

18th Annual Report  
2007-08

Reaching out to New Horizons

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**TRANSGENE**  
BIOTEK LIMITED  
INNOVATING. FOR LIFE.



## 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**

**Union Bank of India**  
Jubilee Hills Branch,  
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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## TRANSGENE BIOTEK LIMITED

### Notice

Notice is hereby given that the Eighteenth Annual General Meeting of the Members of M/s. TRANSGENE BIOTEK LIMITED will be held on Saturday, the 29th November, 2008 at 11.30 A.M. at Plot Nos. 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, 2008, 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 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."

#### SPECIAL BUSINESS

##### 5. GRANT OF EMPLOYEE STOCK OPTIONS

To consider and if thought fit to pass with or without modification, the following resolution as a special resolution :

" RESOLVED THAT pursuant to the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force), consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall include any Committee of Directors constituted for the purpose) to issue such number of new equity shares in one or more tranches as may be decided by the Board not exceeding in the aggregate 5,00,000 equity shares of the nominal value of Rs.10/- each to employees of the Company, (hereinafter referred to as "Employees" and shall include Directors other than promoter directors), whether in India or abroad, subject to Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999, and approval from the Reserve Bank of India or any other authority as may be required from time to time."

By the Order of the Board  
For Transgene Biotech Limited

Sd/-

**Dr.K.Koteswara Rao**

Chairman &

Managing Director

Place : Hyderabad

Date : 31.10.2008

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### 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 the 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 Wednesday the 26th November 2007 to Saturday the 29th November, 2007 (both days inclusive).

### EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

#### ITEM NO. 5

In order to attract and retain qualified, talented and competent personnel in the Company, your Company has instituted an Employee Stock Option Plan (ESOP) (hereinafter called "the Scheme") in accordance with the Securities and Exchange Board of India (Employees Stock Option and Employees Stock Purchase Scheme) Guidelines, 1999 (including any modifications therein from time to time) (hereinafter known as "Guidelines") and reserved an appropriate number of shares there under to allot equity shares against the stock options to be granted to the Employees of the Company and its Subsidiaries.

The Company has constituted a Compensation Committee to administer the stock option scheme of the Company.

The Shareholders approval was obtained at the Annual General Meeting held on 21st December, 2005 for giving stock options to the employees. However, the scheme was not implemented. Hence, a fresh scheme is being proposed for approval.

Specific disclosures as required by Clause 6 of the said Guidelines are as follows:

- (a) Each option to be granted shall entitle the employee to apply for and be allotted

one equity share of the nominal value of Rs.10/- each. The total number of options to be granted would be 5,00,000.

- (b) All employees as defined under the said guidelines shall be entitled to participate in the Scheme.

- (c) Vesting of Options

As per the schedule given below:

Period	% Options vested
12 months from the date of Grant	10%
24 months from the date of Grant	20%
36 months from the date of Grant	20%
42 months from the date of Grant	20%
48 months from the date of Grant	30%

- (d) There shall be a minimum period of one year between the grant of Options and vesting of Options.
- (e) Exercise price shall be the price fixed by the Compensation Committee as per the SEBI Guidelines from time to time.
- (f) Option can be exercised by making an



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application for issue of shares against the option vested within a period of 5 years from the date of grant.

- (g) The options to be granted to eligible employees shall be determined by the Compensation Committee based on an appraisal process consisting, inter alia, of the employee's grade, years of service, present performance and potential, conduct and such other factors as may be specified,
- (h) Maximum number of options to be issued per employee per year shall not exceed 1% of the issued capital of the Company,
- (i) The Company shall conform to the Accounting Policies specified in Clause 13.1 of the guidelines.
- (j) The Company adopts the Intrinsic Value method for valuation of the stock Options
- (k) The Company hereby declares that it shall disclose in the Directors Report the impact on the profits and on EPS, the difference between the employee compensation cost computed using the Intrinsic value of Stock Options and

the employee compensation cost that shall have been recognized, if the company has used fair value of Stock Options.

The Guidelines provide for a separate Special Resolution in general meeting in case of grant of options to the employees of the Company/ Company's Subsidiary (ies). Accordingly, the Board seeks your approval by way of special resolutions in terms of Section 81(1A) of the Companies Act, 1956.

Your Directors commend the resolution for your approval.

In case stock options are granted to the Directors of the Company (other than Promoter Directors), then such Directors may be deemed to be interested in the resolution.

