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REACHING OUT TO NEW HORIZONS



A new symbol of our new dynamism

Transgene Biotech now wears a new look to aptly reflect its transformed vibrant outlook, renewed focus of vision and resurgent confidence.

The new logo unveils the 'innovative' face of Transgene, characterised by 'out of the box' thinking, which is the company's raison d'être. Because it is on the strength of groundbreaking efforts in R&D, that Transgene has successfully established and continues to set new standards and benchmarks in the field of Biotechnology.

The logo also distinctly shows Transgene's commitment to 'reach out' with new initiatives and new enthusiasm to join the fray, in the ceaseless, relentless war against disease and ill-health.

The tag line INNOVATING. FOR LIFE. communicates the company's belief that all its endeavours are concentrated on making a qualitative difference to people's lives. And, at the same time, it projects Transgene as the harbinger of hope. For today. And tomorrow.

BOARD OF DIRECTORS

Dr. K. Koteswara Rao	- Chairman & Managing Director
Prof. N.C. Subramanyam	- Director
Dr. Chilakapati Basant Kumar	- Director
Sri. S.S. Marthi	- Director
Sri P. Narayana Murthy	- Director

REGISTERED OFFICE

Plot Nos. 68, 69 & 70
Anrich Industrial Area,
Bollaram,
Medak District - A.P.

FACTORY

Plot Nos. 68, 69 & 70,
Anrich Industrial Area,
Bollaram,
Medak District - A.P.

BANKERS

ICICI Bank Ltd.,
Jubilee Hills,
Hyderabad.

Bank of India
Ameerpet,
Hyderabad.

AUDITORS

Sarath & Associates,
Chartered Accountants
102, Gowri Apartments,
3-6-195/B, Urdu Lane,
Himayath Nagar,
Hyderabad.

SHARE TRANSFER AGENTS

M/s. Ikon Visions Pvt. Ltd.,
Flat No. 303, Sanali Heavens,
8-3-948,
Ameerpet,
Hyderabad - 500 073.

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Thirteenth Annual Report on the business and operations of the Company and Financial accounts for the year ended 31st March, 2003.

FINANCIAL RESULTS

Particulars	2002- 2003	2001 - 2002
Net Sales / Income	216.13	146.38
Total Expenditure	97.69	85.86
Gross Operating Profit	118.44	60.52
Interest and Finance Charges	7.47	1.55
Depreciation	52.83	49.74
Amortisation	4.65	5.17
Profit before Tax/Loss	53.48	4.06
Provision for Tax	NIL	NIL
Prior Period Adjustments	19.43	1.83
Net Profit	34.06	2.24

DIVIDEND

Your Directors are unable to recommend any dividend due to existing cumulative losses.

OPERATIONS

During the year under review the total income increased to Rs.216.13 Lakhs from Rs.146.38 Lakhs in the previous year. The Net Profit for the year rose to Rs.34.06 Lakhs as against Rs.2.24 Lakhs for the previous year, thus showing a **fifteen** fold increase over the previous year.

As informed in the previous year's report, the company has opened a new diagnostic centre at Palakol Town, W.G. Dt, A.P and also a Speciality Diagnostic Services Center at Hyderabad. Your Directors are happy to inform you that all the four diagnostic centres have been performing well.

The agreement entered into with M/S Biological Evans Limited in the previous year for utilisation of part facilities of the company continues to be in effect.

The in-house R & D work in connection with the recombinant products is proceeding as per the plans of the company.

Your company has received the approval from Secretariat for Industrial Assistance, Government of India, New Delhi in September, 2003 to manufacture three recombinant drugs – Erythropoietin, Interferon Alpha 2b and Interferon Gamma. The transfer of technologies from RBB, Inc of USA for these drugs is to commence from February, 2004 onwards.

Your Directors are happy to inform that the trials for the development of meningitis vaccine are at an advanced stage. Your company in collaboration with JN-International, USA has obtained the necessary approvals from

TRANSGENE BIOTEK LIMITED

Institutional Ethical Committee (IEC) and Institutional Bio-Safety Committee (IBC) from USA and also IRB approvals from Niger and Burkina Faso, Central Africa for conducting Phase III human trials in the later two countries.

The trials using Meningococcal meningitis vaccine, MemVac A, C, Y & W-135™ developed jointly by Transgene Biotech Ltd and JN-International, Inc of USA are presently in progress in the two named Central African countries. As informed to you earlier M/S World Health Organisation (WHO) has expressed its keen desire to procure this Meningitis Vaccine from us. The company expects to launch this vaccine during the first quarter of 2004.

