
The Board has applied Provision D2.1 of the Code and 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 and as a result of this exercise, senior appointments were made in each of these areas during the year ended 31 March 2002, although most of these appointments were terminated during the year ended 31 March 2003 following the restructuring of the Group's activities. The Board will continue to review the system of internal controls within the new structure of 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 monthly 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 three 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.

Compliance Statement
The Group has complied throughout the accounting period ended 31 March 2004 with the provisions set out in Section 1 of the Combined Code.

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 three non-Executive Directors as follows:

A. Gray (Chairman of the Remuneration Committee - resigned 11 August 2003)
W. Strachan (Chairman of the Remuneration Committee - appointed 11 August 2003, resigned 1 March 2004)
P. Gibson (Chairman of the Remuneration Committee - appointed 1 March 2004)
L. Rostron
J. Brooks (resigned 1 March 2004)
J.Pither (appointed 1 March 2004)

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

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

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

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

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

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

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

Remuneration of executive directors
The Executive Directors have service contracts which can be terminated on one year's notice by either party. The Remuneration Committee will review each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances, taking care to ensure that poor performance is not rewarded. The most recent executed contracts for the Executive Directors are as follows: F. Maguire - 6 December 2002, I. Cameron - 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. During the year ended 31 March 2004, the base salary of I. Cameron was increased by £5,000 to £90,000. At its most recent meeting held on 29 June 2004, the Committee awarded F. Maguire a 3% increase in base salary, although this increase was subsequently waived by F. Maguire. At the same meeting, the base salary of I. Cameron was left unaltered.

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 2004. At its most recent meeting held on 29 June 2004, the Committee laid down these terms for the year to 31 March 2005. Under these terms, F. Maguire will earn bonus equal to 25% of his base salary on the achievement of pre-determined turnover targets with up to a further 25% of base salary if these targets are exceeded. No performance related bonus will be payable to I. Cameron for the year to 31 March 2005.

Share options

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

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

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

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

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

Pensions

The Group makes contributions to a personal pension plan for I. Cameron at the rate of 10% of base salary.

Directors' emoluments

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

The following information has been audited.

	salary and fees £	benefits in kind £	pension contributions £	2004 total £	2003 total £
Executive					
E. McDaid (Chairman)(resigned 20 November 2002)	-		-	-	111,769 *
W. Strachan (appointed 1 July 2002, resigned 1 July 2003)	49,005	281	-	49,286	129,080
F. Maguire (appointed 1 July 2003)	109,941	618	-	110,559	-
I. Cameron	88,333	8,742	8,625	105,700	101,666
J. McKenna (resigned 1 July 2002)	-	-	-	-	118,961 *
Dr. P. Duijst (resigned 1 July 2002)	-	-	-	-	99,677 *
B. Lowinger (resigned 1 July 2002)	-	-	-	-	140,047 *
Professor D. F. Williams (resigned 1 July 2002)	-	-	-	-	60,000 *
J. Ranieri (appointed 1 January 2002, resigned 1 July 2002)	-	-	-	-	30,000
Non-executive					
L. Rostron (Chairman)(appointed 20 November 2002)	58,250	-	-	58,250	21,410
F. Madden (resigned 20 November 2002)	-	-	-	-	15,000
A. Gray (resigned 11 August 2003)	4,000	-	-	4,000	22,500
J. Brooks (resigned 1 March 2004)	15,500	-	-	15,500	22,500
W. Strachan (appointed 1 July 2003, resigned 1 March 2004)	18,750	-	-	18,750	-
P. Gibson (appointed 1 March 2004)	1,500	-	-	1,500	-
J. Pither (appointed 1 March 2004)	1,500	-	-	1,500	-
	346,779	9,641	8,625	365,045	872,610

**Includes compensation for loss of office*

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 £1,400 made to Ad Quo in respect of these services.

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

Directors' interests in shares

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

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

The following information has been audited.

