



TRANSGENE
BIOTEK LIMITED

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REACHING OUT TO NEW HORIZONS

14th Annual Report 2003-04

TRANSGENE BIOTEK LIMITED**BOARD OF DIRECTORS**

Dr. K. Koteswara Rao	- Chairman & Managing 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. 33, Sanali Heavens,
8-3-948,
Ameerpet,
Hyderabad - 500 073.

TRANSGENE BIOTEK LIMITED

DIRECTORS' REPORT

Your Directors are happy to present the Fourteenth Annual Report on the business and operations of the Company and Financial accounts for the year ended 31st March, 2004.

FINANCIAL RESULTS

Particulars	2002 - 2003	2003-2004
Net Sales / Income	216.13	222.87
Total Expenditure	97.69	110.07
Gross Operating Profit	118.44	112.80
Interest and Financial Charges	7.47	5.80
Depreciation	52.83	52.15
Amortisation	4.65	6.72
Profit before Tax/Loss	53.48	48.13
Provision for Tax	NIL	NIL
Prior Period Adjustments	19.43	1.22
Net Profit	34.06	46.91

DIVIDEND

Your Directors are unable to recommend any dividend for the Year due to inadequacy of profits

OPERATIONS

During the year under review the total income increased to Rs. 222.87 Lakhs from Rs. 216.13 Lakhs in the previous year. The Net Profit for the year rose to Rs. 46.91 Lakhs as against Rs. 34.06 Lakhs for the previous year.

Your Directors are glad to inform you that the human trials using our own Meningococcal Meningitis Vaccine MemVac A,C, Y & W -135TM have completed the critical stage in both African Countries. Due to the conditions and circumstances inherent in conducting human trials in the African countries, the commercial launch of the vaccine has been delayed beyond the expected period. However, the data pertaining to the same has been received by the company and is to be submitted to the respective authorities for manufacture of the same. Further, your Directors are happy to inform you that the results of the trials have shown the expected response comparable to that of a well known internationally marketed vaccine. The company is, therefore, making efforts to launch the vaccine during the next quarter.

Your Directors are also happy to inform you that the company has successfully absorbed the transfer of technology from RBB Inc, USA for the manufacture and marketing of Erythropoietin. Erythropoietin is a Bio-Therapeutic drug generating global revenues of US\$8.6 Billion during the year 2003 with an average annual growth rate of 17% during the last 5 years (ASInsights report, 2003). We plan to launch this product into markets during the year 2005.

Four other Bio-Therapeutic drugs are planned for commercialization during 2005 and 2006 using novel technology processes generating high yield of the purified proteins. We are preparing to file several patent applications during the coming months.

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In 2003, Bio-Therapeutic drugs have generated global revenues of US\$41 Billion with an average annual growth rate of 21% and the revenues are expected to touch US\$100 Billion by the year 2010 (ASInsights report, 2003).

REPAYMENT OF LOANS

As per the terms of the One-Time-Settlement with M/S IDBI the company has already paid Rs.357.43 Lakhs, thus repaying over 55% of the dues to IDBI.

ACQUISITION OF AGRICULTURAL BIOTECHNOLOGY RESEARCH LABORATORY ON LEASE

Your Directors are happy to inform you that the Department of Horticulture, Government of Andhra Pradesh, vide their letter No. HAD(1)1169/99, dated 30th August, 2004 have accepted the company's bid to acquire on lease an Agricultural Biotechnology Research Laboratory located at Gopannapalem, West Godavari District, Andhra Pradesh.

The laboratory has state of the art research facilities for undertaking plant and agricultural research using Biotechnology tools. This unit will facilitate the company to undertake several activities including plant micro-propagation, leaf testing and developing transgenic species. This unit certainly adds another dimension to the company's diversified activities increasing the potential to generate substantial revenues. The lease is for a period of 5 years initially.

This division of the company is planning to focus primarily on the following technologies:

- a) Development of thermostable transgenic vaccines and industrial enzymes using plants as bio-reactors.
- b) Plant tissue culture for micropropagation.
- c) Usage of a new cutting edge technology in generating virus and bacterial resistant plants with a potential to generate huge revenues and profits to the company.

