



**REACHING OUT TO NEW HORIZONS**

**TRANSGENE BIOTEK LIMITED**

**BOARD OF DIRECTORS**

Dr. K. Koteswara Rao	- Chairman & Managing Director
Sri. S.S. Marthi	- Director
Sri P. Narayana Murthy	- Director

**REGISTERED OFFICE**

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

**FACTORY**

Plot Nos. 68, 69 & 70,  
Anrich Industrial Area,  
IDA 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.

**DIRECTORS' REPORT**

The Directors have pleasure in presenting the Fifteenth Annual Report on the business and operations of the Company and Financial accounts for the year ended 31<sup>st</sup> March, 2005.

**FINANCIAL RESULTS**

Particulars	2003-2004	2004 - 2005
Net Sales / Income	222.87	239.50
Total Expenditure	110.07	102.37
Gross Operating Profit	112.80	137.13
Interest and Financial Charges	5.80	55.50
Depreciation	52.15	26.66
Amortisation	6.72	—
Profit before Tax/Loss	48.13	54.97
Provision for Tax	NIL	4.23
Prior Period Adjustments	1.22	—
Net Profit	46.91	50.74

**DIVIDEND**

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

**OPERATIONS & PROSPECTS FOR THE FUTURE**

During the year under review the total income increased to Rs. 239.50 Lakhs from Rs.222.87 Lakhs in the previous year. The Net Profit for the year rose to Rs. 50.74 Lakhs as against Rs.46.91 Lakhs for the previous year.

Your Directors are glad to inform you that the 52 weeks multi-centric human trials using our Meningococcal Meningitis Vaccine, Mem Vac A,C,Y&W-135™, are completed in the African countries. Due to some unavoidable circumstances, the earlier envisaged commercial launch of this vaccine could not take place at the end of 8 week study. However, with the recent conclusion of 52 week study demonstrating excellent efficacy and safety of this vaccine, your company in collaboration with its USA partner, JN International is making efforts to get the several but necessary regulatory approvals in preparation to a commercial launch of this vaccine at the earliest.

The Directors are happy to inform you that pre-clinical trials on Oral Delivery of Insulin and Hepatitis B vaccine have demonstrated exciting results on both products. Hence, the management is in negotiations with major pharma companies for out-licensing these.

The development of various cancer drugs is an important addition to the product pipeline of your company. The cutting edge technologies such as immuno-conjugation or gene silencing approaches have been adopted in the development of these drugs. The management expects to commence the pre-clinical trials on at least two drugs during January,2006.

Your Directors are also happy to inform you that the company has expanded the product portfolio significantly during the year and has been working on four different technology platforms at present, each platform comprising of several products in the development.

**1. NDDS - Oral Insulin**

Oral Hepatitis B vaccine

**2. BIO-THERAPEUTICS (Bio-generics)**

Erythropoietin

Interferon  $\alpha$  2bInterferon  $\gamma$ Interferon  $\beta$ 

Human tissue Plasminogen Activator

**3. CANCER DRUGS**

Esophageal Cancer

Multiple myeloma

Breast Cancer

Cancer of Pancreas

Cancer of colon

**4. RABIES VACCINE****PATENTS AND IPR PROTECTION**

Meningococcal group of vaccines

Combination vaccines - Hepatitis A&amp;B, Typhoid

Pneumococcal conjugate vaccines

Rabies vaccine

Your company's management is acutely aware of the importance in protecting the intellectual property rights generated before, during and after the technologies are developed. In a world which is getting increasingly crowded by the number of patents filed and with the advent of new and cutting edge technologies providing implications for huge gains, it is imperative to file patents in an exact manner.

Patents are viewed as valuable assets in the protection of the drugs developed with huge potential towards commercial value. It is at the heart of TBL's business strategy to invest in protecting its intellectual property. Therefore, TBL engages patent attorneys in a technology and product specific manner, the attorneys having sufficient knowledge and a strong track record in the given specific area of life sciences.

**REPAYMENT OF LOANS**

The company has paid an amount of Rs. 637.95 Lakhs till date to M/S IDBI and expects to make the company debt free soon with the payment of final installment.

**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 Hon'ble High Court of Andhra Pradesh vide its order dated 7<sup>th</sup> February 2005. Consequent to the amalgamation, 60,60,000 Equity Shares have been allotted to the Shareholders of M/S Saket Biotechnologies Private limited on 27<sup>th</sup> April 2005. We have already received the listing and trading permission for the said shares from The Bombay Stock Exchange Limited and The Hyderabad Stock Exchange Limited vide their letter No. DCS/SMG/RCG/2005/526139 dated November 11 2005 and HSE:LIST:2005:282 dated 16<sup>th</sup> November 2005 respectively.