(i) Share Option Scheme

	Number of Options					
	at 1 april 2003	**granted during year**	**at 31 march 2004**	**exercise price**	**date from which exercisable**	**expiry date**
F. Maguire	12,000	-	12,000	250p	11/7/2005	11/7/2012
I. Cameron	3,000	-	3,000	875p	24/6/2002	24/6/2009

(ii) Unapproved Share Option Scheme

	Number of Options					
	at 1 april 2003	**granted during year**	**at 31 march 2004**	**exercise price**	**date from which exercisable**	**expiry date**
F. Maguire	7,000	-	7,000	250p	11/7/2005	10/7/2012
	19,000	-	19,000	280p	8/8/2005	7/8/2012
	-	25,000	25,000	165p	14/7/2006	13/7/2013
I. Cameron	1,000	-	1,000	5,625p	17/12/2002	16/12/2009
	2,500	-	2,500	7,350p	10/7/2003	9/7/2010
	7,500	-	7,500	3,325p	29/6/2004	28/6/2011

The range in the mid-market price of the Company's shares during the year ended 31 March 2004 (adjusted for the one for ten consolidation of 1 September 2003) was from 102.5p to 190p. The mid-market price on 31 March 2004 was 167.5p.

On behalf of the Board

Peter Gibson
Chairman of the Remuneration Committee
11 August 2004

REPORT OF THE AUDITORS

Independent auditors' report to the members of AorTech International plc
We have audited the financial statements which comprise the consolidated profit and loss account, balance sheets, consolidated cash flow statement, statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A of the Companies Act 1985 contained in the Report of the Remuneration Committee ("the auditable part").

Respective responsibilities of directors and auditors
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Remuneration Report

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

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Directors' Report, the unaudited part of the Report of the Remuneration Committee, the Chairman's Statement, and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Report of the Remuneration Committee 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 and the auditable part of the Report of the Remuneration Committee.

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Report of the Remuneration Committee required by Part 3 of Schedule 7A of the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
11 August 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 March 2004

	Notes	2004 £	2003 £
Turnover			
Continuing operations		**360.185**	73,407
Discontinued operations		**-**	1,305,731
	2	**360,185**	1,379,138
Cost of Sales	3	**(30,649)**	(1,067,379)
Gross profit		**329,536**	311,759
Net operating expenses	3	**(2,527,045)**	(12,165,968)
Net operating expenses include:			
Development expenditure		*(559,032)*	*(4,182,296)*
Amortisation of intangible fixed assets		*(97,863)*	*(1,206,732)*
Costs of aborted acquisition		*-*	*(250,281)*
Group operating loss before provision for impairment of goodwill	3	**(2,197,509)**	(11,854,209)
Provision for impairment of goodwill	3	**-**	(16,535,412)
Group operating loss	4		
Continuing operations	3	**(2,197,509)**	(18,587,192)
Discontinued operations	3	**-**	(9,802,429)
		(2,197,509)	(28,389,621)
Exceptional items	5	**552,856**	(11,335,504)
Loss on ordinary activities before interest		**(1,644,653)**	(39,725,125)
Interest receivable	6	**195,096**	366,947
Loss on ordinary activities before taxation	2	**(1,449,557)**	(39,358,178)
Taxation	9	**1,976,817**	-
Profit/(Loss) for the financial year	22	**527,260**	(39,358,178)
Profit/(Loss) per ordinary share	11		
Basic		**13.84p**	(1,032.95p)
Diluted		**13.84p**	(1,032.95p)

There is no difference between the losses stated above and their historical cost equivalent.

STATEMENT OF TOTAL RECOGNISED GAINS/(LOSSES) for the year ended 31 March 2004

	Notes	2004 £	2003 £
Profit/(Loss) for the financial year		**527,260**	(39,358,178)
Currency translation differences arising on consolidation		**130,024**	58,190
Total gains/(losses) recognised since last annual report		**657,284**	(39,299,988)

BALANCE SHEETS as at 31 March 2004

	notes	group 2004 £	group 2003 £	company 2004 £	company 2003 £
Fixed assets					
Intangible assets	12	**1,565,806**	1,536,185	-	-
Tangible assets	13	**235,608**	319,976	-	-
Investment in subsidiary undertakings	14	-	-	-	-
		1,801,414	1,856,161	-	-
Current assets					
Stocks	15	**48,853**	-	-	-
Debtors	16	**185,848**	532,912	**5,240,185**	4,167,354
Cash at bank		**5,968,200**	6,851,343	**5,671,857**	18,331,305
		6,202,901	7,384,255	**10,912,042**	22,498,659
Creditors: amounts falling due within one year	17	**(438,200)**	(2,061,585)	**(47,409)**	(23,511)
Net current assets		**5,764,701**	5,322,670	**10,864,633**	22,475,148
Total assets less current liabilities		**7,566,115**	7,178,831	**10,864,633**	22,475,148
Deferred income	19	-	(270,000)	-	-
Net assets		**7,566,115**	6,908,831	**10,864,633**	22,475,148
Capital and reserves					
Called up share capital	20	**9,525,695**	9,525,696	**9,525,695**	9,525,696
Share premium account	22	**63,359,594**	63,359,593	**63,359,594**	63,359,593
Other reserve	22	**(2,003,143)**	(2,003,143)	-	-
Profit and loss account	22	**(63,316,031)**	(63,973,315)	**(62,020,656)**	(50,410,141)
Equity shareholders' funds	23	**7,566,115**	6,908,831	**10,864,633**	22,475,148