PREFERENTIAL ALLOTMENT

Your Directors are happy to inform you that the 10,00,000 Equity shares of Rs. 10/- each issued at a premium of Rs. 50/- per share on preferential basis to FIIs and Dr K Koteswara Rao have been listed on The Stock Exchange, Mumbai, and The Hyderabad Stock Exchange Limited, Hyderabad w.e.f., 19th October 2003.

The FIIs did not exercise their option for conversion of the warrants into equity shares. Hence the amount of Rs.12.50 ps. paid on application per warrant stands forfeited. Dr. K. Koteswar Rao Promoter of the company has exercised his option to convert 20,000 warrants into 20,000 Equity shares by paying the balance amount of Rs.112.50 ps. per share.

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

Your Directors are happy to inform you that the scheme of arrangement for amalgamation of M/S Saket Biotechnologies Private Limited (SBPL) has been approved by the shareholders at the Court Convened Meeting held on 26th August 2004 after which the petition has been filed with the Hon'ble High Court of Andhra Pradesh for sanction of the scheme.

Since the sanction of the scheme is still awaited from the Hon'ble High Court of Andhra Pradesh the accounts being presented along with this Directors' Report do not reflect the combined accounts of the company along with the accounts of M/S SBPL. This is being done since as per the Companies Act, 1956 the accounts are to be adopted at the AGM on or before 31st December 2004. Had the accounts been combined, the Books of

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Accounts would have carried a capital reserve resulting from the technology being acquired and also no carried forward losses would have been reflected.

PROSPECTS

Your company is poised for a phenomenal growth in the field of biotechnology. Apart from preparing for the commercial launch of MemVac vaccine, efforts are being made to out-license the Oral delivery of Insulin. The company has been working on several other cutting edge technologies and products as part of its research and development. With all these, year 2005 is expected to be launching pad for your company on global biotech arena. 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

Dr C Basant Kumar has resigned as Director of the company during the year under review. Your Directors place on record their appreciation for the services rendered by him during his tenure as Director of the company. Sri P. Narayana Murthy retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment. Your Directors are in the process of strengthening the Board by induction of new directors.

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 Accounts, 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 judgements 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, 2004 on a 'going concern' basis.

TRANSGENE BIOTEK LIMITED**CORPORATE GOVERNANCE**

As required by Clause 49 of the Listing Agreement with the Stock Exchanges, Report on Corporate Governance alongwith 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 2004-05.

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 And fuel Consumption | : | Efforts for conservation of energy is an ongoing process in the Company and every effort is made in that direction. |
| B. Research & Development | : | The Company has its own research and Development for the purpose of rationalization and cost reduction steps. Continuous efforts are on to streamline and indigenise the manufacturing processes. |
| C. Foreign Exchange Earnings | : | Nil |
| D. Foreign Exchange Outgo | : | Rs. 1,31,27,515/- |

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation for the 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**

Sd/-

Dr. K.Koteswara Rao
CHAIRMAN & MANAGING DIRECTOR

Place: Hyderabad
Date: 02-12-2004

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 and expected to touch US \$ 100 billion by 2010 through Bio-Pharmaceutical sector alone. 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 many sectors of Biotechnology due to significant low-cost in areas such as clinical research, product research and development, molecule synthesis etc.

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 base drug molecules. The tight intellectual property regime, WTO treaty coming into effect from 2005 onwards, 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 for developing preventive and curative treatments for genetically inherited diseases. 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.

c) PRODUCTWISE PERFORMANCE, OUTLOOK & CONCERNS

Your company has changed its initial focus on diagnostics to genetically engineered products – Vaccines and therapeutics. Your company is taking significant strides in aligning with reputed scientists, research institutes and companies to develop cutting edge technologies for preventing and treating various diseases such as cancers and viral infections. 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. In its effort to protect the Intellectual property Rights developed by its scientists and associates, your company is seeking the advice and services from highly reputed patent attorneys who are specialists in the field of Bio-technology relevant to the areas focused by your company.

d) 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.

e) 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 is continuously making efforts to pay of its debts and to make it a zero-debt company and also to increase its performance.

f) DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT

The company has several key scientists located at different R&D Centres in tune with the development of several bio-pharmaceuticals. It is with their dedication that your company is progressing with the development of exciting string of products expected to hit the commercial markets from 2005 onwards. Likewise, 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 those.

