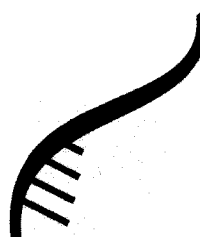


16th Annual Report
2005-06

Reaching out to New Horizons



TRANSGENE
BIOTEK LIMITED
INNOVATING FOR LIFE

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**TRANSGENE BIOTEK LIMITED****BOARD OF DIRECTORS**

| | |
|-----------------------|---------------------------------|
| Dr. K Koteswara Rao | Chairman & Managing Director |
| Dr. P K Ghosh | Director |
| Sri N Srikrishna | 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.

Auditors:

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

Bankers:

ICICI Bank Ltd.
Jubilee Hills,
Hyderabad.

Bank of India
Ameerpet
Hyderabad

Karur Vysya Bank Ltd.
Jubilee Hills
Hyderabad

Share Transfer Agents:

M/s. XL Softech Systems Ltd.
3, Sagar Society, Road No.2
Banjara Hills,
Hyderabad - 500 034.

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Notice

Notice is hereby given that the Sixteenth Annual General Meeting of the Members of M/S TRANSGESNE BIOTEK LIMITED will be held on Thursday, the 30th November, 2006 at 11.00 A.M. at Plot Nos.68, 69 & 70, Anrich Industrial Area, IDA Bollaram, Medak District, to transact the following business.

ORDINARY BUSINESS:

1. ADOPTION OF AUDITED ACCOUNTS AND REPORTS

To receive, consider and adopt the Balance Sheet as at 31st March, 2006, the Profit and Loss Account for the year ended as on that date, Directors' Report and Auditors' Report thereon.

2. RE-APPOINTMENT OF DIRECTOR

To appoint a Director in place of Sri N Srikrishna who retires by rotation and being eligible offers himself for reappointment.

3. RE-APPOINTMENT OF DIRECTOR

To appoint a Director in place of

Dr P K Ghosh who retires by rotation and being eligible offers himself for reappointment.

4. APPOINTMENT OF AUDITORS

To consider and if thought fit to pass the following resolution with or without modifications as Ordinary Resolution:

" RESOLVED THAT M/s.Sarath & Associates, Chartered Accountants, be and are hereby re-appointed as Auditors of the Company to hold the office from the conclusion of this Annual General Meeting of the Company until the conclusion of next Annual General Meeting of the Company at a remuneration to be fixed by the Board of Directors in consultation with the Auditors".

By the Order of the Board
For Transgene Biotek Limited

Sd/-

Dr.K.Koteswara Rao
Chairman &
Managing Director

Place : Hyderabad
Date : 01.11.2006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more Proxies to attend and vote on a poll instead of himself.
2. The Proxy need not be a member of the Company.
3. Should any member choose to exercise his right of appointing a Proxy, the Proxy Form attached herewith should be duly completed and should be deposited at the Registered Office of the Company not less than 48 Hours before the time of holding of the meeting.
4. Member/Proxies should bring the Attendance Slip duly filled in for attending the meeting.
5. Members are requested to bring their copies of the report and accounts of the Company.
6. The Register of Members and Share Transfer Books of the Company will remain closed from Monday the 27th November 2006 to Thursday the 30th November, 2006 (both days inclusive).



Directors' Report

The Board of Directors have pleasure in presenting the Sixteenth Annual Report on the business and operations of the Company and Financial accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

Rs. in Lakhs

| Particulars | 2004-05 | 2005-06 |
|------------------------------|---------|---------------|
| Net Sales / Income | 239.50 | 284.88 |
| Total Expenditure | 102.37 | 146.52 |
| Gross Operating Profit | 137.13 | 138.36 |
| Interest & Financial Charges | 55.50 | 22.52 |
| Depreciation | 26.66 | 28.44 |
| Amortisation | - | 3.53 |
| Profit before Tax/Loss | 54.97 | 83.87 |
| Provision for Tax | 4.23 | 5.16 |
| Prior Period Adjustments | - | - |
| Net Profit | 50.74 | 78.71 |

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. 284.88 Lakhs from Rs.239.50 Lakhs in the previous year. The Net Profit for the year rose to Rs. 78.71 Lakhs as against Rs.50.74 Lakhs for the previous year.

