
This document is important. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

A copy of this document has been delivered for registration to the Registrar of Companies in Scotland in accordance with Regulation 4(2) of the Public Offers of Securities Regulations 1995. This document has been drawn up in accordance with those Regulations.

The Directors of AorTech International plc, whose names appear under the heading "Directors, Secretary and Advisers" on page 4 of this document, accept responsibility for the information contained in this document. To the best of their knowledge, the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

Application has been made for all issued and to be issued Ordinary Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. Further the London Stock Exchange has not itself approved the contents of this document.

The offer pursuant to the Placing described in this document is not being made directly or indirectly in, and this document is not being, and must not be, mailed or otherwise distributed or sent in or into, the United States, Canada, Australia or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may not be offered, sold or delivered, directly or indirectly, in the United States, Canada, Australia or Japan.

AorTech International plc

(Incorporated in Scotland Registered Number 170071)

PLACING

**of 3,600,000 Ordinary Shares of 25p each
at 125p per share**

BY

Bell Lawrie White & Co.

Share capital immediately following the Placing

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
22,000,000	£5,500,000	Ordinary Shares of 25p each	17,200,000	£4,300,000

3,600,000 Ordinary Shares will be issued pursuant to the Placing. Further details are set out on page 5 and 6 of this document.

The Ordinary Shares now being placed will, except as aftermentioned, rank pari passu in all respects with the existing issued Ordinary Shares in the capital of the Company including the right to receive all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company. The Ordinary Shares now being placed will not entitle the holders thereof to participate in the bonus issue on Admission details of which are set out in paragraph 1.6 of Part 5 of this document.

The whole text of this document should be read. Your attention is drawn to the Section entitled "Risk Factors" on pages 13 and 14 of this document.

You should note that, in connection with the Admission and the Placing, Brewin Dolphin Bell Lawrie Limited is acting for AorTech International plc and will not be responsible to anyone other than AorTech International plc for providing the protections afforded to the customers of Brewin Dolphin Bell Lawrie Limited nor for providing advice in relation to the Placing.

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The following definitions apply throughout this document unless the context requires otherwise:-

Act	the Companies Act 1985 (as amended by the Companies Act 1989)
Admission	the admission of all the issued and to be issued Ordinary Shares (including the Placing Shares) to trading on AIM
AIM	the Alternative Investment Market of the London Stock Exchange
AorTech	AorTech Europe Limited, a company incorporated in Scotland, Registered No. 111794
the Company	AorTech International plc, a company incorporated in Scotland, Registered No. 170071
Bell Lawrie White	Bell Lawrie White & Co., a division of Brewin Dolphin Bell Lawrie Limited
Directors or Board	the Directors of the Company whose names are listed on page 4 of this document
the Group	the Company and its subsidiaries after Admission or, as the context requires, AorTech and its subsidiary prior to Admission
the London Stock Exchange	London Stock Exchange Limited
Official List	London Stock Exchange Daily Official List
Ordinary Shares	the ordinary shares of 25p each in the capital of the Company
Placing	the placing by Bell Lawrie White on behalf of the Company of the Placing Shares described in this document
Placing Price	125p per Placing Share
Placing Shares	3,600,000 Ordinary Shares to be issued pursuant to the Placing
Regulations	the Public Offers of Securities Regulations 1995
Share Option Scheme	the approved Share Option Scheme adopted by the Company, the terms of which are summarised in paragraph 11 of Part 5 of this document
Unapproved Share Option Scheme	the Unapproved Share Option Scheme adopted by the Company, the terms of which are summarised in paragraph 12 of Part 5 of this document
\$	US dollars

Directors	James Gordon Wright Edward McDaid Peter Duijst John McKenna Bruno Lowinger Francis John Phillip Madden Archibald Bernard Robertson all of: Strathclyde Business Park Bellshill Lanarkshire, ML4 3NJ
Secretary and Registered Office	Stuart Lawrie, CA Strathclyde Business Park Bellshill Lanarkshire, ML4 3NJ
Nominated Adviser and Nominated Broker	Bell Lawrie White & Co. (a division of Brewin Dolphin Bell Lawrie Limited) 48 St. Vincent Street Glasgow, G2 5TS
Solicitors to the Company	Biggart Baillie & Gifford Dalmore House 310 St. Vincent Street Glasgow, G2 5QR
Solicitors to Nominated Adviser and Nominated Broker	McGrigor Donald Pacific House 70 Wellington Street Glasgow, G2 6SB
Auditors and Reporting Accountants	Coopers & Lybrand Kintyre House, 209 West George Street Glasgow, G2 2LW
Bankers	Bank of Scotland 110 St Vincent Street Glasgow, G2 5EJ
Registrars	Bank of Scotland Registrar Department Ground Floor Apex House 9 Haddington Place Edinburgh, EH7 4AL

INTRODUCTION

AorTech manufactures its core product, the Ultracor mechanical heart valve, in the UK. Since AorTech started trading approximately 6,000 of these have been sold into eighteen countries including the UK, Germany, France, Italy, Scandinavia and Turkey. The heart valve market throughout the world was estimated in 1995 to be worth approximately \$700 million per annum. AorTech is seeking to expand its share of this market and to exploit other opportunities in the cardiovascular market, a market which was estimated in 1995 to be worth approximately \$8 billion worldwide per annum. The Company will be seeking to bring further cardiovascular products to the market through projects which are currently at the development stage. In addition the Directors are in early discussions with other companies with a view to broadening the Group's product base by the possible acquisition of other medical device products.

KEY STRENGTHS

The Directors consider the Company's key strengths to be:

- AorTech's core product, the Ultracor mechanical heart valve, which is recognised as a quality product and has been sold into eighteen countries;
- the ongoing development of a range of products in the cardiovascular field;
- the intellectual property rights owned by the Group;
- achievement of the CE mark, the new EU regulatory mark on medical devices, for its Ultracor product; and
- a board of directors and senior management experienced and skilled in the healthcare field.

OBJECTIVE AND STRATEGY

The Group is seeking to exploit its key strengths to become a leading developer and manufacturer of medical devices, principally in the cardiovascular field. In order to achieve this, the Directors intend to:

- expand the Group's presence overseas by increasing its marketing and distribution capabilities;
- continue development of high quality cardiovascular devices;
- maintain and improve on the Group's technologically advanced position; and
- examine the potential acquisition of, or joint ventures with, other medical device companies.

PLACING STATISTICS

3,600,000 Ordinary Shares will be issued pursuant to the Placing to raise approximately £4.5 million before expenses. The net proceeds will be utilised as set out on page 10.

Placing Price	125p
Ordinary Shares in issue immediately following the Placing	17,200,000
Market capitalisation at the Placing Price	£21,500,000
Percentage of enlarged issued share capital being placed on behalf of the Company	20.93%

Number of Ordinary Shares being placed on behalf of the Company	3,600,000
Net proceeds of the Placing receivable by the Company	£4,175,000

Immediately following the Placing the Directors, and persons connected with them, will be interested in 8,937,144 Ordinary Shares representing approximately 51.96% of the enlarged issued ordinary share capital. Details of these shareholdings are set out in paragraph 4 of Part 5. None of the existing shareholders will be disposing of shares in the Placing.

LOCK-IN AGREEMENTS

Two members of the Company hold Ordinary Shares subject to the terms of trusts, the beneficiaries under which are two Directors and members of their families. These members of the Company and the two Directors on behalf of beneficiaries have undertaken to Bell Lawrie White and the Company in respect of 8,937,144 Ordinary Shares (being their entire interests in the Company), representing approximately 59.96% of the enlarged issued ordinary share capital following the Placing, not to dispose of their interests in any such Ordinary Shares (subject to certain limited exceptions) until the publication of the audited consolidated accounts for the year to 31 March 1998. Caledonian Medical Limited has agreed with Bell Lawrie White and the Company that it will not, during such period, dispose of any of the shares acquired by it pursuant to the Agreement referred to in paragraph 9.4 of Part 5, subject to certain limited exceptions. Details of the Lock-in Agreements are set out in paragraph 8 of Part 5.

BACKGROUND

AorTech was set up by Gordon Wright and Eddie McDaid to acquire the intellectual property rights, know-how and patents relating to the Ultracor mechanical heart valve and commenced trading in November 1992.

Gordon Wright has worked in the medical device field for over twenty years. He set up Biomedical Systems Limited in 1979 and Ecosse Medical Limited in 1985. These companies manufactured and distributed a range of medical devices. In 1988 he sold his interests in these companies to 3M Health Care Limited. Mr McDaid was involved in these companies initially as an adviser to Biomedical Systems Limited and latterly as a director and shareholder in Ecosse Medical Limited.

AorTech was funded initially largely by borrowings and by the principal shareholders, Gordon Wright and Eddie McDaid. In 1995 3i Group plc subscribed £750,000 for ordinary and preference share capital. These additional funds allowed AorTech to undertake wider marketing of its product.

The Company was formed as the new holding company for the Group and acquired AorTech early in 1997 by means of a Share Exchange Agreement. Under the terms of that Agreement the shareholders in AorTech exchanged their interests in AorTech for shares in the Company. A summary of the Share Exchange Agreement is set out in paragraph 1 of Part 5.

AorTech sells its products principally through distributors with experience in selling cardiovascular devices. Sales are made by AorTech directly into Holland and by its wholly owned subsidiary in Germany. AorTech has entered into an agreement conditional upon Admission to terminate the UK distribution rights to the Ultracor valve held by Caledonian Medical Limited, a company in which Gordon Wright has a beneficial interest. Following Admission sales will be made directly in the UK by AorTech. A summary of the agreement for the termination of the UK distribution rights is set out in paragraph 9 of Part 5.

THE MARKET

Heart valves control the flow of blood to and from the chambers of the heart. In 1995 mechanical heart valves were estimated to account for approximately 75% of all heart valves sold with valves made from sterile animal tissue accounting for the balance. *Source – J G Kinnard & Co, Stockbrokers Research Report – April 1996.* Both types of valve are used to replace diseased or faulty heart valves.

The medical device market and, in particular, the heart valve replacement market is dominated by US suppliers. *Sources – NatWest Securities – Global Market Medical Devices – October 1996 and J G Kinnard & Co.* The heart valve market throughout the world was estimated in 1995 to be worth approximately \$700 million per annum. *Source – NatWest Securities.* It is the Directors' goal over the next five to seven years to capture 10% to 15% of the mechanical heart valve business in the world market outside the US. In 1995 the heart valve market outside the US was estimated to be approximately 60% of the world market. *Source – J G Kinnard & Co.*

In 1995 the world market for cardiovascular medical devices, including heart valves was estimated at approximately \$8 billion per annum and was anticipated to grow by the year 2005 to approximately \$17.4 billion. The total number of people in 1995 over the age of 45 who had some form of cardiovascular disease was estimated at 181 million and was estimated to grow to approximately 235 million in the year 2005. *Source – NatWest Securities.*

In the medium term it is the Directors' objective, inter alia, to widen the Group's activities into the general medical device market, which was estimated to be worth approximately \$120 billion per annum worldwide in 1995 and to be growing at an annual rate of between 6% and 7%. In 1993 approximately 93% of this worldwide market emanated from three regions in the world, US, Europe and Japan. *Source – NatWest Securities.*

In 1995 AorTech was successful in achieving the CE mark, an EU regulatory mark on medical devices, for the Ultracor valve. This achievement has opened up a wide range of world markets for this product. The Directors consider that the opportunities in the world market, outside the US, are so significant that initially the Group's efforts will be concentrated in that area.

CLINICAL ASPECTS OF THE ULTRACOR VALVE

There are three types of mechanical heart valves, tilting disc, bi-leaflet and ball and cage. The Ultracor tilting disc valve was designed by Bob Kaster, an experienced engineer in the field of heart valve design. Mr Kaster was also involved in the design of the Medtronic-Hall tilting disc valve.

Independent clinical data demonstrates that the Ultracor valve offers distinct advantages over other mechanical valve performances in the following areas:-

- **Regurgitation** – the valve has significantly less regurgitation than other valves. This enables the patient's heart to work with less effort to achieve the same circulatory volume;
- **Haemodynamics** – the valve is less obstructive to blood flow, in the aortic position, than other tilting disc valves. This is of particular importance in replacing the aortic valve; and
- **Noise** – the valve is significantly quieter than other tilting disc valves.

In addition, initial three year clinical data has been collected from various hospitals in Turkey based on 663 implants of the Ultracor valve. Surgeons considered that the Ultracor design offered the possibility of improved haemodynamic performance and perhaps a decrease in the rate of thromboembolic complications. The clinical data collected in respect of the Ultracor valve, compared with independent reports and available data for other mechanical valves is consistent with or demonstrates a lower incidence of thromboembolism. The clinical data showed no incidents of structural failure of the valve in either single or multiple valve replacements.

The Directors intend to have a significant amount of clinical data collected and analysed during the course of 1997 from Germany, the United Kingdom and Turkey, showing a five year experience with the Ultracor valve in patients. The Directors have not received any report of structural failure in respect of any implanted Ultracor valves.

