17th Annual Report
2006-07

Reaching out to New Horizons

TRANSGENE
BIOTEK LIMITED
INNOVATING. FOR LIFE.

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

Union Bank of India
Jubilee Hills Branch,
Hyderabad.

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.

Notice

Notice is hereby given that the Seventeenth Annual General Meeting of the Members of M/S TRANSGENE BIOTEK LIMITED will be held on Saturday, the 29th September, 2007 at 11.30 A.M. at 68, 69 & 70, Anrich Industrial Area, 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, 2007, 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 P Narayana Murthy who retires by rotation and being eligible offers himself for reappointment.

3. **RE-APPOINTMENT OF DIRECTOR**

   To appoint a Director in place of Sri S S Marthi 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 modification(s) 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 : 03.09.2007

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 copy of the report and accounts of the Company.
6. The Register of Members and Share Transfer Books of the Company will remain closed from Thursday the 27th September 2007 to Saturday the 29th September, 2007 (both days inclusive).

Directors' Report

Your Directors take pleasure in presenting the Seventeenth Annual Report on the business and operations of the Company and Financial accounts for the year ended 31st March, 2007.

FINANCIAL RESULTS

Rs. in Lakhs

Particulars	2005-06	2006-07
Net Sales / Income	284.88	**343.04**
Total Expenditure	146.52	**173.36**
Gross Operating Profit	138.36	**169.68**
Interest & Financial Charges	22.52	**0.49**
Depreciation	28.44	**29.49**
Amortisation	3.53	**3.53**
Profit before Tax/Loss	83.87	**136.16**
Provision for Tax	5.16	**12.19**
Net Profit	78.71	**123.97**

OPERATIONS

During the year under review the total income increased to Rs.343.04 Lakhs from Rs.284.88 Lakhs in the previous year. The Net Profit for the year rose to Rs.123.97 Lakhs as against Rs.78.71 Lakhs for the previous year. During the year, the company has incurred an amount of Rs.274.67 lakhs on ongoing product development and Rs. 87.03 Lakhs on Fixed Assets (Buildings and Plant and Machinery) as against Rs.357.65 lakhs and Rs.55.70 Lakhs respectively in 2005-06.

DIVIDEND

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

REVIEW OF PROJECTS SINCE THE LAST AGM

During the period since the last AGM was held, the management of your company reports the following developments regarding different projects:

I. HUMAN VACCINES

The management has taken steps to expand the range of vaccines, keeping in view of the strong re-emergence of global vaccine scenario and the consequent potential for substantial demand for these products, in particular combination vaccines and novel vaccines.

i. Meningococcal vaccine

(a) JNI

As reported during the last meeting, an ESCROW amount of US $169,000 was remitted as per the agreement with JNI. The Meningococcal vaccine MemVac A, C, Y & W-135™ was planned earlier, as per the reference to the terms of agreement, to be produced commercially in two stages at two locations. First stage would involve the production of bulk raw purified polysaccharide (RPP) at a contract manufacturing facility identified at University of Iowa, USA and the second stage would involve the final purification of that raw bulk (FPBP), formulate, fill and pack into final vaccine doses at one of the contract manufacturing facilities in India.

However, it was learnt later and informed by the attorneys representing JNI in USA that producing RPP at University of Iowa would be expensive and therefore, would be uneconomical. It was hence, informed to Transgene to look for an alternative contract manufacturing facility known to Transgene in India to undertake both stages of production, which would entail production of RPP also.

(b) Commercial launch of MemVac

Transgene already held discussions with different companies, one of them being Biological Evans (BE) for undertaking full production of all stages of manufacturing. We are now waiting from JNI for transferring the cultures and technology to Transgene to be passed on to BE. The commercial production shall commence soon after receiving the cultures from JNI and after obtaining the

regulatory approvals from DCGI. The management has been proceeding to amend the relevant terms of agreement with the help of USA attorneys, in view of change in the earlier plan for producing vaccine at two locations. We expect this to be concluded shortly following which an agreement with BE shall also be finalized.