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.

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CORPORATE GOVERNANCE REPORT**1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE**

The company continues to lay emphasis on improving the Corporate Governance practices in the company which can contribute substantially in achieving good governance and thus resulting in enhancement of value to its stakeholders, customers, employees, Banks, Government Agencies, etc.

2. BOARD OF DIRECTORS

The constitution of the Board is given below :

NAME OF THE DIRECTOR	STATUS	NO. OF OTHER PUBLIC DIRECTORSHIPS (*)	NO. OF MEMBERSHIPS ON BOARD COMMITTEES
DR K KOTESWARA RAO	CHAIRMAN & MANAGING DIRECTOR, PROMOTER	NIL	2
DR C BASANT KUMAR	PROMOTER, NON-EXECUTIVE	NIL	NIL
SRI S S MARTHI	INDEPENDENT	1	2
SRI P NARAYANA MURTHY	EXECUTIVE	NIL	2

(*) This excludes Directorships in Indian Private Limited Companies, membership of Managing Committees of various Chambers/bodies.

The company is already in the process of appointing additional directors to comply fully with the Corporate Governance.

3. AUDIT COMMITTEE

An Audit Committee of the Company was constituted at the meeting of the Board of Directors held on 31st July 2002 w.e.f., 1st August 2002. The said committee comprises of three Directors viz., Dr K Koteswara Rao, Sri S S Marthi, and Sri P Narayana Murthy.

TERMS OF REFERENCE

The terms of reference of the Audit Committee includes :

- To review the internal control systems
- To review Quarterly and Half-yearly results
- To review the accounting and financial policies and practices
- To review reports furnished by the internal and statutory auditors, and ensure that suitable follow-up action is taken.

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During the financial year ended 31st March 2004, four meetings of the Committee were held on 30th April 2003, 20th August 2003, 29th November 2003, and 21st January 2004. The attendance of each member of the Committee is given below:

NAME OF THE DIRECTOR	NO. OF MEETINGS ATTENDED
DR K KOTESWARA RAO	4
SRI S S MARTHI	4
SRI P NARYANA MURTHY	4

4. SHARE TRANSFER COMMITTEE

The Share Transfer Committee comprising of Dr K Koteswara Rao, Mr P Narayana Murthy, and Mr S S Marthi have been assigned the work of redressal of investors / Shareholders complaints alongwith approval of share transfers, sub-division/consolidation of shares, etc. The Committee overseas the performance of Registrar and Share Transfer Agents and recommends measures for overall improvement of the quality of investor services. The Share Transfers/Transmissions approved by the committee are placed at the Board Meeting from time to time.

COMPLIANCE OFFICER

Mr Gopalakrishna, Finance Manager, is the Compliance Officer of the company.

5. REMUNERATION OF DIRECTORS

The details of remuneration paid to Directors are given below :

NAME OF THE DIRECTOR	RELATIONSHIP WITH OTHER DIRECTORS	SITTING FEE (Rs.)	SALARY & PERK (Rs.)	TOTAL (Rs.)
DR K KOTESWARA RAO	Related to Dr C Basant Kumar	—	9,97,000	9,97,000
SRI S S MARTHI	None	4,000	—	4,000
SRI P NARAYANA MURTHY	None	—	—	—
DR C BASANT KUMAR	Related to Dr K Koteswara Rao	4,000	—	4,000

6. BOARD MEETINGS AND ATTENDANCE AT BOARD MEETINGS & ANNUAL GENERAL MEETINGS

The Board of Directors of the company met 7(Seven) times during the last financial year i.e., 24th June 2003, 24th July 2003, 29th October 2003, 29th November 2003, 21st January 2004, and 22nd March 2004. The company placed before the Board the annual operating plans and budgets and performance of the company from time to time. Information, which is materially important were placed before the Board Meeting as and when the same takes place.