OTHER PRODUCTS

AorTech has recently concluded an exclusive worldwide licence agreement for a new annuloplasty ring which is used in the repair of damaged heart valves. The ring has now been used in the repair of diseased heart valves in excess of 60 patients with satisfactory clinical results. It is the Directors' intention to apply for the CE mark for this product during the course of 1997 and to market the product thereafter.

JOINT VENTURE AGREEMENTS

AorTech has, over the last two years, carried out sub-assembly work for two American medical device companies which are seeking to have their products introduced into the world market outwith the US. Although this work has to date involved sub-assembly, AorTech is seeking, where appropriate, to complete joint venture agreements with other innovative US medical device companies to increase the use of its existing production facility.

POLYMER PROJECT

AorTech is carrying on, in conjunction with Bristol University, a project which attempts to include hydrophilic polymer on a heart valve, with a view to preventing or reducing the need for anticoagulant treatment for the prevention of thrombosis. Early results from the project are encouraging and the next stage, in-vivo experimentation, has commenced. The length of this project is anticipated to be approximately a further two years before clinical trials commence. Although this project relates directly to the Ultracor valve, the application could be sold to other medical device companies on completion of clinical trials. AorTech has concluded an exclusive licence to manufacture and supply the hydrophilic polymer and has lodged a patent application in respect of the application of the product.

NEW HEART VALVE PROJECT

In the Directors' opinion there have been no significant innovative developments in the heart valve market for some twenty years. The two groups of prosthetic heart valves which are presently used to replace diseased natural valves remain less than ideal because:-

- (i) Mechanical valves, while structurally durable, require lifelong application of anticoagulant drugs which itself carries hazards; and
- (ii) Tissue valves, although less thrombogenic, have limited durability, particularly in the young who frequently require "re-do" surgery to replace the old valve.

A new valve which addresses these two problems with a durable, flexible synthetic material combining the structure and longevity of a mechanical prosthesis with the low thrombogenicity of the tissue valve would, in the Directors' opinion, have considerable clinical impact.

AorTech has recently entered into a collaboration agreement with the University of Glasgow, the University of Leeds and the University of Liverpool to develop a new heart valve. These universities have expertise in the fields of cardiac surgery, design of mechanical prosthesis and bio-materials respectively. The project has the backing of the Department of Health and the Engineering and Physical Sciences Research Council and has been awarded a grant of £480,000 for the three year development period. The intellectual property rights arising from this project will belong to the Group.

The Directors believe the commercialisation of this new valve could have a considerable financial impact on the Group. In the Directors' opinion sales of the new valve would impact both on the tissue valve market and the mechanical valve market where anticoagulant therapy and follow-up can be difficult to control. The Directors consider that over a number of years the new valve would capture a significant and growing share of the total heart valve market, which is itself expected to increase as cardiac surgical procedures become more widely available.

INTELLECTUAL PROPERTY RIGHTS

The Group has patent protection for its Ultracor valve in key market territories including Germany, France and the United Kingdom but not in Turkey. It also has patent protection in the US. When Aortech acquires rights by way of licence it seeks to obtain exclusive licences with control over the management of the underlying intellectual property rights. In developing new products the Group seeks to obtain patent protection at the earliest opportunity on a global basis.

The Directors undertake reviews of the Group's intellectual property rights on a regular basis. It is the Group's policy to take steps to ensure that its intellectual property rights are appropriately protected in key market territories.

CURRENT TRADING AND PROSPECTS

The Group's turnover is continuing to grow with the Ultracor valve's acceptance into new global markets and into an increasing number of hospitals. The Directors believe that the acquisition of the UK distribution rights for the Ultracor valve will significantly increase the Group's margins on the sales of this product in the UK. The Directors are in the process of concluding agreements with a number of hospitals in Germany for the Ultracor valve to be included in two trial studies over the next three years. The Directors expect that inclusion in these trials will result in a substantial increase in sales in Germany during that period which will have a material impact on both the turnover of the Group and the profitability of the Group during the year ending 31 March, 1998 and for the period of the trials thereafter. As described in Part 4, the cost of acquiring Caledonian Medical's distribution rights in the UK will be written off to the profit and loss account in the year to 31 March 1997. With the Group's continued growth prospects from its core product, with the acquisition of

the UK distribution rights, and with the prospect of a CE mark for the new annuloplasty ring in the course of 1997, the Directors consider that the Group's projected turnover as set out in the illustrative financial projections, should be achievable. While the Directors are confident of the successful commercialisation of the hydrophilic polymer and new heart valve products, potential income from sales of these products has not been included in the projections in Part 4.

REASONS FOR THE PLACING AND USE OF NET PROCEEDS

The net proceeds to be received by the Company after deduction of the expenses of the Placing, will amount to approximately £4.175 million. Approximately £650,000 will be used to repay the Group's overdraft, £600,000 to redeem the issued preference shares and between £375,000 and £750,000 to acquire the UK distribution rights to the Ultracor valve. The balance will be used principally to expand the Group's presence overseas by increasing its marketing and distribution capabilities, to complete the development of new products, to acquire plant and machinery and for working capital. Further details of the agreement to acquire the distribution rights to the Ultracor valve are set out in paragraph 9 of Part 5.

DIVIDENDS

The Directors intend to commence payment of dividends when it becomes commercially appropriate to do so and subject to the availability of distributable reserves. However, they expect the Company to be in a period of growth and do not believe that they will be in a position to consider payment of a dividend before 31 March 2000.

DIRECTORS AND EMPLOYEES

Further information on the Directors is set out in paragraph 4 of Part 5 and paragraph 23 of Part 3.

Executive Directors

James Gordon Wright (age 50) – Chairman. Mr Wright has been Chairman of AorTech since that company commenced trading in November 1992. Mr Wright was principal shareholder and managing director of both BioMedical Systems Limited from 1979 to 1988 and of Ecosse Medical Limited from 1985 to 1988. Both companies were involved in the manufacture and distribution of healthcare products in the cardiovascular field and were sold, in 1988, to 3M Health Care Limited. Mr Wright continued as managing director of both companies until late 1990. Prior to setting up BioMedical Systems, Mr Wright held various positions in healthcare companies from 1966 to 1979; initially as service engineer and senior commissioning engineer with Corning Medical Limited until 1971, as a sales engineer at S.E. Laboratories Limited from 1971 to 1973 and as sales manager for American Hospital Supplies from 1973 to 1976. From 1976 to 1979 he held the position of UK sales and marketing manager with Cobe Laboratories and was responsible for the introduction of a range of cardiovascular products in the UK. Mr Wright was appointed Chairman of the Company in January 1997.

Edward McDaid – C.A. (age 48) – Managing Director. Mr McDaid, a Chartered Accountant, has been Managing Director of AorTech since that company commenced trading in November 1992. Mr McDaid acted initially as adviser to Mr Wright from 1979 to 1988 and was latterly director and shareholder in Ecosse Medical Limited until disposal of that company's shares in 1988 to 3M Health Care Limited. Mr McDaid qualified as a Chartered Accountant in 1971 and spent four years with Coopers & Lybrand from 1972 to 1976, latterly as a senior audit manager in Zambia. From 1977 to 1983 Mr McDaid was financial controller to a large firm of solicitors in Scotland. In 1981 he set up his own chartered accountancy practice which merged with Pannell Kerr Forster in 1985. He became a partner in Pannell Kerr Forster from 1985 to 1989. In late 1989 Mr McDaid's practice was demerged from Pannell Kerr Forster and that practice continues to the present. Mr McDaid was appointed a Director of the Company in January 1997.

John McKenna (age 43) – Sales and Marketing Director. From 1980 to 1992 Mr McKenna was employed by Shiley UK Limited, part of the Shiley Group, a major heart valve company. Mr McKenna was latterly Product Sales Director for Europe, Middle East and Africa. Mr McKenna has a wide and extensive knowledge of the heart valve business throughout Europe and the Middle East. Mr McKenna joined the board of AorTech in May 1993 and the Board of the Company in January 1997.

Dr. Peter Duijst M.D. Ph.D. (age 45) – Medical and Regulatory Affairs Director. Dr. Duijst was appointed a Director of AorTech in May 1993 and a Director of the Company in January 1997. Dr Duijst is responsible for the clinical and regulatory affairs of the Group. He represents AorTech on the International Association of Medical Prosthesis Manufacturers. Prior to his appointment with AorTech he was, from 1990, senior research scientist at Shiley Regulatory Affairs International in The Netherlands. From 1989 to 1990 Dr Duijst was head of Clinical Medical Research Bureau International in Arnheim in The Netherlands and from 1987 to 1988 was a physician in the Department of Paediatrics, Academic Hospital in Amsterdam in The Netherlands. From 1981 to 1987, Dr Duijst was a Fellow in the Department of Cardiovascular Physiology, Free University, Amsterdam. Dr Duijst has a Masters Degree in Medicine, is a Doctor of Medicine and a Ph.D.

Bruno Lowinger (age 51) – International Sales Director. Mr Lowinger was appointed International Sales Director for AorTech in May 1993, responsible for the Far East and South America. In 1992, Mr Lowinger set up his own international business development company providing know-how on sales, marketing, manufacture and distribution for companies seeking to expand their healthcare business internationally through his company, Global Surgical Products based in Michigan, USA. From 1983 to 1992, Mr Lowinger was international manager of Sarns/3M, a cardiovascular division of the 3M company USA and was responsible for establishing and managing independent cardiovascular distributors in selected markets throughout the world. From 1979 to 1983 Mr Lowinger was European product manager of 3M Europe and managed the surgical products division business in sixteen European countries. From 1968 to 1979, Mr Lowinger held various sales and marketing functions with 3M Sweden, including positions as division marketing manager and latterly sales and marketing manager. Mr Lowinger was appointed a Director of the Company in January 1997.

Non Executive Directors

Archibald Robertson FCCA, (age 51). Mr Robertson was appointed a Director of AorTech in December 1995 and a Director of the Company in January 1997. Mr Robertson is a Chartered Certified Accountant and since 1992 has been self-employed as a business consultant and holds several non-executive directorships. From 1988 to 1992, Mr Robertson was chief controller for development markets for Sanofi Pharma based in Geneva and was a key member of a team responsible for developing that company's markets, particularly its drug division, in Asia, Latin America and Eastern Europe. From 1986 to 1988 Mr Robertson was a business consultant based in Geneva; from 1981 to 1986 he was European head of operations audit for Philip Morris Inc., based in Lausanne and responsible for Europe, Middle East and Africa; from 1980 to 1981 he was UK financial controller for Cheeseborough Ponds Limited and from 1976 to 1979 operations audit director for G.D. Searle & Co., covering Europe, Middle East and Africa. From 1973 to 1976 Mr Robertson was group management accountant for Urwick Orr & Partners.

Francis Madden TD, MA, LL.B (age 58). Mr Madden a Barrister, was appointed a Director of the Company in January 1997. He is an executive director of Quartz Capital Partners Limited, which provides corporate finance services to UK and European growth companies. He has been an executive director of two merchant banks, Arbuthnot Latham & Co Limited, and N.M. Rothschild & Sons, Limited and, from 1975 to 1978, he was attached to the City Takeover Panel as an Assistant Director General. In 1985 he founded and was managing director of Cambridge Capital Limited, a corporate finance and venture capital enterprise and a member of the London Stock Exchange, which specialised in providing advice and equity to fast growing technology companies, both listed and unlisted. Mr Madden has been a director of two-listed companies and a number of unlisted companies.

Key Employees

Kevin Johnson (age 44) – Sales Manager. Mr Johnson was appointed Sales Manager of AorTech in February 1996. From 1991 to 1996 Mr Johnson was an area sales manager with St Jude Medical, a US based valve company. From 1990 to 1991 Mr Johnson was a salesman with Cobe Laboratories involved in the cardiovascular market. From 1987 to 1989 Mr Johnson was Sales Manager with Evans Medical, a generic pharmaceutical manufacturer. From 1982 to 1987 he was employed as a salesman with Schering A.G. involved in the healthcare field. Mr Johnson is a qualified teacher and from 1979 to 1982 worked with Lancashire Education Authority.

Stuart Lawrie, C.A. (age 28) – Company Secretary. Mr Lawrie is a Chartered Accountant and joined AorTech in January 1996 as Financial Controller. He has responsibility for all monthly financial reporting and exercising financial control. Mr Lawrie qualified as a Chartered Accountant in 1992 and was previously Audit and Business Services Senior Manager with McDaid & Partners from 1992 to 1995. From 1995 to 1996 Mr Lawrie was seconded by McDaid & Partners to AorTech. He was appointed Company Secretary in January 1997.

Employees

In addition to the Directors, the Group has 24 full time employees involved in manufacturing, marketing and administration. Following the Placing, there should be no requirement to recruit significantly as the structure in place is adequate for the Group's planned expansion over the next two years.

SHARE OPTION SCHEMES

The Company has adopted the Share Option Scheme, which it is intended should be approved by the Inland Revenue, and the Unapproved Share Option Scheme to provide incentives to employees of the Group and other key contributors. The Unapproved Share Option Scheme rules depart from ABI/NAPF guidelines only to the extent that they permit options to be granted to persons who are not employees of a member of the Group. It is intended that options under this scheme will be granted to employees and also to persons who are not employees including certain academics working in various institutions on key research projects for the Group. Details of options granted, subject to Admission, as at the date of this document, are set out in paragraphs 4.2 and 12.5 of Part 5.