Vaccines - Meningococcal Meningitis Vaccines

Your Directors are pained to state that there has been considerable delay in launching the Meningococcal vaccine, in spite of completing the Phase III human trials several months ago, as was brought to your notice during the last annual general meeting. This delay has been primarily due to a dispute with the USA partner, JN International. On the positive side, the Directors are pleased to inform that this dispute is now settled as per the settlement agreement dated

28th October, 2006. The settlement terms with JNI offer your company considerable advantages in the area of marketing and distribution of this vaccine. During the year, the US IEC has approved the completed 52 week Phase III human trial report on our quadrivalent Meningococcal Meningitis vaccine, MemVac A,C,Y&W-135™ compiled on the trials conducted in two Central African countries. With this, the management has short listed few companies within and outside India, including those with whom negotiations were initiated earlier, possessing required capabilities and capacities for contract manufacturing of this vaccine. Simultaneously, negotiations are initiated with various distributors for marketing in several countries.

HAEMOPHILUS INFLUENZA B VACCINE

The technology development has been completed and is now preparing for pre-clinical trials.

NEW DRUG DELIVERY SYSTEM - ORAL INSULIN

The R&D work on Oral Delivery of Insulin is continuing. As reported already, negotiations with few global pharma majors are continuing and additional scientific data requested is being generated. With the exciting results shown in the case of oral delivery of Insulin, your management is setting its sights in using this scientific platform to develop similar technology for other protein based drugs. This expansion on the oral delivery technology platform shall be accelerated after out-licensing the oral Insulin technology. It is important to note that our oral delivery technology attains significance in the backdrop of the knowledge that pulmonary delivery of Insulin is facing significant concerns among the regulators and users.

BIO-THERAPEUTICS

In the therapeutics and vaccines divisions, the technology development has advanced to the stage of pre-clinical trials on two drugs and readying for commercial production on another drug.

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ONCOLOGY

With increasing focus globally on the fast emerging and exciting gene silencing technologies and your company having entered into this arena well ahead of many others, the Directors are happy to inform you that four virology product development technologies have been added to the list of existing four Cancer drugs. The progress on the cancer drug technologies is advancing on the expected lines.

AGRI-BIOTECH DIVISION

In the Agri-biotech division, the plant tissue culture operations on Banana are getting stabilized with increasing demand while we look towards expanding into micro-propagation of Floriculture and Forestry plants too.

PATENTS AND IPR PROTECTION

In line with the business model of your company and importance placed on Intellectual Property protection, your Directors are happy to inform you that seven more patent applications in the area of new generation of viral & bacterial vaccines and oncology products, have been filed in USA during the year. Your Directors wish to reiterate that IPR and Patent protection shall be one of the focal points of your company in advancing various innovative technologies and developing new drugs.

PROSPECTS

Your Directors are happy to inform that among many other technologies and new drugs being developed, the current financial year shall witness the commercialization of meningococcal vaccine, expansion on the commercial operations of its Agri-Biotech division and commercial launch of an immuno-suppressant drug. With the robust business model of your company beginning to demonstrate the expected results, commercialization of several other products under different stages of development shall continue at regular intervals during the years to come.

DIRECTORS

In accordance to the provisions of the Companies Act, 1956 and the company's Articles of Association Sri N Srikrishna and Dr P K Ghosh retire by rotation and is eligible for re-appointment.

EXPANSION OF KEY SCIENTIFIC & ADMINISTRATIVE PERSONNEL

In line with the continuing operations on R&D and commercial activities at your company, adding new scientists to the existing manpower is an ongoing process; accordingly new scientists have been added during the year.

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



TRANSGENE BIOTEK LIMITED

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 31st March, 2006 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 listed on the Stock Exchanges at Mumbai and Hyderabad at present. The Company has paid the Annual Listing fees for the year 2006-07.