The financial statements on pages 16 to 30 were approved by the Board of Directors on 11 August 2004 and were signed on its behalf by:

L. Rostron, Chairman

I. Cameron, Finance Director

CONSOLIDATED CASHFLOW STATEMENT for the year ended 31 March 2004

	notes	2004 £	2003 £
Net cash outflow from operating activities	24		
Net cash outflow before exceptional items			
Continuing operations		**(1,898,890)**	(828,455)
Discontinued operations		**-**	(9,892,434)
		(1,898,890)	(10,720,889)
Outflow related to exceptional items		**(1,335,862)**	(1,709,737)
Net cash outflow from operating activities		**(3,234,752)**	(12,430,626)
Returns on investment and servicing of finance			
Interest received		**188,359**	498,976
Taxation			
Research and development tax credits received		**2,075,716**	-
Capital expenditure and financial investment			
Purchase of intangible fixed assets		**-**	(67,786)
Purchase of tangible fixed assets		**(14,908)**	(668,642)
Sale of tangible fixed assets		**136,440**	335,177
Net cash inflow/(outflow) from capital expenditure and financial investment		**121,532**	(401,251)
Disposals			
Disposal of commercial valve operations		**(50,000)**	2,618,697
Cash outflow before management of liquid resources and financing		**(899,145)**	(9,714,204)
Management of liquid resources			
Cash released from short term deposit		**734,983**	9,438,942
Decrease in cash in year	25	**(164,162)**	(275,262)

1 principal accounting policies

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

Basis of accounting

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

Basis of consolidation

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

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

Goodwill

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

Intellectual property

Intellectual property represents the cost of acquisition of patents, trademarks and copyrights. Amortisation is provided on intellectual property to write off the cost in equal annual 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 straight line basis over their expected useful economic lives as follows:

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

Development expenditure

All research and development expenditure is written off as incurred.

Hire purchase and lease commitments

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

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

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

Stocks

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

Foreign currencies

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

Turnover

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

Deferred taxation

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

Pensions

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

FRS 17 'Retirement Benefits' is being adopted in line with the transitional timetable laid down by the standard.

2 segmental analysis by class of business and geographical area

(a) Class of business - The Group operates in 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	**2004**		2003	
	Sales by destination £	**Sales by origin £**	Sales by destination £	Sales by origin £
Geographical segment				
United Kingdom	-	-	545,090	1,025,329
Rest of Europe	-	-	781,789	309,217
Rest of World	**360,185**	**360,185**	52,259	44,592
	360,185	**360,185**	1,379,138	1,379,138

(ii) Loss before taxation	**2004 £**	2003 £
Geographical segment		
United Kingdom	**(762,991)**	(38,063,717)
Rest of Europe	**(29,872)**	(15,391)
Rest of World	**(851,790)**	(1,646,017)
Loss before interest	**(1,644,653)**	(39,725,125)
Net interest receivable	**195,096**	366,947
Loss on ordinary activities before taxation	**(1,449,557)**	(39,358,178)

(iii) Net assets	**2004 £**	2003 £
Geographical segment		
United Kingdom	**5,534,686**	4,895,028
Rest of Europe	-	54,580
Rest of World	**2,031,429**	1,959,223
	7,566,115	6,908,831

3 turnover, cost of sales, gross profit, selling and marketing costs and administrative expenses