PREMISES

The current operations of the Group are based in purpose-built leased premises in the Medipark at Strathclyde Business Park which the Directors consider will be sufficient for its long term future development and strategy.

FINANCIAL RECORD

The following is a summary of the trading record of the Group extracted from the Accountants' Report by Coopers & Lybrand set out in Part 3.

	Year ended 31 March 1994 £000	Year ended 31 March 1995 £000	Year ended 31 March 1996 £000	8 month period ended 30 November 1996 £000
Turnover	966	958	1,744	1,480
Operating Profit/(Loss)	424	(211)	(248)	(157)
Profit/(Loss) before taxation	373	(310)	(359)	(229)

ILLUSTRATIVE FINANCIAL PROJECTIONS

The Directors have prepared illustrative projections of turnover, operating profit/(loss) and profit/(loss) on ordinary activities before taxation for each of the financial years to 31 March 2000. The Illustrative Financial Projections and the bases and assumptions upon which they have been prepared are set out in Part 4.

In the year to 31 March 1997 the Group is projected to achieve a turnover of £2,173,000, an operating loss (before an exceptional item) of £325,000 and a loss before taxation of £1,165,000. The exceptional item of £750,000 is the maximum cost of acquiring Caledonian Medical's distribution rights to the Ultracor product in the UK. In the year ending 31 March 1998 it is estimated that a profit before taxation of £448,000 will be achieved. With the continued acceptance of the Ultracor valve by surgeons in various countries throughout the world, the Directors consider the growth in demand should continue, with increases in sales and profitability as projected in Part 4. These projections do not include income from sales of products developed as a result of the hydrophilic polymer or new heart valve projects.

Your attention is drawn to the Risk Factors set out on pages 13 and 14 of this document, which should be carefully considered in conjunction with these projections.

CORPORATE GOVERNANCE

The Directors intend that the Company will comply with the Codes of Best Practice introduced by the Cadbury and Greenbury Reports so far as is appropriate having regard to the size of the Group. The Company will hold board meetings regularly throughout the year at which reports from its operating subsidiaries, together with the finance reports will be considered.

An Audit Committee has been established comprising the two non-executive Directors. It will meet at least twice each year and will be responsible for ensuring that the financial performance of the Group is properly reported on and monitored, for meeting the auditors and for reviewing the reports from the auditors relating to accounts and internal control systems. It will meet at least once a year with the auditors without executive board members present.

A Remuneration Committee has also been established comprising the two non-executive Directors and the Chairman. It will review, inter alia, the performance of Executive Directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The Remuneration Committee will also determine the allocation of options under the Share Option Scheme and the Unapproved Share Option Scheme and set objective conditions governing their exercise. It will be a rule of the Remuneration Committee that no Director shall participate in discussions or decisions concerning his own remuneration.

RISK FACTORS

Investors should be aware of the risks associated with an investment in the Company. In particular, the following risk factors should be considered:

Retention of Key Directors and Employees

The departure from the Group of any of the Executive Directors or certain senior employees could, in the short term, materially adversely affect the Group. While the Company has entered into service agreements with each of these Directors and contracts of employment with certain senior employees, the retention of their services cannot be guaranteed.

New Technology and Competition

New technology, changing commercial circumstances and new entrants to the markets in which the Group operates may impinge on the Group's business and other business risks are greater than for a company in a more mature industry.

New Products

AorTech has yet to achieve the CE mark for the annuloplasty ring which will be essential for significant sales of this product. While the success of the hydrophilic polymer and new heart valve projects would be a significant step in the growth of the Group, the commercialisation of the projects cannot be guaranteed.

Sales

The Group is at an early stage in its development and it is possible that its products may not attract the number of customers or will not sell in the quantities or at the prices anticipated by the Directors. In those circumstances, the Group would receive less than the projected income from sales of such products with a consequent effect on profitability.

Supply

AorTech has a long term agreement with Carbomedics Inc to supply key components for the Ultracor valve for fifteen years from 1995. If for any reason the requirements of that contract were not fulfilled then AorTech would be adversely affected until an alternative supply was arranged.

Marketability of Shares

Potential investors should be aware that the value of shares can rise or fall and that investment in a share which is traded on AIM may be less realisable and carry a higher risk than investment in a share listed on the Official List of the London Stock Exchange. Investors may realise less than their original investment.

Foreign Currency

The Group's income and expenditure may be denominated in foreign currencies. Fluctuations in exchange rates may, therefore, adversely affect the Group's profitability.

An investment in the Company may not be suitable for all recipients of this document. Potential investors are accordingly advised to consult a person authorised under the Financial Services Act 1986 who specialises in advising in investments of this kind before making any investment decisions.

ACCOUNTANTS' REPORT

The following is a copy of a Report addressed to the Directors and the Directors of Bell Lawrie White by Coopers & Lybrand, Chartered Accountants.

The Directors
AorTech International plc
Strathclyde Business Park
BELLSHILL ML4 3NJ

**Coopers
& Lybrand**

The Directors
Bell Lawrie White & Co
(a division of Brewin Dolphin Bell Lawrie Limited)
48 St Vincent Street
GLASGOW G2 5TS

Kintyre House
209 West George Street
Glasgow G2 2LW

12 February 1997

Dear Sirs

We report in connection with the prospectus of AorTech International plc ("the Company") dated 12 February 1997.

The Company was incorporated on 21 November 1996 as a private limited company and re-registered as a public limited company on 11 February 1997. On 10 February 1997 the Company acquired the entire issued share capital of AorTech Europe Limited in exchange for an issue of shares. Save for this acquisition and entering into the arrangements referred to in Sections 1 and 8 of Part 5 of the said prospectus, the Company has not yet commenced to trade, has made up no statutory accounts and has not declared or paid a dividend.

AorTech Europe Limited and its subsidiary undertaking are together referred to as "the Group" in this report.

We have examined the accounts of the companies comprising the Group for the three years and eight months ended 30 November 1996. The accounts of AorTech Europe Limited for each of the two years ended 31 March 1995 were audited by G O Thomson & Co, Chartered Accountants and Registered Auditors, Lanark; the accounts for the year ended 31 March 1996 and for the eight months ended 30 November 1996 were audited by ourselves. The auditors' report on each of these accounts was unqualified.

In October 1995 a subsidiary company, Ultracor Medizintechnik Handels GmbH ("Ultracor"), was established in Germany. As permitted by Part I of Schedule 8 of the Companies Act 1985 no consolidated accounts were prepared at 31 March 1996 and the accounts of Ultracor were not audited. For the purposes of this report consolidated accounts have been prepared as at 31 March 1996 and we have carried out such work as we consider necessary to form an opinion on such accounts.

The financial information stated in this report is based on the above accounts after making such adjustments as we consider necessary.

Our work has been carried out in accordance with the Auditing Guideline : "Prospectuses and the reporting accountant".

In our opinion the financial information set out below gives, for the purpose of the said prospectus, a true and fair view of the state of affairs of Aortech Europe Limited as at 31 March 1994 and 1995 and of the Group at 31 March 1996 and 30 November 1996 and of their respective results, total recognised gains and losses and cash flows for each of the periods then ended.

We consent to the inclusion in the said prospectus of this report and accept responsibility for its contents.

Principal accounting policies

The financial information in this report has been prepared in accordance with Accounting Standards currently applicable in the United Kingdom. The principal accounting policies, which have been applied consistently for all the periods covered by this report, are set out below.

Basis of accounting

The financial information has been prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of AorTech Europe Limited and its subsidiary undertaking made up to the end of the financial period. Intra-group sales and profits are eliminated on consolidation.

Turnover

Turnover represents net invoiced sales of goods and services, excluding value added tax.

Intangible fixed assets

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 instalments over its estimated economic life of 20 years.

Research and development

Expenditure on pure and applied research is written off as incurred.

Development expenditure relating to specific projects intended for commercial exploitation is carried forward where the ultimate commercial viability has been assessed with reasonable certainty. Such expenditure is amortised over the period expected to benefit.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over their expected useful economic lives as follows:

Property improvements	10 years
Plant and equipment	10 years
Fixtures and fittings	10 years
Motor vehicles	4 years

Hire purchase and lease agreements

Hire purchase and leasing agreements which transfer to the lessee 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 on a straight line basis over the lease term.

Stocks

Stock is valued at the lower of cost and net realisable value. Cost is based on the cost of manufacture plus attributable overheads based on a normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Government grants

Grants in respect of expenditure on tangible fixed assets are credited to a deferred income account and are released to the profit and loss account at the same rate as the depreciation on the assets to which the grants relate.

Grants of a revenue nature are credited to the profit and loss account so as to match them with the expenditure to which they relate.

Foreign currencies

Assets and liabilities of the German subsidiary company are translated into Sterling at rates of exchange ruling at the end of the financial period and the results are translated at the average rate of exchange for the period. Differences on exchange arising from the retranslation of the opening net investment and from the translation of the results of the subsidiary at average rate, 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.

Deferred taxation

Provision is made at current rates for taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

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.

Profit and loss accounts

	Notes	Eight months ended			
		Year ended 31 March		30 November	
		1994 £	1995 £	1996 £	1996 £
Turnover	1	966,121	957,972	1,744,178	1,479,845
Cost of sales		(222,211)	(419,594)	(947,573)	(853,737)
Gross profit		<u>743,910</u>	<u>538,378</u>	<u>796,605</u>	<u>626,108</u>
Administrative expenses		(635,217)	(950,401)	(1,058,490)	(783,058)
		<u>108,693</u>	<u>(412,023)</u>	<u>(261,885)</u>	<u>(156,950)</u>
Other operating income					
Before exceptional items		31,000	17,130	13,882	-
Exceptional items	2	284,322	183,908	-	-
		<u>315,322</u>	<u>201,038</u>	<u>13,882</u>	<u>-</u>
Operating profit/(loss)					
Before exceptional items	3	139,693	(394,893)	(248,003)	(156,950)
Exceptional items	2	284,322	183,908	-	-
		<u>424,015</u>	<u>(210,985)</u>	<u>(248,003)</u>	<u>(156,950)</u>
Interest payable	6	(51,152)	(99,505)	(111,208)	(71,772)
Profit/(loss) on ordinary activities before taxation		<u>372,863</u>	<u>(310,490)</u>	<u>(359,211)</u>	<u>(228,722)</u>
Tax on ordinary activities	7	25,137	(25,137)	-	-
Retained profit/(loss) for the financial period		<u>347,726</u>	<u>(285,353)</u>	<u>(359,211)</u>	<u>(228,722)</u>
Earnings/(loss) per ordinary share	8	<u>2.56p</u>	<u>(2.10p)</u>	<u>(2.64p)</u>	<u>(1.68p)</u>

All of the Group's activities were continuing throughout the above period.

There is no difference between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the periods stated above, and their historical cost equivalents.

Statement of total recognised gains and losses

	Year ended 31 March		Eight months ended 30 November	
	1994	1995	1996	1996
	£	£	£	£
Profit/(loss) for the financial period	347,726	(285,353)	(359,211)	(228,722)
Currency translation differences arising on consolidation	-	-	(193)	(2,009)
Total gains and losses recognised	<u>347,726</u>	<u>(285,353)</u>	<u>(359,404)</u>	<u>(230,731)</u>

Balance sheets

	Notes	As at 31 March		As at 30 November	
		1994	1995	1996	1996
		£	£	£	£
Fixed assets					
Intangible fixed assets	9	395,832	382,049	364,358	387,612
Tangible fixed assets	10	659,812	611,044	639,584	616,458
		<u>1,055,644</u>	<u>993,093</u>	<u>1,003,942</u>	<u>1,004,070</u>
Current assets					
Stocks	11	510,005	591,816	538,093	461,865
Debtors	12	510,557	336,704	428,331	677,664
Cash at bank		2,480	22,548	62,776	98,460
		<u>1,023,042</u>	<u>951,068</u>	<u>1,029,200</u>	<u>1,237,989</u>
Creditors: amounts falling due within one year	13	<u>(1,489,978)</u>	<u>(1,480,258)</u>	<u>(670,144)</u>	<u>(1,088,274)</u>
Net current assets/(liabilities)		<u>(466,936)</u>	<u>(529,190)</u>	<u>359,056</u>	<u>149,715</u>
Total assets less current liabilities		<u>588,708</u>	<u>463,903</u>	<u>1,362,998</u>	<u>1,153,785</u>
Creditors: amounts falling due after more than one year	14	<u>(258,976)</u>	<u>(419,524)</u>	<u>(727,905)</u>	<u>(749,423)</u>
Net assets		<u>329,732</u>	<u>44,379</u>	<u>635,093</u>	<u>404,362</u>
Capital and reserves					
Called up share capital	16	170	250,000	958,696	958,696
Share premium account	17	-	-	241,422	241,422
Profit and loss account	17	329,562	(205,621)	(565,025)	(795,756)
Equity shareholders' funds	18	<u>329,732</u>	<u>44,379</u>	<u>35,093</u>	<u>(195,638)</u>
Non-equity shareholders' funds	18	-	-	600,000	600,000
Total shareholders' funds		<u>329,732</u>	<u>44,379</u>	<u>635,093</u>	<u>404,362</u>