**PROSPECTS**

Your Directors are happy to inform that the current financial year shall be a ground breaking period with commercialization of meningococcal vaccine, commencement of commercial operations of its Agri-Biotech division and with those, the commencement of commercialization of other products at regular intervals during the years to come.

With a broad range of technology and product portfolio being carried out by your company and with uncertainty generally associated with Biotech products been addressed adequately, your company's future appears stable with some products dotted with exciting prospects on others.

### **DIRECTORS**

In accordance with the provisions of the Companies Act, 1956 and the company's Articles of Association Sri S S Marthi retires by rotation and is eligible for re-appointment.

It is proposed to induct Dr. P.K. Ghosh and Sri N Srikrishna as Directors of the Company. Notice has been received from some of the members of the company proposing their appointment as a Director of the Company.

### **EXPANSION OF KEY SCIENTIFIC & ADMINISTRATIVE PERSONNEL**

Commensurate with the expanding operations, your Directors are happy to inform you that several scientists are added at regular intervals as an ongoing process and likewise, key personnel in administrative sections too are to join soon and strengthen the company.

### **SCIENTIFIC ADVISORY BOARD**

In tune with its core Biotechnology focus, the company has been strengthened during the current year with the induction of two renowned and highly respected scientists to the existing team of Scientific Advisory Board.

### **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, 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:

- a) That in the preparation of the annual accounts, the applicable Accounting standards have been followed along with proper explanation relating to material departures.
- b) 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;
- c) 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
- d) That they have prepared the accounts for the year ended 31<sup>st</sup> March, 2005 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 along with Compliance Certificate of the Auditors and Management Discussion and Analysis Report are annexed hereto.

**LISTING INFORMATION**

The Equity Shares are listed on the Stock Exchanges at Mumbai and Hyderabad at present. The Company has paid the Annual Listing fees for the year 2005-06.

**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 under 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 and fuel consumption 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 being made to optimize and streamline various processes. |
| C. Foreign Exchange Earnings     | : | Nil                                                                                                                                                                                           |
| D. Foreign Exchange Outgo        | : | Rs. 43,44,382/-                                                                                                                                                                               |

**ACKNOWLEDGEMENTS**

Your Directors wish to 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 order of the Board  
For TRANSGENE BIOTEK LIMITED

Sd/-

Dr. K.Koteswara Rao  
CHAIRMAN & MANAGING DIRECTOR

Place: Hyderabad  
Date: 25-11-2005

## MANAGEMENT DISCUSSION & ANALYSIS

### A. INDUSTRY STRUCTURE & DEVELOPMENT

Advances in the understanding and manipulation of genetic structure over the past quarter century have made it possible to introduce, delete, or enhance particular traits in an organism either by inserting genes from another organism or by otherwise altering its genetic make-up. Within a short space of time, these advances in genetics have brought about major changes in fields as varied as pharmaceuticals, medical diagnostics, agriculture, food production, and forensic science.

The first commercial applications of the new techniques of genetic engineering occurred in the pharmaceutical field. In all, it is estimated that several hundred million people worldwide use the ninety or so biotechnology drugs and vaccines now on the market. Gene therapy — the insertion of functioning genes to supplement or replace defective genes, or treat the effects of acquired diseases — is widely seen as having the potential to have a major effect on medical practice in the future.

Between 1986 and 1997, some 25,000 field trials of 60 crops — principally soyabeans, maize, cotton, rapeseed, tomatoes and sugar beet — were undertaken in 45 countries. The first genetically modified fruit or vegetable to be cleared for sale to consumers — a tomato modified to remain firm longer than conventional varieties — received approval from the U.S. Food and Drug Administration in 1994. The cultivation of GM crops has since grown rapidly and today, transgenic varieties of cotton, maize and soyabean account for a large acreage of cultivation across the world.

The scope and pace of innovation in biotechnology over the past quarter-century has been profound, but many believe it will be dwarfed by that in the decades ahead. The decipherment of the human genome is likely to be the key to the future understanding of disease and development of medicine and healthcare. In plant biotechnology, the simultaneous introduction of large numbers of genes in order to modify complex traits will become a possibility. Future developments in the area of GM foods may include fats and oils containing substantially lower levels of saturated fat; grains, fruits and vegetables with 'built-in' food supplements and medicines; and fruits and vegetables which can remain fresh for longer and reduce wastage.