	2004 Continuing £	2003 Continuing £	2003 Discontinued £	2003 Total £
Turnover	**360,185**	73,407	1,305,731	1,379,138
Cost of sales	**(30,649)**	-	(1,067,379)	(1,067,379)
Gross profit	**329,536**	73,407	238,352	311,759
Selling and marketing costs	**(296,492)**	-	(2,227,838)	(2,227,838)
Administrative expenses:				
Development expenditure	**(559,032)**	(483,567)	(3,698,729)	(4,182,296)
Amortisation of intangible fixed assets	**(97,863)**	(1,060,820)	(145,912)	(1,206,732)
Costs of aborted acquisition	**-**	-	(250,281)	(250,281)
Other	**(1,573,658)**	(580,800)	(3,718,021)	(4,298,821)
Total administrative expenses	**(2,230,553)**	(2,125,187)	(7,812,943)	(9,938,130)
Net operating expenses	**(2,527,045)**	(2,125,187)	(10,040,781)	(12,165,968)
Group operating loss before provision for impairment of goodwill	**(2,197,509)**	(2,051,780)	(9,802,429)	(11,854,209)
Provision for impairment of goodwill	-	(16,535,412)	-	(16,535,412)
Group operating loss	**(2,197,509)**	(18,587,192)	(9,802,429)	(28,389,621)

The Group operating loss from continuing operations for the year to 31 March 2004 includes costs of £466,740 which will not be incurred in future periods following the restructuring of the Group and the discontinuance of businesses in the previous year

The provision for impairment of goodwill in 2003 arose following a full review, in accordance with FRS 10 "Goodwill and Intangible Assets", of the carrying value of goodwill relating to the acquisition of AorTech Biomaterials Pty Limited in March 2000.

4 operating loss

	2004 £	2003 £
The operating loss is stated after charging:		
Write back of amounts previously released from deferred grants	-	187,900
Depreciation and amortisation charge for the year:		
Intangible owned fixed assets	**97,863**	17,742,144
Tangible owned fixed assets	**96,049**	939,752
Operating lease rentals:		
Other	**204,596**	506,347
Costs of aborted acquisition	**-**	250,281

The above results for the year relate to continuing operations.
Of the total amortisation charge for the year ended 31 March 2003 of £18,887,617, an amount of £1,145,473 was charged as an exceptional item after the operating loss.
Of the total depreciation charge for the year ended 31 March 2003 of £3,460,792, an amount of £2,521,040 was included in the exceptional items charged after the operating loss. Details of the exceptional items are set out in note 5.

	2004 £	2003 £
Services provided by the Group's auditor		
Audit services		
Statutory Audit	**48,080**	44,700
Audit related regulatory reporting	**3,000**	11,000
Tax services		
Compliance services	**12,235**	4,686
Advisory services	**111,704**	-
Other services	**2,400**	132,500
	177,419	192,886

Included in the analysis above are Group audit fees paid to the Group's auditors of £48,080 (2003: £44,700), of which £20,000 (2003: £20,000) was paid in respect of the parent company.

5 exceptional items

	2004	2003		
	Continuing	Continuing	Discontinued	Total
	£	£	£	£
Gain/(loss) on disposal of commercial valve operations	**307,660**	-	(2,210,589)	(2,210,589)
Gain/(loss) on termination of truCCOMS operations	**111,581**	-	(4,338,964)	(4,338,964)
Loss on termination of tri-leaflet heart valve project	**-**	-	(924,570)	(924,570)
Fundamental restructuring costs	**133,615**	(186,267)	(3,675,114)	(3,861,381)
	552,856	(186,267)	(11,149,237)	(11,335,504)
Gain /(loss) on disposal of commercial valve operations				
Assets sold:				
Intangible fixed assets	**-**	-	779,298	779,298
Tangible fixed assets	**-**	-	1,289,138	1,289,138
Stocks	**-**	-	2,290,850	2,290,850
		-	4,359,286	4,359,286
Costs associated with the disposal	**-**	-	281,303	281,303
	-	-	4,640,589	4,640,589
Cash consideration	**87,660**	-	2,700,000	2,700,000
Less held in Escrow for 12 months	**220,000**	-	(270,000)	(270,000)
	307,660	-	2,430,000	2,430,000
Gain /(loss) on disposal	**307,660**	-	(2,210,589)	(2,210,589)

The gain on disposal of commercial valve operations during the year ended 31 March 2004 arises from the release of funds held in ESCROW for 12 months and the disposal of those assets written off in the previous year.