Your Directors are happy to inform that the company has entered into One-Time Settlement scheme with M/S SBI and IDBI. Consequent to the same, the dues to M/S SBI have been cleared completely and an amount of Rs.225 lakhs has already been paid to M/S IDBI. Thus, we are happy to inform you that the Debt burden on your company has been reduced substantially in all aspects including those of NBFCs also.

PREFERENTIAL OFFER

Your Directors are happy to inform that several valued Foreign Institutional Investors (FIIs) viz., M/s Batterymarch Financial Management Inc., USA, M/s Lloyd George Investment Management (Bermuda) Limited, Hong Kong and M/s Matterhorn Ventures, Mauritius, have shown keen interest in the activities of the company. Hence, the company had made a preferential offer of 10,00,000 Equity shares of Rs. 10/- each along with 10,00,000 Convertible Warrants of Rs. 10/- each to them. The Equity Shares of Rs. 10/- each were subscribed at a premium of Rs. 50/- per share and the convertible warrants are to be converted into equity shares of Rs. 10/- each at a premium of Rs. 115/- per share after a period of one year from the date of allotment. The monies in this regard have been received in full and the shares and convertible warrants were allotted to the following on 24th July 2003.

Sl. No	Name of the allottee	No of shares allotted	No of convertible warrants allotted
I	M/S Batterymarch Financial Management Inc., Boston, USA	4,40,000	4,40,000
II	M/S Lloyd George Investment Management (Bermuda) Limited, Hong Kong	4,40,000	4,40,000
III	M/S Matterhorn Ventures, Mauritius	1,00,000	1,00,000
IV	Dr K Koteswara Rao (Promoter) Hyderabad	20,000	20,000

The Company is awaiting the listing approval from the Stock Exchanges.

The Funds received out of the Preferential Offer are being utilised as per the terms of offer viz., for setting up a manufacturing facility for the production of quadrivalent Meningococcal meningitis vaccine at the present factory premises, development of several other products viz., Hepatitis C Vaccine, Erythropoietin, and Interferons, etc., and payment of institutional debts.

**AMALGAMATION OF M/S SAKET BIOTECHNOLOGIES PRIVATE LIMITED (SBPL)**

The Board of Directors of your company, in-principle, approved the amalgamation of SBPL with our company at their meeting held on 24th July 2003. SBPL has developed a technology for delivering **Insulin and Hepatitis B by Oral route**. This technology has already received the US patent while similar patent rights from PCT countries also are awaited. It was also decided to proceed further with this matter by appointing a suitable agency for valuing the Intellectual Property Rights (IPR) of M/S Saket Biotechnologies Private Limited.

The exercise for valuation of the Intellectual Property Rights of M/S SBPL has been assigned to M/S APITCO along with M/S FROST & SULLIVAN, an internationally renowned organization. The valuation exercise is expected to be completed shortly after which the Scheme of Amalgamation would be announced.

PROSPECTS

Your company is poised for a phenomenal growth in the field of biotechnology. The company has been working on several technologies and products as part of its research and development. With the company coming out of the debt burden and also strengthening itself by strategic alliances, the prospects for the company look exciting and formidable.

DIRECTORS

Prof N C Subrahmanyam retires by rotation at the ensuing Annual General Meeting and is not opting for reappointment due to preoccupation.

Sri S S Marthi retires by rotation at the ensuing Annual General Meeting and being eligible offers for reappointment.

FIXED DEPOSITS

The company has not accepted any Fixed Deposits and the provisions of Section 58A of the Companies Act, 1956 are not applicable to the Company.

AUDITORS

M/s Sarath & Associates, Chartered Accountants, the Statutory Auditors of the Company retire at the ensuing Annual General Meeting and are eligible for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under the Companies Act, 1956, your Directors wish to state:

- That in the preparation of the annual accounts, the applicable Accounting standards had been followed along with proper explanation relating to material departures.
- That they have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

- That they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- That they have prepared the accounts for the year ended 31st March, 2003 on a 'going concern' basis.

CORPORATE GOVERNANCE

As required by Clause 49 of the Listing Agreement with the Stock Exchanges, Report on Corporate Governance along with Compliance Certificate of the Auditors and Management Discussion and Analysis Report are annexed hereto.

LISTING INFORMATION

The Equity Shares are at present listed on the Stock Exchanges at Mumbai and Hyderabad. The Company has paid the Annual Listing fees for the year 2003-04.

DEMATERIALISATION OF SHARES

The company's shares are traded under the compulsory demat system. Since the depository system offers several advantages, the members are requested to take advantage of the same. 56.24% of the listed share capital i.e. 30,59,365 Equity Shares are already in dematerialised form.

EMPLOYEE RELATIONS

The employee relations during the year continued to be cordial. Your directors wish to thank the employees at all levels of the company for their excellent support and contribution made by them towards achieving the objectives of the Company.