Simultaneously, discussions with various distributors in Africa, Middle Eastern countries, Latin America and CIS countries are in advanced stage of finalization and country wise product registration process also has been taken up for introducing the MM vaccine in those countries. The management hopes to launch this vaccine into markets during the financial year 2007-08.

(c) Universal Meningococcal vaccine

The management wishes to bring to your notice that the in-house R&D vaccine division has been advancing well on the development of 'Universal Meningococcal Vaccine" which aims to cover all the sero-groups of Meningococcal infection. A USA patent has already been filed around 9 months ago.

ii. New vaccines

The management has been holding discussions with two other vaccine manufacturers abroad to bring some novel vaccines so as to complement our own MemVac vaccine. The new vaccines are planned to be introduced in finished forms to start with followed later by backward integration taking place in stages ending in full transfer of technology for manufacturing those vaccines at Transgene facility. First stage of this collaboration is likely to result in introducing at least one vaccine during the current financial year.

II. ORAL DELIVERY OF INSULIN

As reported during the last meeting, additional animal studies are being conducted as per the requirement of the Pharma majors with whom we have been holding discussions for the last one year. Unfortunately, subsequent trials in other animals indicated variable and inconsistent data. The dosage of drug used in the experimental animals to induce Hyperglycemic state had resulted in developing some complications in some of the animal models, even though the blood sugar levels were exhibiting the expected lowering affect in most others. Therefore, the dosage of that drug was readjusted and the hyperglycemic conditions were brought down to tolerable and acceptable levels to comply with study conditions. On readjusting the hyperglycemic conditions, the dosage of oral insulin was experimented upon and encouraging observation of control of the hyperglycemic conditions have been found. The experiments are being fine tuned and we hope to conclude the studies during the current year.

III. APIs

(a) Tacrolimus

Commercial production of this powerful immuno-suppressant drug has commenced at a contract manufacturing facility in Hyderabad. However, due to capacity constraints in the available contract manufacturing facilities and bearing in mind the substantial demand for this product, the management has already initiated plans to construct a cGMP compliant facility at its own premises. First phase of this facility comprising of 4 Kl fermentation is expected to be commissioned during the Q4 of this financial year. During the second stage of expansion, we wish to add another 10 Kl fermentation capacity to be commissioned before the end of financial year 2008-09. This is in response to several enquiries culminating into large orders with focus mainly on the exports.

(b) Statins

Due to the fact that European countries are planning to introduce some statins such as Simvastatin and Pravastatin as OTC products

and due to increasing demand for the statins in general, the management plans to bring the above two statins, which are out of patent protection, into commercial production during the current financial year. The management plans to utilize contract manufacturing facilities for the commercial production of these two statins.

The management realizes the substantial fall in the prices of some of the statins in the recent past. However, with the persistent demand supply gap and realistic profit margins in spite of the fallen prices for these products, the management plans to enter the commercial markets during the Q4 of this financial year, introducing first Pravastatin followed later by Simvastatin.

III. ONCOLOGY PRODUCTS

The management is happy to report that the scientists have successfully developed the monoclonals for Multiple Myeloma and Esophagel cancer following the validation of specific gene targets for these two cancers. This is a significant milestone in developing highly specific drug targeting primarily the cancer cells involved in Esophageal cancer and Multiple Myeloma. We are waiting to receive the Patent approvals in USA and PCT countries on these two immuno-conjugate drugs. The pre-clinical studies are planned to be initiated during the Q4 of the current year followed by human clinical trials targeted during the second half of 2008-09.

IV. TRANSGENE MEDICAL CENTERS

The management is happy to bring to your notice that an agreement has been reached with a large Medical College Hospital In W.G.Dt, AP with an objective to bring super-speciality medical services to our existing four centers, which will result in increased revenues and profits at all the centers. Additionally, this will facilitate marketing the Molecular diagnostics developed by our scientists at Hyderabad, through this Medical College Hospital. The management plans to market these molecular diagnostics to several other corporate hospitals and diagnostic laboratories, after initial and successful introduction at this hospital.