Cash flow statements

	Notes	Year ended 31 March		Eight months ended 30 November	
		1994 £	1995 £	1996 £	1996 £
Net cash inflow/(outflow) from operating activities	20	<u>15,524</u>	<u>(133,524)</u>	<u>(142,593)</u>	<u>(221,022)</u>
Returns on investments and servicing of financing					
Interest paid		(50,101)	(98,454)	(109,197)	(69,454)
Interest element of hire purchase payments		(1,051)	(1,051)	(2,011)	(2,318)
Net cash outflow from investments and servicing of finance		<u>(51,152)</u>	<u>(99,505)</u>	<u>(111,208)</u>	<u>(71,772)</u>
Investing activities					
Purchase of intangible fixed assets		-	(7,050)	(30,385)	(36,075)
Receipt of grant		-	-	-	20,800
Purchase of tangible fixed assets		(279,576)	(21,305)	(76,530)	(27,324)
Sale of tangible fixed assets		8,500	-	-	27,000
Net cash outflow from investing activities		<u>(271,076)</u>	<u>(28,355)</u>	<u>(106,915)</u>	<u>(15,599)</u>
Net cash outflow before financing		<u>(306,704)</u>	<u>(261,384)</u>	<u>(360,716)</u>	<u>(308,393)</u>
Financing					
Repayment of Calendar Capital Inc loan		(351,138)	(157,402)	(33,690)	-
Bank term loans received		-	150,000	507,500	-
Increase in directors' loans		62,869	14,715	40,819	-
Repayment of directors' loans		-	-	(250,000)	-
Repayment of capital element of hire purchase agreements		(5,000)	(5,000)	(10,852)	(13,430)
Ordinary shares issued		168	-	-	-
'A' ordinary shares issued		-	-	400,000	-
Preference shares issued		-	-	600,000	-
Expenses of shares issued		-	-	(49,882)	-
Net cash inflow/(outflow) from financing		<u>(293,101)</u>	<u>2,313</u>	<u>1,203,895</u>	<u>(13,430)</u>
Increase/(decrease) in cash and cash equivalents	21	<u>(599,805)</u>	<u>(259,071)</u>	<u>843,179</u>	<u>(321,823)</u>

Notes to the financial information

1 Turnover

An analysis of turnover by territory of destination is as follows:

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
UK	298,420	83,915	347,238	201,260
Rest of Europe	527,958	590,171	1,016,846	950,198
Other	139,743	283,886	380,094	328,387
	<u>966,121</u>	<u>957,972</u>	<u>1,744,178</u>	<u>1,479,845</u>

The Group operates in one business segment.

2 Exceptional items

The exceptional credits in 1994 and 1995 relate to the write-off of loan amounts due to Calendar Capital Inc, the company from whom the business and assets of Aortech Europe Limited were acquired in 1992.

3 Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting):

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
Amortisation of intangible fixed assets	20,833	20,833	19,231	12,821
Depreciation of tangible owned fixed assets	71,859	66,804	73,964	57,670
Depreciation of tangible fixed assets held under hire purchase contracts	4,358	3,269	12,210	18,448
Operating lease rentals	19,080	19,320	14,913	7,026
Loss on disposal of intangible fixed assets	-	-	28,846	-
Profit on disposal of tangible fixed assets	(2,080)	-	-	(3,000)
Auditors' remuneration	2,250	2,750	6,500	5,400

4 Employee information

The average number of persons employed by the Group (including directors) during the period was as follows:

	Year ended 31 March		Eight months ended 30 November	
	1994 Number	1995 Number	1996 Number	1996 Number
Number of employees	25	24	33	29

Staff costs for the above persons were as follows:

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
Wages and salaries	229,419	289,783	365,744	339,098
Social security costs	18,261	24,833	32,740	28,198
	<u>247,680</u>	<u>314,616</u>	<u>398,484</u>	<u>367,296</u>

5 Directors' emoluments

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
Salaries	80,986	80,384	118,039	87,673
Fees	-	-	2,400	6,000
Other emoluments (including pension contributions and benefits in kind)	22,983	23,645	23,456	15,762
	<u>103,969</u>	<u>104,029</u>	<u>143,895</u>	<u>109,435</u>

The directors' emoluments above (excluding pension contributions) include amounts paid to:

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
Chairman	-	-	-	-
Highest paid director	49,537	53,653	52,223	37,419

The number of directors (including the chairman and the highest paid director) who received fees and other emoluments (excluding pension contributions) in the following ranges was:

	Year ended 31 March		Eight months ended 30 November	
	1994 Number	1995 Number	1996 Number	1996 Number
Nil	3	3	2	2
£1 to £5,000	-	-	1	-
£5,001 to £10,000	-	-	-	1
£20,001 to £25,000	-	-	-	1
£25,001 to £30,000	-	-	1	-
£30,001 to £35,000	-	-	-	1
£35,001 to £40,000	-	-	-	1
£40,001 to £45,000	1	1	-	-
£45,001 to £50,000	1	-	1	-
£50,001 to £55,000	-	1	1	-

6 Interest payable

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
On loans and overdrafts	32,830	78,834	100,363	66,236
Directors' loans	17,271	19,620	8,834	3,218
Hire purchase	1,051	1,051	2,011	2,318
	<u>51,152</u>	<u>99,505</u>	<u>111,208</u>	<u>71,772</u>

7 Taxation

The charge/(credit) for taxation comprises:

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
UK corporation tax at 33%	25,137	(13,244)	-	-
Taxation - prior years	-	(11,893)	-	-
	<u>25,137</u>	<u>(25,137)</u>	<u>-</u>	<u>-</u>

8 Earnings/(loss) per share

The earnings/(loss) per ordinary share represents the profit/(loss) after taxation for the period divided by the 13,600,000 Ordinary shares of 25p each of the Company in issue immediately prior to the Placing.

9 Intangible fixed assets

	Development expenditure £	Intellectual property £	Total £
Cost			
At 1 April 1994	–	416,665	416,665
Additions	7,050	–	7,050
At 31 March 1995	7,050	416,665	423,715
Additions	30,385	–	30,385
Disposals	–	(32,050)	(32,050)
At 31 March 1996	37,435	384,615	422,050
Additions	36,075	–	36,075
At 30 November 1996	73,510	384,615	458,125
Amortisation			
At 1 April 1994	–	20,833	20,833
Charge for the year	–	20,833	20,833
At 31 March 1995	–	41,666	41,666
Charge for the year	–	19,231	19,231
Disposals	–	(3,205)	(3,205)
At 31 March 1996	–	57,692	57,692
Charge for the period	–	12,821	12,821
At 30 November 1996	–	70,513	70,513
Net book value			
At 30 November 1996	73,510	314,102	387,612
At 31 March 1996	37,435	326,923	364,358
At 31 March 1995	7,050	374,999	382,049
At 31 March 1994	–	395,832	395,832

Intellectual property consists of patents, patent applications, trademarks and tradenames.

10 Tangible fixed assets

	Property improvements £	Plant & equipment £	Fixtures & fittings £	Motor vehicles £	Total £
Cost					
At 1 April 1994	242,755	436,835	66,495	19,459	765,544
Additions	3,135	3,143	15,027	–	21,305
At 31 March 1995	245,890	439,978	81,522	19,459	786,849
Additions	11,100	9,726	13,048	80,840	114,714
At 31 March 1996	256,990	449,704	94,570	100,299	901,563
Additions	–	2,999	12,148	61,845	76,992
Disposals	–	–	–	(32,000)	(32,000)
At 30 November 1996	256,990	452,703	106,718	130,144	946,555
Depreciation					
At 1 April 1994	27,281	65,417	6,649	6,385	105,732
Charge for the year	21,860	37,456	7,488	3,269	70,073
At 31 March 1995	49,141	102,873	14,137	9,654	175,805
Charge for the year	20,785	34,684	8,044	22,661	86,174
At 31 March 1996	69,926	137,557	22,181	32,315	261,979
Charge for the period	17,133	30,180	7,114	21,691	76,118
Disposals	–	–	–	(8,000)	(8,000)
At 30 November 1996	87,059	167,737	29,295	46,006	330,097
Net book value					
At 30 November 1996	169,931	284,966	77,423	84,138	616,458
At 31 March 1996	187,064	312,147	72,389	67,984	639,584
At 31 March 1995	196,749	337,105	67,385	9,805	611,044
At 31 March 1994	215,474	371,418	59,846	13,074	659,812

At 30 November 1996 the net book value of motor vehicles includes an amount of £80,027 (31 March 1996 : £36,630; 31 March 1995 : £9,805) in respect of assets held under hire purchase contracts.

11 Stocks

	As at 31 March 1995 £	30 November 1996 £	As at 1996 £
Raw materials	64,438	125,569	54,216
Work in progress	188,403	107,839	77,334
Finished goods	338,975	304,685	330,315
	<u>591,816</u>	<u>538,093</u>	<u>461,865</u>

12 Debtors : amounts falling due within one year

	As at 31 March 1995 £	30 November 1996 £	As at 1996 £
Trade debtors	293,541	298,397	542,129
Value added tax	612	60,569	33,375
Prepayments	42,551	69,365	102,160
	<u>336,704</u>	<u>428,331</u>	<u>677,664</u>

13 Creditors : amounts falling due within one year

	As at 31 March 1995 £	30 November 1996 £	As at 1996 £
Bank overdraft	1,055,475	252,717	612,233
Bank loans	-	7,500	27,500
Loan from Calendar Capital Inc	33,690	-	-
Hire purchase	4,167	13,936	29,457
Trade creditors	286,068	300,664	275,992
Other taxes and social security	9,439	28,209	35,606
Income tax	4,905	2,208	-
Other creditors	23,098	7,961	-
Accruals	63,416	56,949	107,486
	<u>1,480,258</u>	<u>670,144</u>	<u>1,088,274</u>

14 Creditors : Amounts falling due after more than one year

	As at 31 March 1995 £	30 November 1996 £	As at 1996 £
Bank loans	150,000	650,000	630,000
Directors' loans	269,524	60,343	60,343
Hire purchase	-	17,562	38,280
Deferred grant	-	-	20,800
	<u>419,524</u>	<u>727,905</u>	<u>749,423</u>

15 Loans and hire purchase obligations

	As at 31 March 1995 £	30 November 1996 £	As at 1996 £
Bank loans (secured)			
These are repayable:			
In one year or less	–	7,500	27,500
Between one and two years	7,500	55,375	106,125
Between two and five years	90,000	394,500	394,500
In five years or more	52,500	200,125	129,375
	<u>150,000</u>	<u>657,500</u>	<u>657,500</u>
Loan from Calendar Capital Inc (secured)			
Repayable in one year or less	<u>33,690</u>	Nil	Nil
Directors' loans			
Repayable between two and five years	<u>269,524</u>	<u>60,343</u>	<u>60,343</u>
Hire purchase obligations			
The obligations under hire purchase agreements are:			
Repayable in one year or less	4,167	13,936	29,456
Between one and two years	–	10,828	24,276
Between two and five years	–	6,734	14,004
	<u>4,167</u>	<u>31,498</u>	<u>67,736</u>
	<u>457,381</u>	<u>749,341</u>	<u>785,579</u>

16 Share capital

The share capital of Aortech Europe Limited is as follows:

	As at 31 March 1995 £	30 November 1996 £	As at 1996 £
Authorised			
Ordinary shares of £1 each	10,000,000	253,623	253,623
'A' Ordinary shares of £1 each	–	108,696	108,696
'A' Redeemable Preference shares of £1 each	–	350,000	350,000
'B' 6% Cumulative Redeemable Preference shares of £1 each	–	250,000	250,000
	<u>10,000,000</u>	<u>962,319</u>	<u>962,319</u>
Allotted, issued and fully paid up			
Ordinary shares of £1 each	250,000	250,000	250,000
'A' Ordinary shares of £1 each	–	108,696	108,696
'A' Redeemable Preference shares of £1 each	–	350,000	350,000
'B' 6% Cumulative Redeemable Preference shares of £1 each	–	250,000	250,000
	<u>250,000</u>	<u>958,696</u>	<u>958,696</u>

On 10 February 1997 the entire issued share capital of AorTech Europe Limited was acquired by the Company.