The losses in 2003 on termination of truCCOMS operations and of the tri-leaflet heart valve project comprise primarily the write off of assets held within these activities. The gain on termination of truCCOMS operations during the year ended 31 March 2004 comprises primarily the disposal of those assets written off the previous year.

Fundamental restructuring costs in the year to 31 March 2003 comprise the write off of corporate assets and redundancy costs. The gain during the year ended 31 March 2004 arises from the overprovision of estimated costs at 31 March 2003.

6 interest receivable

	2004	2003
	£	£
Bank interest	**184,221**	366,947
Other interest	**10,875**	-
	195,096	366,947

7 directors' emoluments

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

	2004	2003
	£	£
Aggregate emoluments	**356,420**	853,094
Company pension contributions to money purchase schemes	**8,625**	19,516

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

8 employee information

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:	**2004**	2003
	number	number
By activity		
Production	**1**	53
Sales	**1**	13
Development	**3**	54
Administration	**16**	18
	21	138
Staff costs (for the above persons):	**£**	£
Wages and salaries	**1,301,060**	5,700,073
Social security costs	**113,069**	471,670
Other pension costs	**36,648**	196,454
	1,450,777	6,368,197

Staff costs incurred include redundancy payments of £396,315 (2003: £1,707,991)

9 taxation

Analysis of credit in the year	2004 £	2003 £
Current tax:		
UK corporation tax on profits of the year at 30% (2003 - 30%)	-	-
Adjustments in respect of prior years	**(1,976,817)**	-
Total current tax	**(1,976,817)**	-
Deferred tax:		
Origination and reversal of timing differences	-	-
Tax on profit on ordinary activities	**(1,976,817)**	-

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

Loss on ordinary activities before tax	**(1,449,557)**	(39,358,178)
Loss on ordinary activities multiplied by standard rate in the UK 30% (30%)	**(434,867)**	(11,807,454)
Effects of:		
Depreciation for the period in excess of capital allowances and other timing differences	**(47,991)**	237,601
Expenses not deductible for tax purposes and other permanent tax differences	**482,858**	944,921
Losses not utilised	-	10,624,932
Adjustment to tax charge in respect of previous year	**(1,976,817)**	-
Current tax credit for the year	**(1,976,817)**	-

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

10 loss for the financial year

As permitted by section 230 of the Companies Act 1985, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's loss for the financial year was £11,939,536 (2003 : £49,413,900).

11 profit/(loss) per ordinary share

The basic profit/(loss) per ordinary share is calculated on the profit of the Group of £527,260 (2003 : loss £39,358,178) and on 3,810,278 (2003 : 3,810,278) equity shares, being the weighted average number of shares deemed to be in issue, after adjusting for the one for ten share consideration of 1 September 2003.

The exercise of share options would not have been dilutive and accordingly the basic and diluted profit/(loss) per share are the same.

12 intangible fixed assets

Group:	intellectual property £	goodwill £	total £
Cost			
At 1 April 2003	3,195,604	19,501,141	22,696,745
Exchange differences	149,981	-	149,981
Additions	-	-	-
Disposals	(1,388,328)	-	(1,388,328)
At 31 March 2004	1,957,257	19,501,141	21,458,398
Amortisation			
At 1 April 2003	1,659,419	19,501,141	21,160,560
Exchange differences	22,497	-	22,497
Charge for year	97,863	-	97,863
Disposals	(1,388,328)	-	(1,388,328)
At 31 March 2004	391,451	19,501,141	19,892,592
Net book value			
At 31 March 2004	1,565,806	-	1,565,806
Net book value			
At 31 March 2003	1,536,185	-	1,536,185

13 tangible fixed assets

Group	property improvements £	plant & equipment £	fixtures & fittings £	motor vehicles £	total £
Cost					
At 1 April 2003	1,312,378	2,127,554	1,286,850	118,802	4,845,584
Exchange differences	172	26,866	22,210	-	49,248
Additions	-	11,360	3,548	-	14,908
Disposals	(1,310,297)	(1,264,801)	(1,019,219)	(93,168)	(3,687,485)
At 31 March 2004	2,253	900,979	293,389	25,634	1,222,255
Depreciation					
At 1 April 2003	1,310,850	1,999,951	1,129,505	85,302	4,525,608
Exchange differences	46	16,276	9,153	-	25,475
Charge for year	331	51,858	37,360	6,500	96,049
Disposals	(1,310,297)	(1,264,801)	(1,019,219)	(66,168)	(3,660,485)
At 31 March 2004	930	803,284	156,799	25,634	986,647
Net book value					
At 31 March 2004	1,323	97,695	136,590	-	235,608
Net book value					
At 31 March 2003	1,528	127,603	157,345	33,500	319,976

No assets were held under hire purchase contracts at 31 March 2004 and 31 March 2003.