V. AGRI-BIOTECH

This division has been progressing steadily with the brand image for our Banana tissue culture plants being established across the state of Andhra Pradesh. This division is also planning to introduce new additional plants such as Teak, shortly.

PATENTS AND IPR PROTECTION

During the year, the company has received second USA patent on the Oral Delivery of Insulin involving a totally new process and patents are filed to cover the PCT countries too on this same technology.

In line with the suggestions emanating from the USA patent examiner and on the advice from our patent attorneys, additional patent application is being filed on the Oral Delivery of Hepatitis B vaccine. This patent application involves Transgene's newer technology, as stated above.

Patent applications have been filed in USA and PCT countries during this year on the development of 'Universal Meningococcal vaccine'.

SANCTION OF WORKING CAPITAL LIMITS

With the commencement of manufacturing activities, your Directors wish to inform you that M/S Union Bank of India has sanctioned an amount of Rs.3.92 Crores towards Working Capital to be utilized for commercial operations of Tacrolimus and Meningitis Vaccine.

PROSPECTS

The management while feeling disappointed at the delay in launching the Meningococcal vaccine during the last financial year, is confident to cover some of the lost ground through the commercial launch of various products during the year 2007-08. The products to be launched include in addition to the long awaited Tetravalent Meningococcal vaccine MemVac A,C,Y &

W-135™, Tacrolimus, the statins apart from one imported vaccine.

With several other technologies such as Universal meningococcal vaccine, two cancer drugs, molecular diagnostics and HIV therapeutic vaccine in the pipeline apart from the oral delivery of Insulin and Hepatitis B vaccine, the opportunities for future growth appears to be robust and progressing on a sound footing.

DIRECTORS

S/Sri P Narayana Murthy and S S Marthi retire by rotation and being eligible offer themselves for re-appointment.

EXPANSION OF KEY SCIENTIFIC & ADMINISTRATIVE PERSONNEL

During the year, the company witnessed the addition of few additional scientists in tune with the expanding manufacturing and R&D activities. Similarly new administrative personnel have been added in the Finance and Accounts division.

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 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;

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 31st March, 2007 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 fee for the year 2007-08.

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.59,02,682/-

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 Biotek Limited**

Sd/-
Dr.K.Koteswara Rao
Chairman &
Managing Director

Place : Hyderabad
Date : 03.09.2007

Management Discussion & Analysis

A. INDUSTRY STRUCTURE & DEVELOPMENT

Life science research and biotechnology are delivering on better outcomes for health, the environment, and for industrial, agricultural and energy production. The recent and continuing advances in the life sciences are making a reality of the prediction that this will be the century of biotechnology. Such scientific advance has the potential to enable better outcomes for health, the environment, and for industrial, agricultural and energy production. By increasingly interacting with information and communication technologies, bioinformatics and nanotechnologies, the potential is even greater. Life science research and biotechnology also promise more effective and efficient products to help deliver better health, whether in developed or developing countries, that are based on a fuller understanding of the human body and its ailments and diseases and of the interventions required to deal with them. These products can deliver on two vital and inextricably linked goals - improved health and more sustainable growth and development.

The information coming from the study of human genetics, and the identification of genes associated with disease, can make a significant contribution to the knowledge that will help drive innovation in health. But, if the fruit of such labour is to be used optimally, with the approval of society, a balance needs to be struck between access to and use of individuals' genetic information. Whether or not that balance is achieved in public policy will affect how successful genetic science is as a driver for innovative products and processes and delivery of better health.

Over the next five years, biotechnology can offer opportunities for fresh investment of Rs. 8 to 10 Billion in India. This fresh investment, could result in a turnover in excess of Rs. 15 to 20 billion during the next 5 to 7 years.