17 Reserves

	Profit and loss account £	Share premium account £
As at 1 April 1994	329,562	-
Bonus share issue	(249,830)	-
Loss for the year	(285,353)	-
As at 31 March 1995	<u>(205,621)</u>	-
Loss for the year	(359,211)	-
Issue of 'A' Ordinary shares during the year	-	291,304
Expenses of share issue	-	(49,882)
Currency translation differences arising on consolidation	(193)	-
As at 31 March 1996	<u>(565,025)</u>	<u>241,422</u>
Loss for the period	(228,722)	-
Currency translation differences arising on consolidation	(2,009)	-
As at 30 November 1996	<u>(795,756)</u>	<u>241,422</u>

18 Reconciliation of movements in shareholders' funds

	Year ended		Eight months ended
	31 March	31 March	30 November
	1995	1996	1996
	£	£	£
Opening shareholders' funds	329,732	44,379	635,093
Loss for the period	(285,353)	(359,211)	(228,722)
'A' Ordinary shares issued	-	108,696	-
Premium on 'A' Ordinary shares issued	-	291,304	-
'A' Preference shares issued	-	350,000	-
'B' Preference shares issued	-	250,000	-
Expenses of share issue	-	(49,882)	-
Currency translation differences arising on consolidation	-	(193)	(2,009)
Closing shareholders' funds	<u>44,379</u>	<u>635,093</u>	<u>404,362</u>
Equity interests	44,379	35,093	(195,638)
Non-equity interests	-	600,000	600,000
Total shareholders' funds	<u>44,379</u>	<u>635,093</u>	<u>404,362</u>

19 Operating lease commitments

The Group had annual commitments under non-cancellable operating leases as follows:

	As at 31 March 1996		As at 30 November 1996		
	1995 Motor vehicles £	Computer equipment £	Motor vehicles £	Computer equipment £	Motor vehicles £
Expiring within one year	5,723	—	1,495	—	—
Expiring between one and two years	8,284	—	—	1,812	—
Expiring between two and five years	—	1,812	—	—	8,500
	<u>14,007</u>	<u>1,812</u>	<u>1,495</u>	<u>1,812</u>	<u>8,500</u>

20 Net cash inflow/(outflow) from operating activities

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
Operating profit/(loss)	424,015	(210,985)	(248,003)	(156,950)
Depreciation of tangible fixed assets	76,217	70,073	86,174	76,118
Amortisation of intangible fixed assets	20,833	20,833	19,231	12,821
(Profit)/loss on sale of fixed assets	(2,080)	—	28,846	(3,000)
(Increase)/decrease in stocks	(140,783)	(81,811)	53,723	76,228
(Increase)/decrease in debtors	(296,422)	173,853	(91,627)	(249,333)
Increase/(decrease) in creditors	(66,256)	(105,487)	9,063	23,094
Net cash inflow/(outflow) from operating activities	<u>15,524</u>	<u>(133,524)</u>	<u>(142,593)</u>	<u>(221,022)</u>

21 Changes in cash and cash equivalents

	Year ended 31 March		Eight months ended 30 November	
	1994 £	1995 £	1996 £	1996 £
Balance brought forward	(174,051)	(773,856)	(1,032,927)	(189,941)
Net cash inflow/(outflow)	(599,805)	(259,071)	843,179	(321,823)
Currency translation differences arising on consolidation	—	—	(193)	(2,009)
Balance carried forward	<u>(773,856)</u>	<u>(1,032,927)</u>	<u>(189,941)</u>	<u>(513,773)</u>
Comprising:				
Cash in hand and at bank	2,480	22,548	62,776	98,460
Bank overdraft	(776,336)	(1,055,475)	(252,717)	(612,233)
	<u>(773,856)</u>	<u>(1,032,927)</u>	<u>(189,941)</u>	<u>(513,773)</u>

22 Analysis of changes in financing

	Eight months ended		
	Year ended 31 March 1995 £	31 March 1996 £	30 November 1996 £
Share capital (including premium)			
As at beginning of period	170	250,000	1,200,118
Issue of share capital net of expenses	249,830	950,118	–
As at end of period	<u>250,000</u>	<u>1,200,118</u>	<u>1,200,118</u>
Loans and hire purchase obligations			
As at beginning of period	638,976	457,381	749,341
New loans	164,715	548,319	–
Repayment of loans	(157,402)	(283,690)	–
Write-off of loan amounts due	(183,908)	–	–
Repayment of capital element of hire purchase agreements	(5,000)	(10,852)	(13,430)
Inception of hire purchase agreements	–	38,183	49,668
As at end of period	<u>457,381</u>	<u>749,341</u>	<u>785,579</u>

23 Related party transactions

J G Wright, a director and shareholder in the Company, is also a director and has a beneficial interest in the shares of Caledonian Medical Limited ("CalMed"). E McDaid, a director and shareholder in the Company, was also a director in CalMed until 31 January 1997. CalMed is the Company's distributor for the Ultracor production the United Kingdom.

During the eight months ended 30 November 1996 and the year ended 31 March 1996, included in turnover are sales to CalMed of £180,150 and £335,126 respectively (1995: £77,730, 1994: £298,420) and management fees of £21,110 and £12,112 respectively (1995: £Nil, 1994: £Nil) for the provision of quality assurance, marketing and accounting support services to CalMed. During the eight months ended 30 November 1996 and the year ended 31 March 1996 included in cost of sales are product sterilising and laboratory testing services of £13,993 and £19,891 respectively (1995: £23,863, 1994: £16,605) charged by CalMed.

At 30 November 1996 and 31 March 1996 the amount owed by CalMed was £165,683 and £70,089 respectively (1995: £74,061, 1994: £256,171).

At 30 November 1996 and 31 March 1996 the amount owed to CalMed was £11,476 and £7,176 respectively (1995: £23,368, 1994: £12,805). On 1 April 1996 a motor vehicle was acquired from CalMed at a book value of £19,890 and the hire purchase contract thereon was assigned to the Company with gross obligations repayable of £17,165 (the capital element of the hire purchase obligation was £15,024). A payment of £4,866 was made to CalMed for the difference between the book value and the capital element of the hire purchase obligation.

E McDaid, a director and shareholder in the Company, is also a partner in McDaid & Partners, Chartered Accountants. Included in administrative expenses in the eight months to 30 November 1996 and the year to 31 March 1996 are accountancy fees of £490 and £11,435 respectively (1995: £22,250, 1994: £5,150) and professional fees of £Nil and £Nil respectively (1995: £1,985, 1994: £3,500) charged by McDaid & Partners. At 30 November 1996 and 31 March 1996 the amount owed to McDaid & Partners was £658 and £805 respectively (1995: £2,468, 1994: £7,755). Included in share issue costs debited to the share premium account in the year to 31 March 1996 are accountancy fees of £7,000 charged by McDaid & Partners.

B Lowinger, a director of the Company, is also a director and shareholder in Global Surgical Products ("GSP"). GSP is the Company's sales representative in South America and the Far East. Included in cost of sales in the eight months ended 30 November 1996 and the year ended 31 March 1996 is sales commission of £Nil and £14,168 respectively (1995: £17,766, 1994: £33,690). Included in administrative expenses in the eight months ended 30 November 1996 and the year ended 31 March 1996 are marketing fees of £32,815 and £11,633 respectively (1995: £Nil, 1994: £Nil) charged by GSP. At 30 November 1996 and 31 March 1996 the amount owed by GSP was £6,899 and £10,939 respectively (1995: £3,908) due to advance payments on account. At 31 March 1994 an amount of £7,228 was owed to GSP.

3i Group plc ("3i") are shareholders in the Company. Included in administrative expenses for the eight months ended 30 November 1996 and the year ended 31 March 1996 are monitoring fees of £13,600 and £8,000 (1995: £Nil, 1994: £Nil) respectively charged by 3i. At 30 November 1996 and the 31 March 1996 the amount owed to 3i was £Nil and £9,400 respectively (1995: £Nil, 1994: £Nil).

J G Wright is also a director and has a beneficial interest in the shares of Nordham Property Developments, a property development company. At 31 March 1994, included in property improvement additions was £145,881 relating to the fit-out of the company's premises at Bellshill. At 31 March 1994 the amount owed to Nordham Property Developments was £72,751. This amount was settled in the year ended 31 March 1995.

F Madden is a director of Quartz Capital Partners Limited which provided corporate advisory services to the Company in the eight months ended 30 November 1996, and in respect of which fees not exceeding £7,500 are due.

24 Post balance sheet event

Conditional upon admission to the Alternative Investment Market, AorTech Europe Limited has agreed to acquire the United Kingdom distribution rights from CalMed for a maximum consideration of £750,000.

Yours faithfully

Coopers & Lybrand
Chartered Accountants

ILLUSTRATIVE FINANCIAL PROJECTIONS

The Directors, having made due and careful enquiry, have prepared projections of sales and losses / profits of the Group's products for the period from 1 April 1996 to 31 March 2000. **Attention is drawn to the Risk Factors set out in Part 2 of this document, which should be carefully considered in conjunction with these projections.**

These projections are based on the audited accounts for the eight month period to 30 November 1996 and on the Directors' knowledge of the potential market for the Group's products together with the Directors' discussions with existing and potential customers. These projections do not include income from sales of products developed as a result of the hydrophilic polymer or new heart valve projects.

The illustrative financial projections are as follows:

	Year ending			
	31 March 1997 £'000	31 March 1998 £'000	31 March 1999 £'000	31 March 2000 £'000
Turnover	<u>2,173</u>	<u>3,843</u>	<u>4,650</u>	<u>5,294</u>
Operating Profit/(Loss) before exceptional item	(325)	459	663	846
Exceptional item-purchase of distribution rights	<u>(750)</u>	-	-	-
Operating Profit/(Loss) after exceptional item	<u>(1,075)</u>	<u>459</u>	<u>663</u>	<u>846</u>
Profit/(Loss) on ordinary activities before taxation	<u>(1,165)</u>	<u>448</u>	<u>663</u>	<u>878</u>

The illustrative financial projections set out above assume that £4,175,000 is raised under the Placing, net of expenses of £325,000.

Further principal assumptions made by the Directors in preparing the illustrative financial projections are as follows:

1. **Sales**
Sales will not be delayed and will be achieved at the quantities and prices anticipated.
2. **Interest Rates**
Following the Placing, cash at bank will attract interest at 5% per annum.
3. **Business Disruption**
The Group will not be materially affected by the consequence of industrial disputes, loss of key personnel or the failure of customers to meet contractual commitments.
4. **Legislative Impact**
There will be no changes in legislation, government regulations or policies which will materially adversely affect the Group's trading.
5. **Exchange Rates**
There will be no significant fluctuations in exchange rates.
6. **Project Development Costs**
The costs of developing the hydrophilic polymer and new heart valve projects have been capitalised on the basis that these projects will ultimately be successful and such costs will be amortised against future revenues.

The following is a copy of a letter from Coopers & Lybrand relating to the illustrative financial projections set out in this Part 4:

The Directors
AorTech International plc
Strathclyde Business Park
BELLSHILL ML4 3NJ

Coopers
& Lybrand

The Directors
Bell Lawrie White & Co
(a division of Brewin Dolphin Bell Lawrie Limited)
48 St Vincent Street
GLASGOW G2 5TS

Kintyre House
209 West George Street
Glasgow G2 2LW

12 February 1997

Dear Sirs

We have reviewed the accounting policies and calculations for the illustrative financial projections of AorTech International plc ("the Company") and its subsidiary companies (together "the Group") for the four years ending 31 March 2000 ("the projections"), as set out in Part 4 of the prospectus dated 12 February 1997.

The directors of the Company are solely responsible for the projections.

The projections are based upon assumptions made by the directors, the most important of which are summarised in Part 4 of the prospectus.

It should be appreciated that the projections have been prepared for purposes of illustration and do not constitute a forecast. They depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Consequently, we express no opinion on the validity of the assumptions on which the projections are based nor on how closely the results actually achieved will compare with the projections.

We draw your attention to the risk factors set out on pages 13 and 14 of Part 2 of the prospectus.

In our opinion, the projections have been properly compiled, so far as the accounting policies and calculations are concerned, on the basis of the assumptions made by the directors and are presented on the basis of the accounting policies normally adopted by the Group.