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.2,41,09,596/-

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 the Order of the Board
For **Transgene Biotech Limited**

Sd/-

Dr.K.Koteswara Rao

Chairman &

Managing Director

Place : Hyderabad

Date : 01.11.2006

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Management Discussion & Analysis**A. INDUSTRY STRUCTURE & DEVELOPMENT**

It is now well established that the next revolution in industry, after IT, will be in Biotechnology. There is a tremendous thrust on Biotechnology in several countries with the expectation that this science is to open new vistas in the diagnosis and cure on several medical conditions, be it dreadful viral infections such as HIV or HCV or be it hitherto incurable cancers or be it disabling medical conditions in the new born. With the expected progress of Bioinformatics on to genomics and proteomics, new drug development has taken a new turn on several fronts hitherto thought as not possible. The new "OMICS" is opening up new possibilities also in reducing the new drug development with the expectation that it may reduce the period of new drug development considerably.

One of the fast emerging technologies in the current Biotech arena is RNA interference or some times called as Gene Silencing. RNA interference (RNAi) technology is one of the most exciting discoveries of the past decade in functional genomics and a next step in the molecular revolution, redefining drug discovery and target validation. Significantly, the technology has the potential to fundamentally change the drug discovery and development process. RNAi is a mechanism used by cells to regulate the expression of genes and replication of viruses. The RNA interference mechanism uses short interfering RNA (siRNA) to induce the destruction of target RNA using naturally occurring cellular protein machinery. Harnessing the natural phenomenon of RNAi holds potential for the development of a new class of drugs with specificity towards a wide range of diseases that result from undesirable protein production or viral replication. Areas of therapeutic applications include virus infections in plants, animals or humans,

cancer, genetic disorders and neurological diseases. It is expected that even if a few products get into the market by the year 2010, this market will expand to \$3.5 billion based on revenues from sales of RNAi-based drugs.

B. OPPORTUNITIES & THREATS

The consumption of biotechnology products is expected to increase from US\$6.4 billion to about US\$13 billion by 2000. 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

As reported above, your Directors are happy to inform you that diversified product portfolio strategy on several technology platforms is beginning to demonstrate to the expected results. With the expected commercialization of quadrivalent Meningococcal meningitis vaccine during the current year, and also, products on other platforms advancing further towards commercialization, the outlook and performance of your company holds considerable promise in the coming years.

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.

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 2006-2007 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.

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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 of the 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:

| No. | Name of the Director | Status | No. of Other Public Directorships(*) | No. of Memberships on Board Committee |
|-----|-----------------------|--|--------------------------------------|---------------------------------------|
| 1. | Dr.K. Koteswara Rao | Chairman & Managing Director, Promoter | NIL | 2 |
| 2. | Sri P Narayana Murthy | Executive | NIL | 2 |
| 3. | Sri S S Marthi | Independent | 2 | 2 |
| 4. | Sri N Srikrishna | Independent | 2 | NIL |
| 5. | Dr PK Ghosh | Independent | 2 | 1 |

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

The company is trying to further broadbase the Board of Directors.

3. AUDIT COMMITTEE

An Audit Committee of the Company was constituted at the meeting of the Board of Directors held on 31st July 2002 comprising of three Directors viz., Dr K Koteswara Rao, Sri S S Marthi, and Sri P Narayana Murthy. The company is in the process of reconstituting the committee based on the corporate governance norms.

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 31st March 2006, four meetings of the Committee were held on 27th April 2005, 4th July 2005, 30th July 2005, 29th October 2005 and 23rd January 2006. 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 Narayana 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 transfer, 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, the 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 | — | 11,49,357/- | 11,49,357/- |
| Sri S S Marthi | None | 4,000/- | — | 4,000/- |
| Sri P Narayana Murthy | None | 4,000/- | — | 4,000/- |
| Sri N Srikrishna | None | 2,000/- | — | 2,000/- |

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., 27th April 2005, 12th May 2005, 4th July 2005, 30th July 2005, 29th October 2005, 25th November 2005, and 23rd January 2006. 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.