India's pharmaceutical industry will export more than they sell domestically when fiscal 2007 numbers are added up, says the Indian Pharmaceutical Alliance (IPA). In fact IPA predicts India pharmaceutical exports will grow by 35 percent annually during the next five years, compared to 16 percent for Indian retail sales, widening this export-domestic gap even more. In the last full fiscal year, pharmaceutical exports of Indian companies totaled Rs. 24,600 crores, which is slightly below their domestic retail sales of Rs. 27,903 crores. "Export growth is driven by growing dependence on generics across the world to contain health expenditure, acceptance of Indian generic drugs, aggressive expansion of Indian companies in international markets, and entry of smaller companies into exports," commented IPA secretary general D.G. Shah. Furthermore, patent drugs sales totaling around $100 billion today will see their patents expire between now and 2012, presenting generic drug makers with even more opportunities worldwide. "Pharma Exports to Surpass Retail Sales" Economic Times of India (06/22/07)

Biotechnology is increasingly becoming a vehicle for economic growth in today's knowledge-intensive economy. It has an unprecedented potential to improve health care, increase agricultural and industrial productivity, and enhance environmental quality. Asian countries have recognised the opportunities offered by biotechnology to marshal their socio-economic growth and have given due attention to its development. Nonetheless, Asian countries' share of income from biotechnology relative to their counterparts in North America and Europe remains modest. It is reckoned that only six Asian nations, namely Japan, China, South Korea, Taiwan, India and Singapore have significant biotechnological capability. Despite this, the Asian region has recently witnessed a rapid growth in the number of companies, revenues and employment in the biotechnology industry.

B. OPPORTUNITIES & THREATS

Health and agriculture are the primary focus of biotechnology development in Asia. Progress in genomics coupled with Asia's high capability in medical sciences provides a significant opportunity for the region to become a major player in medical biotechnology and biopharmaceuticals. In the context of developing Asian countries, biotechnology can be a primary tool, inter alia, for:

1. Production of recombinant therapeutic proteins.
2. Development of genetically engineered vaccines
3. Advancement in the accurate and highly specific targeted therapies in tackling and treating malignant and viral diseases.
4. Molecular diagnostics for better and accurate diagnosis and management of diseases.

Furthermore, biotechnology plays a vital role in a wide range of industrial applications and in cleaning up the environment of pollution ensuring environmental sustainability.

If the advantages are apparent, reaping benefits from biotechnology however requires appropriate policy attention to address a number of outstanding issues that include:

- A supportive environment for innovation (finances, research facilities, and skills)
- A transparent biosafety regulation
- An appropriate intellectual property rights (IPR) regime
- A responsible research environment with a foolproof biosecurity system
- A legal framework to address bioethics
- A science-based information supply to educate the public

Because biotechnology is largely the domain of the international private sector, an optimum landing ground in the form of infrastructure, incentives, and trained manpower are indispensable to attract investments. No less important is an appropriate IPR regime that protects proprietary technologies while ensuring technology transfer.

It is also to be noted that while advances in biotechnology can contribute to the improvement of human welfare, they have raised intense ecological and ethical controversies. There is, therefore, a strong need to examine the interactions between biotechnology, society and the biophysical environment, and formulate appropriate policies. In this regard, the importance of effective science-based biosafety regulation to ward off unforeseen health and environmental risks cannot be overlooked.

C. PRODUCTWISE PERFORMANCE, TBL's OUTLOOK & CONCERNS

It is to be mentioned that while there have been disappointing aspects such as delay in launching Meningococcal vaccine during the year 2006-07, the management has taken steps to mitigate the impact caused by such delays. With successful commercialization of Tacrolimus and Statins in addition to the launch of MemVac finally during the year 2007-08, revenue inflow has started. The collaboration with a corporate hospital has also opened up new avenues for Transgene to showcase its ability in the area of molecular diagnostics too.

Tacrolimus

In 2005, over 50.000 solid organ transplants were conducted in the seven major markets. In order to prevent the patient's immune system from rejecting the transplanted organ, immuno-suppression therapy is required for