Yours faithfully

Coopers & Lybrand
Chartered Accountants

ADDITIONAL INFORMATION**1. The Company and its share capital**

- 1.1 The Company was incorporated in Scotland on 21 November 1996 as a private company limited by shares under the Act (registered number 170071) and with the name Dalglen (No. 646) Limited. It changed its name on 3 January 1997 to AorTech International Limited. It re-registered as a public limited company on 11 February 1997 with the name AorTech International plc. It has its registered office and principal place of business at Phoenix Crescent, Strathclyde Business Park, Bellshill ML4 3NJ. The liability of its members is limited.
- 1.2 On incorporation the authorised share capital of the Company was £100 divided into 100 shares of £1 each, of which two were issued, fully paid, to the subscribers to the Memorandum of Association.
- 1.3 On 10 February 1997 Written Resolutions were passed as follows:-
- (a) sub-dividing each of the issued and unissued shares of £1 each in the Company into four ordinary shares of 25p each;
 - (b) increasing the share capital of the Company from £100 to £5,500,000 by the creation of 16,172,064 ordinary shares of 25p each, 3,500,000 A ordinary shares of 25p each, 8,297,100 A preference shares of 4p each and 6,250,000 B preference shares of 4p each;
 - (c) the Directors were generally and unconditionally authorised in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £5,499,998, such authority expiring on the date of the Annual General Meeting of the Company held in 1997 or 15 months from the date of incorporation whichever is the earlier, but allowing the Directors to make offers or enter into agreements before its expiry which would or might require securities to be allotted in accordance with the authority after its expiry;
 - (d) the Directors were empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority referred to in sub-paragraph (b) above as if Section 89(1) of the Act did not apply to any such allotment. This power is limited to the allotment of equity securities in accordance with the terms of the Agreement referred to in paragraph 1.4;
 - (e) adopting new Articles of Association;
 - (f) approving the agreement referred to in paragraph 1.4.
- 1.4 On 10 February 1997 the Company entered into an Agreement with the holders of all the issued shares in the capital of AorTech for the acquisition by the Company of such shares in consideration of the allotment to such shareholders of 6,999,992 ordinary shares of 25p each, 3,500,000 A ordinary shares of 25p each, 8,297,100 A preference shares of 4p each, and 6,250,000 B preference shares of 4p each in the Company.
- 1.5 On 10 February 1997 the Company entered into an Agreement with the Directors, and 3i in relation to 3i's investment in the Company, the terms of which Agreement will terminate on Admission.
- 1.6 On 10 February 1997 Written Resolutions were passed, conditional upon Admission:-
- (a) and redemption of the A preference shares of 4p each and B preference shares of 4p each in the capital of the Company:-
 - (i) to consolidate and reclassify the 8,297,100 redeemed A preference shares of 4p each into 1,327,536 Ordinary Shares; and

- (ii) to consolidate and reclassify the 6,250,000 redeemed B preference shares of 4p each into 1,000,000 Ordinary Shares;
 - (b) to adopt new Articles of Association;
 - (c) to approve the Share Option Scheme rules;
 - (b) to approve the Unapproved Share Option Scheme rules;
 - (e) to empower the Board pursuant to Section 95 of the Act to allot equity securities as defined in Section 94 of the Act for cash pursuant to the authority granted to the Directors for the purposes of Section 80 of the Act as if Section 89 of the Act did not apply to any such allotment. This power is limited to the Placing Shares and in addition equity securities with an aggregate nominal value of £210,000; and
 - (f) to apply the sum of £775,000, which will be part of the sum standing to the credit of the Company's share premium account on Admission in paying up in full 3,100,000 Ordinary Shares to be allotted credited as fully paid to the holders of the issued Ordinary Shares and A Ordinary Shares on the Register of Members immediately prior to the passing of the resolution on the basis of 1.47619 Ordinary Shares for each 5 Ordinary Shares or A Ordinary Shares held.
- 1.7 The holder of the A ordinary shares of 25p each in the capital of the Company has exercised its right in terms of the Articles of Association of the Company, conditional upon Admission, to convert each A ordinary share into one Ordinary Share.
- 1.8 After Admission the issued share capital of the Company will consist of 17,200,000 Ordinary Shares and 4,800,000 Ordinary Shares will be authorised but unissued and subject to the allotment authorities referred to in paragraphs 1.3 and 1.6. Except to the extent disapplied by such authorities, the provisions of the Act which confer on shareholders right of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash, apply to the authorised but unissued share capital of the Company.

2. Subsidiaries

The Company is, and will on Admission be, the holding company of the Group and its subsidiaries are, and will on Admission be:-

Name	Principal Activity	Country of Incorporation	Issued and fully paid share capital
AorTech Europe Ltd	Manufacture and distribution of heart valves	Scotland	£1,001,884
Ultracor Medizintechnik Handels GmbH	Distributor of devices	Germany	50,000DM

AorTech is, and will on Admission, be a direct subsidiary of the Company and Ultracor Medizintechnik Handels GmbH is, and will on Admission be, a direct subsidiary of AorTech. Both subsidiaries are, and will on Admission be, wholly owned.

3. Memorandum and Articles of Association

- 3.1 The Memorandum of Association of the Company provides that the Company's principal objects are (a) to carry on the business of a holding company, and (b) to carry on all or any of the business of inventors, researchers, developers, producers, merchants, manufacturers, processors, storers, carriers, suppliers, assemblers, distributors, importers and exporters of and dealers in medicines, medical,

pharmaceutical and health care products and the preparations, drugs, medical, anatomical and surgical appliances and equipment of all kinds and products derived from or connected with any of them.

3.2 The rights attaching to Ordinary Shares as provided by the Articles of Association of the Company are, *inter alia*, as follows:-

(a) Voting Rights

Subject to any special terms as to voting upon which any shares may have been issued or may for the time being be held or any suspension or abrogation of voting rights pursuant to the Articles (including non-compliance with a statutory notice requiring disclosure of beneficial ownership) every member present in person or deemed by the Articles to be present and entitled to vote at a General Meeting shall, on a show of hands, have one vote, and every member present in person or deemed by the Articles to be present or present by proxy and entitled to vote shall, on a poll, have one vote for every Ordinary Share of which he is the holder.

(b) Dividends

Subject to the Act and the Articles, the Company may by Ordinary Resolution declare a dividend to be paid to the members according to their respective rights and interests, but no dividend may exceed the amount recommended by the Directors or shall be payable except out of the distributable profits of the Company.

The Directors may declare and pay such interim dividends (including a dividend payable at a fixed rate) as appear to them to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, a dividend shall be declared and paid according to the amounts paid on the shares in respect of which the dividend is declared and paid, but no amount paid upon on a share in advance of a call shall be treated as paid up on the share. Dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Dividends unclaimed for a period of 12 years from the date they became due for payment are forfeited and cease to remain owing by the Company.

The Company may, upon the recommendation of the Directors by Ordinary Resolution, direct that payment of a dividend may be satisfied wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures of any other company, or the Directors may offer holders of a particular class of shares the right to elect to receive further shares of that class, created as fully paid up, instead of cash.

(c) Distribution of Assets on a Winding Up

If the Company is wound up, (whether the liquidation is voluntary, under supervision or by the Court) the Liquidator may, with the authority of an Extraordinary Resolution, divide among the members in specie or in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds. For this purpose the Liquidator may set such value as he deems fair on a class or classes of property, and may determine on the basis of that valuation how the division is to be carried out between members or classes of members. The Liquidator may, with the authority of an Extraordinary Resolution vest any part of the Company's assets in trustees upon such trusts for the benefit of the members as the Liquidator thinks fit (including the vesting of assets in one or more such trusts pursuant to any scheme whereby members are to receive assets in consideration for the assets which are vested). The Liquidator may not, however, distribute to a member without his consent any assets to which there is attached a liability or potential liability for the owner.

(d) Variation of Rights

The special rights attached to any class of shares may, subject to the provisions of the Act, be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an

Extraordinary Resolution passed at a separate General Meeting of the holders of the shares of the class and may be so varied or abrogated either whilst the Company is a going concern or during and in contemplation of liquidation.

(e) Alteration of Share Capital

The Company may, by Ordinary Resolution, increase its share capital, consolidate or divide all or any of its share capital into shares of larger or smaller amounts than its existing shares, sub-divide (subject to the provisions of the Act) all or any of its shares into shares of a smaller amount and as part of such sub-division determine that all or any of such shares may have any preference or other advantage or be subject to any restriction as compared with others and cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. Subject to the provisions of the Act and of the Articles, the Company may purchase any class of its shares (including redeemable shares). The Company may subject to any consent required by law reduce its share capital or reserves.

(f) Transfer of Shares

A member may transfer all or any of his shares by an instrument of transfer in writing in any usual form or in any form approved by the Directors. The instrument of transfer of shares shall be executed by or on behalf of the transferor and, in the case of a transfer of a share which is not fully paid-up, by or on behalf of the transferee. The Directors may, in their absolute discretion and without giving any reason, refuse to register any transfer unless:-

- it is in respect of a share, not being a fully paid share, unless it is listed on the London Stock Exchange;
- it is in respect of a fully paid share;
- it is in respect of a share over which the Company does not have a lien;
- it is in respect of only one class of share;
- it is in favour of a single transferee or not more than four joint holders as transferees;
- it is duly stamped (if so required);
- it is delivered for registration to the Transfer Office of the Company or such other place as the Directors may determine, accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to prove the title of the transferor and the due execution of the transfer by him or, if the transfer is executed by some other person on his behalf, the authority of that person to do so; and
- it is in respect of shares held by a member who has complied (if applicable), in accordance with the Articles, with a statutory notice requiring disclosure as to the beneficial ownership of such shares.

Nothing in the Articles precludes any share or security of the Company being issued held registered, transferred or otherwise dealt with or rights in relation thereto being exercised in accordance with the Uncertificated Securities Regulations 1995 and any rules laid down by CREST.

(g) Directors

A Director shall not vote on, or be counted in the quorum in respect of any resolution of the board or a committee of the board concerning a contract arrangement or proposal to which the Company is or is to be a party and in which he is materially interested, directly or indirectly, other

than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. However, a Director shall be entitled to vote and be counted in the quorum in circumstances where the resolution relates to:-

- the giving to him of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company of any of its subsidiaries;
- the giving to a third party of any security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the director has himself assumed responsibility in whole or in part, under a guarantee or indemnity or by the giving of security;
- any proposal concerning an offer of shares, debentures or other securities of the Company or of any of its subsidiaries for subscription or purchase, in which the Director is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- any proposal to which the Company is or is to be a party concerning another company (including a subsidiary of the Company) in which he is interested, directly or indirectly, and whether as an officer or shareholder, creditor or otherwise howsoever, provided that he (together with persons connected with him within the meaning of Section 346 of the Act) is not a holder of or beneficially interested directly or indirectly in one per cent, or more of the issued shares of any class of any such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company;
- any proposal concerning the adoption, modification or operation of a superannuation fund, or retirement benefits scheme or employees share scheme (within the meaning of Section 743 of the Act) under which he may benefit and which either has been approved, or is conditional upon approval, by the board of the Inland Revenue for taxation purposes, or by the Company in General Meeting and which, in relation to an employees' share scheme, does not accord to any Director as such any privilege or advantage not generally accorded to those employees who participate in such scheme or fund;
- any proposal concerning the purchase or maintenance of any insurance policy under which the Director may benefit.

A Director shall not vote or be counted in the quorum in respect of any resolution of the board or committee of the board concerning his own appointment (including fixing or varying the terms of such appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

Unless otherwise determined by the Company by Ordinary Resolution, the Directors (other than Alternate Directors) shall be paid out of the funds of the Company for their services as directors such fees (not exceeding the aggregate sum of £50,000 per annum or such other amount as the Company may by Ordinary Resolution decide) as the board may determine. Any such fee shall be distinct from any salary, remuneration or other amount payable to a Director pursuant to the provisions of the Articles.

The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred in the performance of their duties as Directors including expenses incurred in attending meetings of the Directors or of any committee or General Meetings or separate meetings of the holders of any class of shares or debentures of the Company and, those Directors who at the request of the board, go or reside abroad or make a special journey or perform a special service on behalf of the Company may be paid such reasonable additional remuneration and expenses as the Board may from time to time determine.

At the first Annual General Meeting of the Company all the Directors shall retire from office and at each succeeding Annual General Meeting any Director appointed to fill a casual vacancy or who is disqualified under the Articles and one third of Directors shall be subject to retirement by rotation.

A retiring Director may, if eligible, offer himself for re-election.

A director shall not be required to hold any shares in the Company.

Unless otherwise determined by the Company by Ordinary Resolution, the minimum number of directors shall be two.

(h) **Borrowing powers**

The Directors may exercise all powers of the Company to borrow any money and to pledge or grant any security over all or any part of its undertaking, property, assets (present and future) and uncalled capital and, subject to the Act, to issue debentures, debenture stock, and other securities, whether terminable, redeemable or perpetual and whether outright or as collateral security for a debt, liability or obligation of the Company or of any third party and shall procure that the aggregate amount (after adjustments provided for in the Articles) at any one time owing by the Group in respect of monies borrowed, determined in accordance with the Articles, shall not, without the previous sanction of an Ordinary Resolution of the Company exceed an amount equal to two times the adjusted total of Capital and Reserves (as calculated in accordance with the Articles) or until such time as accounts of the Company shall be made up and audited £2,000,000.

(i) **Untraced shareholders**

Subject to notice requirements set out in the Articles the Company may sell, at the best price, any member's shares in the Company, or any shares to which a person is entitled by transmission, if during a period of 12 years, no cheque, order or warrant relating to at least three cash dividends sent by the Company through the post addressed to the member or person entitled by transmission has been cashed and no communication has been received by the Company from such member or person entitled by transmission.

4. Directors' and Other Interests

- 4.1 The interests of the Directors and their immediate families in the share capital of the Company which are required to be entered into the Register maintained under the provisions of Section 325 of the Act, together with the interest of persons connected with a Director within the meaning of Section 346 of the Act which, if the connected person were a Director would otherwise be disclosed pursuant to this paragraph and the existence of which is known or, following reasonable due diligence, has been ascertained by such a Director, will immediately following the Placing be, as follows:

Director	No of Ordinary Shares Shares (Beneficial)	Percentage of enlarged issued share capital
E McDaid	4,468,572	25.98
J G Wright	4,468,572	25.98

In addition, Mr Robertson and Mr Madden has each indicated an intention to apply for 1,000 Ordinary Shares in the Placing and Mr Wright has indicated that his grandchildren are to apply for 20,000 Ordinary Shares in the Placing.