### B. OPPORTUNITIES & THREATS

The consumption of biotechnology products is expected to increase from US\$6.4 billion to about US\$13 billion by 2010. Industrial enzymes have emerged as a major vehicle for improving product quality. In India a number of groups are gearing up to produce industrial enzymes such as alpha-amylase, proteases, and lipases, increasing three-fold by the end of the century, which will match or surpass the computer industry in size, importance, and growth. India is now producing 13 antibiotics by fermentation. Capacity exists to produce important vaccines such as DPT, BCG, JEV, cholera, and typhoid. Cell culture vaccines such as MMR and rabies, and Hepatitis-B, have also been introduced.

The coming together of biotechnology and informatics is paying rich dividends. Genome projects, drug design, and molecular taxonomy are all becoming increasingly dependent on information technology. Information on nucleotides and protein sequences is accumulating rapidly. The number of genes characterized from a variety of organisms and the number of evolved protein structures are doubling every two years. DBT has established a national Bioinformatics Network with ten Distributed Information Centres (DICs) and 35 sub-DICs. A Jai Vigyan Mission on establishment of genomic databases has been started, with a number of graphic facilities created throughout the country. This system has helped scientists involved in biotechnology research.

In agricultural sector, Gene transformation is done worldwide with four broad objectives: (a) to develop products with new characteristics; (b) to develop pest and disease resistance; (c) to improve nutritional value; and (d) to modify fruit ripening to obtain longer shelf life. Thus the aims and objectives are laudable and the tools are available.

**C. PRODUCTWISE PERFORMANCE, TBL's OUTLOOK & CONCERNS**

The company is seeking to follow a diversified product portfolio strategy through working on four different and mutually exclusive product platforms that would have far reaching implications for the company. All these platforms individually are capable of resulting in highly promising niche products. The company has drawn up different strategies for commercialization of each of the products and this offers the company the requisite flexibility in executing its plans. Further, the gestation period attributable to research for most of the current platforms is over and various drugs emanating from each platform are currently at different stages of the pyramid of development leading to ultimate commercialization.

The company's current strategy involves leveraging its existing strength as a low cost, world-class R&D organization and at the same time positioning itself as a low-cost manufacturer of recombinant vaccines and therapeutic products. Towards this end, the company has entered into world-class technology partnerships with various organizations and corporations.

TBL has evolved a two-pronged approach for conducting its business, and to be competitive namely:

- (a) Develop products (vaccines and bio-therapeutic drugs) around a specific process technology / delivery platform &
- (b) R&D focused approach - partnering to build value in early stage technologies.

This approach has been adopted with a view to build a resilient business model; hinged on the core strengths and capabilities that TBL possesses.

**D. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

The Company has adequate internal control procedures commensurate with its size and nature of business.

The company has been maintaining records showing full details of the fixed assets and also carries out physical verification from time to time.

The company carries out periodical physical verification of stocks during the year and the discrepancies, if any, between the physical verification and the books are attended to immediately.

**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 in the process of becoming a zero-debt company during the current year.

**F. DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT**

The company has recruited several key scientists located at different R&D Centres in tune with the expansion of the areas of business of the company. 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 2005-2006 onwards. Likewise, the management appreciates the loyalty and commitment of scientists working at various Transgene Medical 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.



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

The Company has been adopting the new practices in the area of Corporate Governance and has been building up the principles of transparency and accountability. Through this the company has been making an effort to continuously monitor the business plans and risks involved in the business company, which would enable the company to enhance the 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
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.

In order to broadbase the Board of Directors' the company is already in the process of appointing additional directors.

**3. AUDIT COMMITTEE**

An Audit Committee of the Company was constituted at the meeting of the Board of Directors held on 31<sup>st</sup> July 2002 comprising 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.

**TRANSGENE BIOTEK LIMITED**

During the financial year ended 31<sup>st</sup> March 2005, four meetings of the Committee were held on 21<sup>st</sup> April 2004, 30<sup>th</sup> July 2004, 29<sup>th</sup> October 2004, 2<sup>nd</sup> December 2004, and 29<sup>th</sup> January 2005. The attendance of each member of the Committee is given below:

NAME OF THE DIRECTOR	NO. OF MEETINGS ATTENDED
DR K KOTESWARA RAO	5
SRI S S MARTHI	5
SRI P NARYANA MURTHY	5

**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 for redressal of Investor / Shareholder complaints along with approval of share transfers, sub-division/consolidation of shares, etc. The Committee oversees 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	None	--	11,14,449	11,14,449
SRI S S MARTHI	None	4,000	—	4,000
SRI P NARAYANA MURTHY	None	4,000	—	—

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

The Board of Directors of the company met 6(Six) times during the last financial year i.e., 21<sup>st</sup> April 2004, 30<sup>th</sup> July 2004, 29<sup>th</sup> October 2004, 2<sup>nd</sup> December 2004, 29<sup>th</sup> January 2005, and 26<sup>th</sup> February 2005. 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 was placed before the Board Meeting as and when the same takes place.