14 fixed asset investments

(a) Investment in subsidiary undertakings	group		company	
	2004 £	2003 £	**2004** £	2003 £
Cost				
At 1 April 2003	-	-	-	23,158,823
Exchange differences	-	-	-	(41)
Provision for impairment	-	-	-	(23,158,782)
At 31 March 2004	-	-	-	-

(b) interests in subsidiary undertakings

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

14 fixed asset investments (continued)

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

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

(ii) A dormant company.

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

(iv) A dormant company.

(v) A dormant company.

(vi) A dormant company.

15 stocks

All stocks at 31 March 2004 comprise raw materials

16 debtors

	group		company	
	2004	2003	**2004**	2003
	£	£	**£**	£
Amounts falling due within one year				
Trade debtors	**34,188**	237,988	**-**	-
Other debtors	**23,120**	106,224	**4,681**	533
Prepayments	**128,540**	188,700	**8,750**	44,118
	185,848	532,912	**13,431**	44,651
Amounts falling due after more than one year				
Amounts owed by group undertakings	**-**	-	**5,226,754**	4,122,703
Total debtors	**185,848**	532,912	**5,240,185**	4,167,354

17 creditors: amounts falling due within one year

	group		company	
	2004	2003	**2004**	2003
	£	£	**£**	£
Trade creditors	**121,402**	88,367	**21,609**	421
Other taxes and social security	**4,303**	47,379	**-**	22
Other creditors	**35,325**	340,416	**-**	-
Accruals	**178,271**	1,585,423	**25,800**	23,068
Corporation tax	**98,899**	-	**-**	-
	438,200	2,061,585	**47,409**	23,511

18 financial instruments

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

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

Interest rate risk

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

18 financial instruments (continued)

Liquidity risk
As at 31 March 2004, the Group had no borrowings. Liquidity has been maintained through equity financing.

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

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

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

Interest rate profile of financial liabilities
The Group had no financial liabilities at 31 March 2004 and 31 March 2003.

Profile of financial assets
The profile of the Group's cash and deposits at 31 March 2004 and 2003 was:

	cash at bank and in hand		short term deposits			total
	2004	2003	**2004**	2003	**2004**	2003
	£	£	**£**	£	**£**	£
Currency:						
Sterling	**(4,711)**	145,728	**5,703,834**	6,438,817	**5,699,123**	6,584,545
US Dollars	**93,658**	6,129	**-**	-	**93,658**	6,129
Australian Dollars	**167,589**	211,757	**-**	-	**167,589**	211,757
Euros	**7,830**	48,912	**-**	-	**7,830**	48,912
At 31 March 2003	**264,366**	412,526	**5,703,834**	6,438,817	**5,968,200**	6,851,343

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 2004 was 3.02%. (2003 : 3.13%)

Maturity profile of financial liabilities
The Group had no financial liabilities at 31 March 2004 and 31 March 2003.

Borrowing facilities
As at 31 March 2004, the Group had no undrawn committed borrowing facilities.

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

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

19 deferred income

	group		company	
Grants	**2004**	2003	**2004**	2003
	£	£	**£**	£
At 1 April 2003	-	120,072	-	-
Received during year	-	2,028	-	-
Released from profit and loss account	-	187,900	-	-
Provision for potential repayment	-	(310,000)	-	-
	-	-	-	-
Deferred revenue				
Sale of commercial heart valve operation (Note 5)	-	270,000	-	-
Total deferred income	-	270,000	-	-

20 called up share capital

	2004 £	2003 £
Authorised		
5,600,000 (2003 restated - 5,600,000) Ordinary shares of 250p each	**14,000,000**	14,000,000
Issued		
3,810,278 (2003 restated - 3,810,278) Ordinary shares of 250p each allotted, called up and fully paid	**9,525,695**	9,525,696

Figures for 2003 have been restated to reflect the one for ten share consolidation on 1 September 2003

21 options in shares of AorTech International plc

At 31 March 2004, options were exercisable over the following 250p Ordinary shares:

(i)approved share option scheme

number of shares	subscription price per share	period of option
207	1,205p	Between 28 March 2000 and 28 March 2007
5,607	875p	Between 24 June 2002 and 24 June 2009
346	5,625p	Between 17 December 2002 and 17 December 2009
578	7,925p	Between 19 June 2003 and 19 June 2010
1,433	7,425p	Between 11 July 2003 and 11 July 2010
664	9,035p	Between 18 December 2003 and 18 December 2010
2,568	4,175p	Between 29 May 2004 and 29 May 2011
1995	3,550p	Between 20 June 2004 and 20 June 2011
900	3,325p	Between 29 June 2004 and 29 June 2011
3039	1,725p	Between 18 December 2004 and 18 December 2011
24,000	250p	Between 11 July 2005 and 11 July 2012
1,200	295p	Between 26 July 2005 and 26 July 2012
1,200	280p	Between 8 August 2005 and 8 August 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 2004.

(ii)unapproved share option scheme

number of shares	subscription price per share	period of option
10,800	1,250p	Between 5 February 2000 and 4 February 2007
1,000	1,025p	Between 9 January 2001 and 8 January 2008
3,153	5,625p	Between 17 December 2002 and 16 December 2009
1,500	8,100p	Between 16 June 2003 and 15 June 2010
121	7,925p	Between 19 June 2003 and 18 June 2010
500	7,575p	Between 27 June 2003 and 26 June 2010
500	7,375p	Between 4 July 2003 and 3 July 2010
2,750	7,350p	Between 10 July 2003 and 9 July 2010
8,592	7,425p	Between 11 July 2003 and 10 July 2010
1,736	9,035p	Between 18 December 2003 and 17 December 2010
400	8,025p	Between 21 December 2003 and 20 December 2010
1,500	7,750p	Between 25 January 2004 and 24 January 2011
2,181	4,175p	Between 29 May 2004 and 28 May 2011
1,655	3,550p	Between 20 June 2004 and 19 June 2011
21,250	3,325p	Between 29 June 2004 and 28 June 2011
300	3,325p	Between 2 July 2004 and 1 July 2011
2,110	1,725p	Between 18 December 2004 and 17 December 2011
5,500	1,540p	Between 22 January 2005 and 21 January 2012
15,000	250p	Between 11 July 2005 and 10 July 2012
54,000	280p	Between 8 August 2005 and 7 August 2012
2,500	150p	Between 21 November 2005 and 20 November 2012
1,000	135p	Between 27 November 2005 and 26 November 2012
35,000	165p	Between 14 July 2006 and 13 July 2013

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 2004.

(iii)other

At 31 March 2004, options were also exercisable over 330,000 250p ordinary shares at a subscription price of £50 per share subject to the achievement of predetermined targets.

The range in the mid market price of the Company's shares during the year ended 31 March 2004 (adjusted for the one for ten consolidation of 1 September 2003) was from 102.5p to 190p. The mid market price on 31 March 2004 was 167.5p.

22 share premium account and reserves

Group

	share premium account £	other reserve £	profit and loss account £
At 1 April 2003	63,359,593	(2,003,143)	(63,973,315)
Profit for the year	-	-	527,260
Exchange differences arising on consolidation	-	-	130,024
Arising from share consolidation	1	-	-
At 31 March 2004	**63,359,594**	**(2,003,143)**	**(63,316,031)**

Company

	share premium account £	profit and loss account £
At 1 April 2003	63,359,593	(50,410,141)
Loss for the year	-	(11,939,536)
Exchange differences	-	329,021
Arising from share consolidation	1	-
At 31 March 2004	**63,359,594**	**(62,020,656)**

23 reconciliation of movements in group shareholders' funds

	2004 £	2003 £
Opening shareholders' funds	6,908,831	46,208,819
Profit / (loss) for the financial year	527,260	(39,358,178)
Exchange differences arising on consolidation	130,024	58,190
Closing shareholders' funds	**7,566,115**	6,908,831