- 4.2 In addition to the interests specified in paragraph 4.1, subject to Admission, the following Directors have been granted options, exercisable at the Placing Price, under the Unapproved Share Option Scheme over the numbers of Ordinary Shares set opposite their respective names:-

Director	No of Ordinary Shares
P Duijst	76,000
J McKenna	76,000
B Lowinger	100,000

- 4.3 In addition to the interests of the Directors disclosed in paragraph 4.1, the only interest of which the Directors are aware which will, after Admission, represent 3 per cent or more of the enlarged issued capital of the Company is:-

Shareholder	No of Ordinary Shares	Percentage of enlarged issued share capital
3i Group plc	4,533,333	26.4

So far as the Directors are aware, save as disclosed in paragraph 4.1 and this paragraph 4.3 there are at the date of this document no persons who directly or indirectly jointly or severally exercise or could exercise control (as defined in Part I of Schedule 1 to the Regulations) of the Company.

- 4.4 AorTech has had trading relationships during the financial year ended 31 March 1996 with the following connected parties:-

Company	Director	Interest	Relationship	Value
Caledonian Medical Ltd	J G Wright	director/ shareholder	AorTech's UK distributor and provides sterilising and testing services	£367,129
McDaid & Partners	E McDaid	partner	provided accountancy and tax services	£ 18,435
Caledonian Research	J G Wright	sole trader	provided transport/entertainment facilities	£ 5,910
Global Surgical Products Corp	B Lowinger	director/ shareholder	international agent	£ 25,801
3i Group plc		shareholder	shareholder monitoring fees	£ 8,000

During the eight month period ended 30 November 1996, Caledonian Research provided transport/entertainment facilities to the value of £4,911 and Caledonian Research lent the sum of £2,838 to Aortech. Further details of related party transactions are set out in paragraph 23 of Part 3.

- 4.5 (a) McDaid & Partners are currently only providing payroll services and it is not intended that more extensive services be provided in the future.

(b) Francis Madden is a director of Quartz Capital Partners Limited which provided advisory services to AorTech during 1996 for a fee not exceeding £7,500 plus reimbursement of expenses and VAT.

4.6 Persons connected (within the meaning of s346 of the Act) with E McDaid and J G Wright received 3,449,996 Ordinary Shares respectively in consideration for the transfer of interests in AorTech. E McDaid and J G Wright received preference shares with nominal values of £25,000 and £225,000 respectively in consideration for the transfer of interests in AorTech. These preference shares will be redeemed at par on Admission. In addition, loans and accrued interest thereon, outstanding by AorTech to E McDaid and J G Wright, amounting in aggregate to approximately £65,000, will be paid out of the net proceeds of the Placing.

4.7 In addition to directorships of companies within the Group the Directors hold, or have held over the past five years, the following directorships:

Name	Current	During the past five years
E McDaid	Parklane Investments (Scotland) Limited, Motherwell Enterprise Development Company Ltd Euromed Business Park Ltd M.E.T. Property Ltd Easter Netherton Ltd Caledonian Television Ltd Park Lane Investments (East) Ltd Gateway Medical Europe Ltd Parklane Euromed Ltd Caledonian Rented Homes Ltd Integrated Management Systems Ltd Forgewood Initiative Ltd	Argyll Leisure Ltd The Lisbon Lions Ltd Park Lane Investments (West) Ltd Motherwell Enterprise Ltd Financial Technology Training Ltd McDaid Management Consultants Ltd Caledonian Medical Ltd
J G Wright	Caledonian Medical Ltd Parklane Investments (Scotland) Ltd Nordham Developments Ltd Euromed Business Park Ltd Caledonian Television Ltd The Scottish Biomedical Association Ltd Primed Europe Ltd, Sterling Surgical Ltd Abtrust Accumulator PLC Parklane Euromed Ltd Gateway Medical Europe Ltd Caledonian Rented Homes Ltd Caledonian Television Productions Ltd Parklane Investments (East) Ltd Avecor Inc Primed Inc	Jarrada Ltd Focusclaim Ltd Ternace Ltd, Zornos Ltd
A Robertson	Charles Kelly Ltd	Alpha plus (Scotland) Ltd Loksafe International Systems Ltd Stuart Noble Holdings Limited
F Madden	Quartz Capital Partners Ltd Copella Fruit Juices Ltd London Capital Structures Ltd Cromisk Ltd	Apollo PLC, Halyard (M+I) Ltd Lyngaard Hansen Associates Ltd Interswap Ltd

4.8 J G Wright was a director of Caledonian Television Productions Limited when on 22 May 1996 a Court Order for the compulsory winding-up of the company was issued. The estimated deficiency as regards creditors is approximately £193,484.

F J P Madden was appointed a non-executive director of Shelly Masters & Company Limited ("Shelley") in 1987 to represent the interests of Cambridge BES Fund. Following a downturn in the educational video market, Shelley was put into administration in 1990 and subsequently into liquidation. Mr Madden resigned as a director in 1990. He was appointed non-executive Chairman of McMillan Yachts International plc ("McMillan") following a business expansion scheme issue in 1991. After the failure of a substantial customer, McMillan was put into liquidation in 1992. Mr Madden resigned as a director in 1992.

None of the Directors named in this paragraph has been contacted by the Department of Trade and Industry in connection with their conduct with respect to any of the companies mentioned in this paragraph.

5. Directors' Service Agreements and Remuneration

- 5.1 (a) On 10 February 1997 Edward McDaid entered into a service agreement with the Company, to take effect upon Admission, for his employment as Managing Director of the Group at an annual salary of £65,000 plus a bonus of up to 5% of net profits each year subject to the achievement of Group profit targets set initially at the levels set out in the illustrative financial projections in Part 4. If these targets are achieved but payments of Directors' bonuses would reduce net profits to below these targets bonuses payable shall be reduced to an amount equal in aggregate to the excess of net profits over the targets. The maximum bonus payable is £100,000.

The agreement is terminable on one year's notice by either party and contains restrictive covenants relating to competition, customers, suppliers and employees and provisions for the protection of the intellectual property of the Group. Mr McDaid is a full time employee of the Company. The Company will make pension contributions of 10% of salary (excluding bonus) to Mr McDaid's personal pension plan.

- (b) On 10 February 1997 John McKenna entered into a service agreement with the Company, to take effect upon Admission, for his employment as Sales Director of the Group at an annual salary of £53,000 plus a bonus of up to 2.5% of net profits each year subject to achievement of Group profit targets set initially at the levels set out in the illustrative financial projections in Part 4. If these targets are achieved but payments of Directors' bonuses would reduce net profits to below these targets bonuses payable shall be reduced to an amount equal in aggregate to the excess of net profits over the targets. The maximum bonus payable is £50,000.

The agreement is terminable on one year's notice by either party and contains restrictive covenants relating to competition, customers, suppliers and employees and provisions for the protection of the intellectual property of the Group. The Company will pay for membership of a private medical insurance scheme and will make pension contributions of 10% of salary (excluding bonus) to Mr McKenna's personal pension plan. Mr McKenna is a full time employee of the Company.

- (c) On 10 February 1997 J Gordon Wright entered into a service agreement with the Company, to take effect upon Admission, for his employment as Chairman of the Group at an annual salary of £40,000 plus a bonus of up to 2.5% of net profits each year subject to achievement of Group profit targets set initially at the levels set out in the illustrative financial projections in Part 4. If these targets are achieved but payments of Directors' bonuses would reduce net profits to below these targets bonuses payable shall be reduced to an amount equal in aggregate to the excess of net profits over the targets. The maximum bonus payable is £50,000.

The agreement is terminable on one year's notice by either party and contains restrictive covenants relating to competition, customers, suppliers and employees and provisions for the protection of the intellectual property of the Group. It requires Mr Wright to devote two and a half days per week to his duties. Mr Wright is permitted under the terms of the agreement to sell, in the UK and Eire only, a specified bi-leaflet heart valve through his distribution company, Caledonian Medical Limited.

- (d) On 10 February 1997 Bruno Lowinger entered into a service agreement with the Company, to take effect upon Admission, for his employment as International Sales Director of the Group at an

annual salary of \$30,000 plus a bonus of up to 2.5% of net profits each year subject to achievement of Group profit targets set initially at the levels set out in the illustrative financial projections in Part 4. If these targets are achieved but payments of Directors' bonuses would reduce net profits to below these targets bonuses payable shall be reduced to an amount equal in aggregate to the excess of net profits over the targets. The maximum bonus payable is £50,000.

The agreement is terminable on one year's notice by either party and contains restrictive covenants relating to competition, customers, suppliers and employees and provisions for the protection of the intellectual property of the Group. It requires Mr Lowinger to devote three days per week to his duties.

Mr Lowinger has an interest in Global Surgical Products Corp., one of AorTech's international agents.

- (e) On 10 February 1997 Peter Duijst entered into a service agreement with the Company, to take effect upon Admission, for his employment as Medical and Regulatory Affairs Director of the Group at an annual salary of £44,385 plus a bonus of up to 2.5% of net profits each year subject to achievement of Group profit targets set initially at the levels set out in the illustrative financial projections in Part 4. If these targets are achieved but payments of Directors' bonuses would reduce net profits to below these targets bonuses payable shall be reduced to an amount equal in aggregate to the excess of net profits over the targets. The maximum bonus payable is £50,000.

The agreement is terminable on one year's notice by either party and contains restrictive covenants relating to competition, customers, suppliers and employees and provisions for the protection of the intellectual property of the Group. The company will make pension contributions amounting to approximately £900 per month to Mr Duijst's personal pension plan. It requires Mr Duijst to devote three and a half days per week to his duties.

- (f) On 10 February 1997 Archibald Robertson and Francis Madden entered into letters of appointment with the Company, to take effect upon Admission, for their appointment as Non-Executive Directors of the Group at annual fees of £9,600 per annum each.

The appointments terminate on 31 January 1999 and contain provisions for the protection of confidential information of the Group.

Save for these agreements there are no service agreements between any Director and the Company or any of the subsidiaries not terminable without payment of compensation within one year and no such agreements are proposed to be entered into.

- 5.2 In the financial year ended 31 March 1996 the aggregate remuneration (including bonuses and benefits in kind) paid to the Directors by the companies in the Group was £143,895.

It is estimated that the aggregate remuneration to be paid (including expected bonuses and benefits in kind) to be granted to the Directors for the financial year ending 31 March 1997 will amount to approximately £177,534.

6. Working Capital

The Directors are of the opinion that, having made due and careful enquiry and taking into account the proceeds of the Placing, the working capital available to the Group will, from the time the securities to which this document relates are admitted to AIM be sufficient for its present requirements.

7. Litigation

No member of the Group is, or has been, involved in any legal or arbitration proceedings which are either active, pending or threatened against it, or being brought by it, which are having or may have a significant effect on the Group's financial position.

8. Placing Arrangements

- 8.1 By an Agreement dated 12 February 1997 (the "Placing Agreement") Bell Lawrie White has agreed conditionally, inter alia, on Admission becoming effective not later than 9am on 5 March 1997 as agent for the Company, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.
- 8.2 Under the Placing Agreement the Company and the Directors have given Bell Lawrie White certain warranties regarding inter alia the accuracy of the information contained in this document and, together with certain members of the Company, certain indemnities. Provisions permit the Placing Agreement to be terminated prior to Admission in certain circumstances, including those where any of the warranties are not true and accurate in any material respect.
- 8.3 By agreements dated 11 February 1997 Pannell Kerr Forster Trustee Company Limited (T93004), Pannell Kerr Forster Trustee Company Limited (T89004), E McDaid and J G Wright have agreed with Bell Lawrie White and the Company that they will not during the period expiring on the date of publication of the audited consolidated accounts of the Company for the year ending 31 March 1998, without the prior written consent of Bell Lawrie White, dispose of any of the 8,937,144 Ordinary Shares held by them or in which they have a beneficial interest at the date of Admission save in certain limited circumstances.
- 8.4 By an agreement dated 11 February 1997 Caledonian Medical Limited has agreed with Bell Lawrie White and the Company that it will not, during the period referred to above, without the prior written consent of Bell Lawrie White, dispose of any of the shares acquired by it pursuant to the agreement described in paragraph 9.4 save in certain limited circumstances.

9. Material Contracts

- 9.1 On 10 February 1997 the Company entered into an agreement with AorTech, 3i Group plc and the Directors governing the terms of 3i Group plc's investment in the Company and in terms of which the Company is subject to various restrictions. This agreement will terminate on Admission.
- 9.2 On 10 February 1997 the Company entered into a Share Exchange Agreement with all the shareholders of AorTech to purchase their shares in AorTech in exchange for shares in the Company.
- 9.3 On 23 September 1994 AorTech entered into an agreement with CarboMedics Inc for the supply of carbon discs. The agreement is for a period of 15 years commencing on 1 January 1995 and stipulates minimum order quantities, price and payment terms and regulates order flow.
- 9.4 On 10 February 1997 AorTech entered into an agreement with Caledonian Medical Limited, conditional upon Admission, to terminate the distribution rights of Caledonian Medical Limited in respect of the Ultracor valve for a maximum consideration, based on future sales of the Ultracor valve of £750,000. At AorTech's option Caledonian Medical Limited can be required to offer to subscribe up to £375,000 of the consideration payable under the terms of the agreement for Ordinary Shares at a price of £1.25 per share. In addition, AorTech will purchase the stocks of the Ultracor valve held by Caledonian Medical Limited, estimated to amount to a maximum of £130,000, at cost.