There is no employee whose particulars are to be furnished pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) rules, 1975 as amended by the Companies(amendment) Act, 1988.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE:

- | | |
|----------------------------------|--|
| A. Conservation of Energy, Power | : Efforts for conservation of energy is an and fuel Consumption ongoing process in the Company and every effort is made in that direction. |
| B. Research & Development | : The Company shall have its own Research and Development for the purpose of rationalization and cost reduction steps. Continuous efforts are on to streamline and indigenise the manufacturing process. |
| C. Foreign Exchange Earnings | : Nil |
| D. Foreign Exchange Outgo | : Rs. 17, 07, 144/- |

ACKNOWLEDGEMENTS

Your Directors would like to express their grateful appreciation for assistance and co-operation received from the Bankers, Shareholders, Auditors, Customers and Staff of the Company during the year under review.

By the order of the Board
For **TRANSGENE BIOTEK LIMITED**

Place: Hyderabad
Date: 29-11-2003

Sd/-
Dr. K. Koteswara Rao
CHAIRMAN & MANAGING DIRECTOR

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MANAGEMENT DISCUSSION & ANALYSIS

a) INDUSTRY STRUCTURE & DEVELOPMENT

The modern biotechnology industry is vast and encompasses bioinformatics, pharma, agriculture, natural products, environment, and marine biotech among other areas. Biotechnology is one of the most research-intensive industries in the world.

More than 325 million people worldwide have been helped by more than 155 biotechnology drugs and vaccines. There are more than 370 biotech drug products and vaccines currently in clinical trials targeting more than 200 diseases, including various cancers, Alzheimer's disease, heart disease, diabetes, multiple sclerosis, AIDS and arthritis.

The biotechnology industry has mushroomed since 1992, with revenues increasing from \$8 billion in 1992 to \$34.8 billion in 2001. Market capitalization, the total value of publicly traded biotech companies at market prices, was \$206 billion as of mid-April 2003.

As a country, India offers some significant competitive advantages in the area of Biotechnology such as low-cost technology in clinical trials, R&D, molecule synthesis and fine chemical production.

The Government of India estimates that over the next five years, possibilities could be created for fresh investment of US\$ 150 million in India that hold the promise of changing the biotech production scenario – not just domestically but globally as well – considerably. This is an opportunity for both the Indian as well as overseas organizations to evaluate and exploit for investment strategy not only as a producer but also as a major developer.

b) OPPORTUNITIES & THREATS

Indian Pharmaceutical Industry is at a turning point. Drug discovery process has undergone a major change because of the emergence of biotech based drug molecules. The tight intellectual property regime requires focusing on new drugs to discover and their protection. Indian pharmaceutical firms have to change their trajectories to meet these challenges. This may need quantum jumps in quality systems, innovation manufacturing and marketing competence.

In the Genetics field, where ethical questions raised by the use of genetic information are very sensitive, common regulations are essential. In regard to the current genetic developments, there are great hopes that preventive and curative treatments for genetic diseases will be developed. But there are also concerns that discrimination against a person on grounds of his or her genetic heritage may appear. These fears are substantiated also in the insurance and employment fields.

In human drugs and therapies, the country's diverse population offers ideal conditions for epidemiological studies at several facilities. A growing contract research industry is a fast emerging scenario in India.

c) PRODUCTWISE PERFORMANCE, OUTLOOK & CONCERNS

Your company has changed its initial focus on diagnostics to recombinant products – Vaccines and therapeutics. Manufacturing of diagnostic products has been stopped and the existing facilities are to be modified to address the emerging needs of the vaccines and therapeutic drugs.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has adequate internal control procedures commensurate with its size and nature of business. These internal policies ensure efficient use and protection of assets and resources, compliance with policies, statutes, etc.

The company maintains records covering fixed assets and verification of the same from time to time.

The company has internal auditing system in place to monitor and recommend the adequacy of book keeping and accountability.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The details of the financial performance of the Company are in the Balance Sheet, Profit and Loss Account and other financial statements, etc., appearing separately. The company has been consolidating itself by reducing its debt burden and also improving its operational performance.

DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT

The company has several key scientists located at different R&D centers in tune with the development of several Bio-pharmaceuticals. It is with their dedicated support that your company is progressing with exciting development of a string of products to hit the commercial markets from 2004-2005 onwards. Like wise, the management appreciates the loyalty and commitment of scientists working at various diagnostic centers.

The management is conscious of its responsibility to understand and respond appropriately to the needs of the scientists stimulating the best out of the scientists.

The personnel of the company have been motivated and committed to bring good operating performance. Your company is in the process of upgrading its quality of human resources further. The Employee-Employer relations were cordial throughout the year.