24 reconciliation of operating loss to net cash flow from operating activities

	2004 Continuing £	2003 Continuing £	2003 Discontinued £	2003 Total £
Group operating loss	**(2,197,509)**	(18,587,192)	(9,802,429)	(28,389,621)
Amortisation of intangible fixed assets	**97,863**	17,591,629	150,515	17,742,144
Depreciation of tangible fixed assets	**96,049**	152,021	787,731	939,752
Release to deferred grants	**-**	-	187,900	187,900
Loss on sale of tangible fixed assets	**-**	-	3,276	3,276
Increase in stocks	**(48,853)**	-	(1,062,034)	(1,062,034)
Decrease in trade debtors	**204,016**	859	1,465,505	1,466,364
Decrease in prepayments	**69,702**	61,889	71,989	133,878
Decrease in other debtors	**82,911**	11,308	118,351	129,659
Decrease in trade creditors	**(2,885)**	(44,445)	(1,349,671)	(1,394,116)
Decrease in taxes and social security	**(43,076)**	-	(219,113)	(219,113)
Increase/(decrease) in other creditors	**2,386**	(7,232)	(9,171)	(16,403)
Decrease in accruals	**(159,494)**	(7,292)	(235,283)	(242,575)
Net cash outflow from operating activities	**(1,898,890)**	(828,455)	(9,892,434)	(10,720,889)

Net cash outflow from operating activities for the year to 31 March 2004 includes expenditure of £636,518 which will not be incurred in future periods following the restructuring of the Group and the discontinuance of businesses in the previous year.

25 reconciliation of net cash flow to movement in net funds

	2004 £	2003 £
Decrease in cash in the year	**(164,162)**	(275,262)
Cash outflow from decrease in liquid resources	**(734,983)**	(9,438,942)
Change in net debt resulting from cash flows	**(899,145)**	(9,714,204)
Other non-cash items:		
Currency translation differences arising on consolidation	**16,002**	6,667
Movement in net funds in the year	**(883,143)**	(9,707,537)
Net funds at 1 April 2003	**6,851,343**	16,558,880
Net funds at 31 March 2004	**5,968,200**	6,851,343

26 analysis of net funds

	1 april 2003 £	cash flow £	exchange differences £	31 march 2004 £
Net cash:				
Cash at bank and in hand	6,851,343	(899,145)	16,002	5,968,200
Deposits treated as liquid resources	(6,438,817)	734,983	-	(5,703,834)
	412,526	(164,162)	16,002	264,366
Liquid resources:				
Deposits included in cash	6,438,817	(734,983)	-	5,703,834
Net funds	**6,851,343**	**(899,145)**	**16,002**	**5,968,200**

27 pension and similar obligations

The Group operates defined contribution pension schemes for employees. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions payable by the Group amounted to £36,648 (2003 : £196,454).

28 capital commitments

The Group had no capital commitments at 31 March 2004 and 31 March 2003

29 financial commitments

At 31 March 2004 the Group had annual commitments under non-cancellable operating leases as follows:

	2004		2003	
	land and buildings £	**other £**	land and buildings £	other £
Expiring within one year	**37,254**	**-**	56,224	-
Expiring between one and two years	**-**	**-**	61,687	11,868
Expiring between two and five years	**-**	**13,932**	-	3,408
Expiring over five years	**32,324**	**-**	32,324	13,492
	69,578	**13,932**	150,235	28,768

30 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.

31 contingent liability

The Company has taken legal action against Artech srl to obtain payment of invoices totalling £346,450. Full provision for the non recovery of this amount was made in the profit and loss account for the year to 31 March 2003. Artech srl as filed a counterclaim for the sum of €696,616 and £221,039 which is being defended by the Company. Mediation in relation to these actions has been scheduled for September 2004.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the seventh Annual General Meeting of AorTech International plc will be held at Buchanan Communications Limited, 107 Cheapside, London EC2V 6DN on 1 October 2004 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 2004 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 2004

3 To re-elect as a Director L. Rostron, who is retiring by rotation.

4 To elect as a Director P. Gibson, who was appointed a Director on 1 March 2004.

5 To elect as a Director J. Pither, who was appointed a Director on 1 March 2004.

6 To re-appoint PricewaterhouseCoopers 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 resolutions as a Special Resolutions.

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 8 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 any 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 hereby had not expired.

9 That the Share Premium Account standing in the books of account of the Company as at the date of this meeting be cancelled.

By order of the Board,

I Cameron	Phoenix Crescent
Company Secretary	Strathclyde Business Park
1 September 2004	Bellshill ML4 3NJ

NOTICE OF ANNUAL GENERAL MEETING

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.