10. Taxation

- 10.1 Under current United Kingdom taxation legislation, no tax will be withheld from dividend payments by the Company but the Company will have to account to the United Kingdom Inland Revenue for advance corporation tax ("ACT") in respect of any dividend it pays at the rate of 20 per cent of the sum of the dividend and ACT payable on it (equivalent to one-quarter of the cash dividend).

Non-corporate shareholders resident in the United Kingdom for tax purposes will generally be entitled to a tax credit in respect of any dividend paid by the Company which they can offset against their total income tax liability (or in appropriate cases reclaim in cash from the Inland Revenue). The value of the tax credit attached to a dividend is equal to 20 per cent of the dividend plus the tax credit (equivalent to one quarter of the cash dividend). Whilst lower and basic rate taxpayers will have no further liability

to tax on their dividends, higher rate taxpayers will be liable to tax on all or part of the sum of the dividend plus the tax credit at the higher rate of 40 per cent., against which liability they can offset the 20 per cent tax credit.

A United Kingdom resident corporate shareholder will be able to treat any dividend received (together with the associated tax credit) as franked investment income. A corporate shareholder, paying a dividend for an amount up to the amount of any dividend paid to it by the Company, should have no further liability to account for ACT in relation to the dividend that it pays.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and what relief or credit may be claimed in the jurisdiction in which they are resident.

10.2 Any person who is in doubt as to his or her tax position including those subject to taxation in jurisdictions other than the United Kingdom or who requires more detailed information than the general outline above should consult his or her professional advisers

10.3 Enterprise Investment Scheme (EIS)

Eligible investors may qualify for relief under EIS. The legislation surrounding EIS relief was modified by the 1997 Finance Bill, which is currently being debated by Parliament. Although qualification for relief was not guaranteed prior to the Finance Bill, the modifications were intended by the Government to make it easier for share issues to qualify for EIS relief. Unfortunately, the position in respect of this share issue cannot be certain until the enactment of the Finance Act 1997. It may be further complicated if there is a General Election before the Finance Bill becomes law. Investors are advised to take their own advice in respect of this matter.

10.4 Reinvestment Relief

Eligible investors may qualify for Reinvestment Relief. The legislation surrounding Reinvestment Relief was also modified by the 1997 Finance Bill, in an attempt to simplify qualification for relief. Again, the position in respect of this share issue cannot be certain until the enactment of the Finance Act 1997. It may be further complicated if there is a General Election before the Finance Bill becomes law. Investors are advised to take their own advice in respect of this matter.

11. Approved Share Option Scheme

On 5 February 1997 the Directors approved the adoption of the Share Option Scheme and it has been approved by the Company by written resolution. Application has been made to the Inland Revenue for the approval of the Share Option Scheme under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988 ("the Taxes Act"). The principal terms of the Share Option Scheme, which have been designed to comply with the requirements of the Association of British Insurers, a member of the Investor Protector Committee, are as follows:

11.1 Eligibility

- (a) Full-time Directors (minimum of 25 hours per week) and full time employees of the Company (minimum of 20 hours per week) or any other company within the Group who are not within two years of retirement are entitled to participate ("Eligible Employee");
- (b) A director or employee is precluded from participation if he has or has had a material interest in a close company which is the Company or a company which controls it;
- (c) No Eligible Employee may participate as a right and the extent of each individual's participation is at the absolute discretion of the Directors, subject always to the limits described in 11.2 and 11.3 below.

11.2 Individual Participation Limits

No Option under the Share Option Scheme ("Option") shall be granted to any Eligible Employee on any date of grant which would cause the aggregate of the original market value of all the shares over which the Eligible Employee has options which have not been exercised under the Share Option Scheme, or any other share option scheme (not being a savings related share option scheme) established by the Company or any associated company and approved under Schedule 9 of the Taxes Act to exceed £30,000.

11.3 Overall Limits

- (a) No Option shall be granted under the Share Option Scheme which at the date of grant would result in the aggregate number of Ordinary Shares issued in the previous ten years under the Share Option Scheme and any other share option scheme (other than a savings related share option scheme) established by the Company or by an associated company exceeding 5 per cent of the Ordinary Shares in issue from time to time.
- (b) The aggregate number of Ordinary Shares over which the Directors may grant Options on any date of grant, when aggregated with the number of Ordinary Shares in the previous ten years under the Share Option Scheme and any other employee share scheme adopted by the Company shall not exceed 10 per cent of the Ordinary Shares in issue on the day preceding that date of grant or in the period of three years ending on that date of grant, shall not exceed 3 per cent of the Ordinary Shares in issue on the day preceding that date of grant.

11.4 Subscription Price

The price at which an Ordinary Share may be acquired under an Option shall be determined by the remuneration committee of the Board of Directors and shall not be less than the greater of:

- (a) the nominal value of an Ordinary Share; and
- (b) the market value of an Ordinary Share (the term "market value" being defined and interpreted in accordance with the rules of the Scheme) provided that where market value shall be by reference to the middle market quotation as derived from the London Stock Exchange Daily Official List or the Financial Times it shall be the market value:
 - (i) on the dealing day immediately preceding the date of grant;
 - (ii) if the Board so determines averaged over three dealing days immediately preceding the date of grant; or
 - (iii) if the Board so determines at such earlier time or times as agreed with the Inland Revenue.

11.5 Grant of options

- (a) Options approved by the Remuneration Committee of the Board may be granted by means of a resolution of the Directors.
- (b) Options may only be granted within 42 days immediately following:-
 - (i) the date of the approval of the Share Option Scheme or any amendment thereto by the Commissioners of Inland Revenue; or
 - (ii) the day immediately following the date of preliminary announcement of the Company's final or interim results in respect of any period; or
 - (iii) any day on which the remuneration committee of the Board of Directors resolve that exceptional circumstances exist which justify the grant of Options; or

- (iv) any day on which any changes to the legislation affecting option schemes (not being savings related share option schemes) and approved by the Inland Revenue under the Taxes Act are proposed or made.

11.6 Exercise of Options

The remuneration committee of the Board may impose objective conditions on the exercise of options and it is intended that such conditions will relate to the sustained underlying financial performance of the Company and comply with the guidelines of the Association of British Insurers and the National Association of Pension Funds or equivalent bodies from time to time. In other words, the remuneration committee of the Board of Directors intend to impose targets of sustained improvements in the underlying performance of the Company as a pre-condition of the exercise of options granted under the Share Option Scheme.

No Option may normally be exercised:

- (a) on or after the tenth anniversary of the date of grant;
- (b) prior to the third anniversary of the date of the grant;
- (c) unless any objective conditions imposed by the Directors have been met; and
- (d) if a participant would be prevented from doing so by having a material interest in the Company.

11.7 Lapse of Options

An Option shall lapse upon the happening of the following:

- (a) the expiry of the time periods within which an Option can be exercised; or
- (b) on the participant ceasing to be an Eligible Employee subject to the right to nevertheless exercise a subsisting Option in certain circumstances and the right of pregnant female Eligible Employees to return to work; or
- (c) on the participant becoming bankrupt; or
- (d) six months after a resolution being passed for a voluntary winding up, a reconstruction or takeover.

11.8 Variation of Share Capital

In the event of a variation of the share capital of the Company, the number of Ordinary Shares available for the Share Option Scheme comprised in each Option and/or the relevant price of each Option shall be adjusted in such a manner as the Company's auditors shall advise.

11.9 General

- (a) An Option shall not be assignable and any purported assignment shall cause the Option to lapse.
- (b) Participation in the Share Option Scheme does not afford to any participant any additional right to compensation on the termination of his employment.

As at the date of this document no options have been granted under the Share Option Scheme.

12. Unapproved Share Option Scheme

On 5 February 1997 the Directors approved the adoption of the Unapproved Share Option Scheme and it has been approved by the Company by written resolution. The principal terms of the Unapproved Share Option Scheme are the same as for the Share Option Scheme except as follows:-

12.1 Eligibility

Any person who at the date of grant is approved by the Board is entitled to participate ("Participant").

12.2 Individual Participation Limits

No option shall be granted to an eligible individual under the Unapproved Share Option Scheme at any time it would result in the aggregate of the original market value of all the shares over which he has options under the Unapproved Share Option Scheme which have not been exercised exceeding £100,000.

12.3 Grant of Options

Options may only be granted within forty two days immediately following:-

- (i) the day immediately following the date of preliminary announcement of the Company's final interim results in respect of any period; or
- (ii) any day on which the Remuneration Committee of the Board of Directors resolve that exceptional circumstances exist which justify the grant of Options.

12.4 Exercise of Options

The Remuneration Committee of the Board of Directors may impose objective conditions on the exercise of options and it is intended that such conditions will relate to the sustained underlined financial performance of the Company. No option may normally be exercised:

- (a) on or after the 7th anniversary of the date of grant; and
- (b) unless any objective conditions imposed by the Directors have been met.

12.5 Lapse of Options

An Option shall lapse upon the happening of the following:-

- (a) the expiry of the time periods within which an Option can be exercised;
- (b) if the Participant is a director or employee of a participating company, on such Participant ceasing to be a director or an employee subject to the right nevertheless to exercise his subsisting option in certain circumstances and the right of pregnant female participants to return to work; or
- (c) on a Participant becoming bankrupt; or
- (d) six months after a resolution being passed for a voluntary winding-up, a reconstruction or takeover.

Options have been granted subject to Admission, under the Unapproved Share Option Scheme over 384,000 Ordinary Shares. These options are exercisable subject to a performance criteria of the Company achieving growth in earnings per share of an average of 2% per annum in excess of inflation over a three year period.

13. General

- 13.1 Coopers & Lybrand, Chartered Accountants have given and have not withdrawn their written consent to the inclusion in this document of their report and their letter concerning the illustrative financial projections and to their name in the form and context in which they appear and accept responsibility for that letter and that report.

- 13.2 NatWest Securities and J G Kinnard & Co Stockbrokers have given and have not withdrawn their respective written consents to the use of information extracted from reports prepared by them in this document and to the use of their names in the form and context in which they respectively appear.
- 13.3 The Placing Shares will, except as aftermentioned, rank *pari passu* in all respects with the existing Ordinary Shares and will rank in full for all dividends and other distributions declared in respect of Ordinary Shares after Admission. The Placing Shares will not entitle the holders thereof to participate in the bonus issue on Admission details of which are set out in paragraph 1.6.
- 13.4 Of the price being paid to the Company for the Placing Shares, 25p represents nominal value and 100p represents premium.
- 13.5 The total costs and expenses (including professional fees, printing and advertising costs and the amounts payable pursuant to the Placing Agreement) in connection with the Placing are estimated to amount to £325,000 (exclusive of VAT) and are payable by the Company. This amount includes fees and commissions of £156,250 payable to Bell Lawrie White.
- 13.6 The minimum amount which, in the opinion of the Directors, must be raised by the issue of the Placing Shares for the items in paragraph 21(a) of Part IV of Schedule 1 to the Regulations is £4,500,000 made up as follows:
- (i) the purchase price of any property purchased, or to be purchased, which is to be discharged in whole or in part out of the proceeds of the issue: £750,000;
 - (ii) any preliminary expenses payable by the Company and any commission so payable to any person in consideration of his agreeing to subscribe for, or on his procuring or agreeing to procure subscriptions for, any shares in the Company: £60,000;
 - (iii) the repayment of any money borrowed by the Company in respect of (i) or (ii) above: £NIL; and
 - (iv) working capital: £3,690,000.
- No amount is to be provided from any other source in respect of any of the above matters. If all the Placing Shares are not subscribed in full, the Placing will not proceed.
- 13.7 The subscription list in respect of the Placing will open at 10.00 am on 13 February 1997 and may be closed at any time thereafter.
- 13.8 The Ordinary Shares will be in registered form and definitive certificates are expected to be posted by not later than 26 February 1997. Temporary documents of title will not be issued. Subject to any variation permitted under the terms of the Placing Agreement, subscription monies must be received by Bell Lawrie White in cleared funds by 24 February 1997. If the Placing does not become effective, all subscription monies will be returned as soon as practicable without interest.
- 13.9 J G Wright and E McDaid are, or may be deemed to be, promoters of the Company.

14. Availability of admission document

Copies of this document are available free of charge from the office of Bell Lawrie White, 48 St Vincent Street, Glasgow, G2 5TS during usual business hours on any weekday (Saturdays and public holidays excepted) until expiry of the period of 14 days following the date of Admission which is expected to be 26 February 1997.

Dated: 12 February 1997

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