By the Order of the Board  
For **Transgene Biotek Limited**

Sd/-

**Dr.K.Koteswara Rao**

Place : Hyderabad

Date : 31.10.2008

Chairman &

Managing Director

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### Directors' Report

Your Directors hereby present the 18th Report of your Company together with the Audited Accounts for the period ended 31st March, 2008.

#### FINANCIAL RESULTS

Particulars	Rs. in Lakhs	
	2006-07	2007-08
Net Sales / Income	343.04	<b>374.46</b>
Total Expenditure	173.36	<b>195.66</b>
Gross Operating Profit	169.68	<b>178.80</b>
Interest & Financial Charges	0.49	<b>42.59</b>
Depreciation	29.49	<b>31.90</b>
Amortisation	3.53	<b>0.00</b>
Profit before Tax/Loss	136.16	<b>104.31</b>
Provision for Tax	12.19	<b>11.00</b>
Net Profit	123.97	<b>93.31</b>

During the year under review the total income was Rs.374.46 Lakhs as against Rs.343.04 Lakhs in the previous year. However, the Net Profit for the year was Rs.104.31 Lakhs as against Rs.136.16 Lakhs for the previous year due to the increase in Interest and Financial charges. During the year, the company has incurred an amount of Rs.253.09 lakhs on ongoing product development and Rs. 115.28 Lakhs on Fixed Assets (Buildings and Plant and Machinery) as against Rs.274.67 lakhs and Rs.87.03 Lakhs respectively in 2006-07.

#### DIVIDEND

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

#### OPERATIONS

During the financial year gone by, we provide an overview of our disappointments, the goals and strategy to overcome those shortcomings and for creating an enduring value for shareholders and other stakeholders. We also present here how our progress towards achieving our objectives is to be

measured. To that end, we summarise the opportunities and challenges of the environment in which we operate, including the world market for pharmaceuticals, biologics and vaccines; the competitive and regulatory environment; and the principal risks and uncertainties we face, as well as the importance of intellectual property rights.

Your Directors and the management are working to create an organisation with the flexibility and diligence to the financial management to adapt quickly and effectively within a challenging and rapidly changing business environment.

#### APIs

As stated at the last Annual General Meeting, the planned 4 Kl capacity sterile fermentation production facility has been completed during the last quarter of the period in review. Since this facility has not yet received the manufacturing license from the Drug Control Office, only R&D and pilot batches of production have been taken-up on a small scale (<200 Lits) till now. While an application for manufacturing and marketing licence has been applied with the regulatory authorities in April 2008, the delay in getting this license has been straining the management since we are unable to take advantage of several trade enquiries.

#### i. Tacrolimus

In view of the above stated facts, the management is constrained to produce only small batches of Tacrolimus till date.

Due to the increasing demand for the formulations of this drug, in particular for the dermatology cream, your Board has suggested that the management take this up at the earliest. We expect to get the manufacturing license for this cream during the second half of 2009-10. However, the management is exploring other available options to overcome this time lag and generate the revenues at the earliest.

#### ii. Orlistat

Among the statins or statin like drugs, your



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management found that Orlistat has a significant market demand for generating substantial revenues, especially there being limited number of players in this field in our country. With the changing dietary trends and increasing diabetic population, India also is emerging as a potentially large market for this drug. Apart from this, globally there is a growing demand for this drug in view of obesity attaining epidemic proportions.

Orlistat is used mainly in the treatment of obesity. Its usage has now expanded as a supportive therapy to be used in the management of type 2 diabetes and hyperlipidaemia.

Transgene has been working on the technology development and optimization of this drug for few years now.

Drug manufacturing and marketing License is expected to be received by the middle of November, 2008.

The demand for this product has been highly encouraging. Transgene has been receiving constant flow of enquiries for the supply of this product.

**With the technology development and optimization being completed, the management is focusing on generating substantial revenues from these two products – Orlistat and Tacrolimus, for the next twelve months.**

### HUMAN VACCINES

The global vaccine market is witnessing a rapid expansion not only for the old products but also because of the innovation of new combinations and new strategies in formulating the vaccines for the convenience of the people. The market is expected to top \$10 billion in 2008 expanding to \$23.8 billion by 2012 as per analyst reports available.

The development and introduction of new vaccines is a costly and time consuming process. Unfortunately, those most in need patients in the

developing countries are the last to receive these powerful disease preventing products.

#### i. MemVac Vaccine

During the period under review, it was disappointing not to meet the expectations particularly in the commercialization of MemVac vaccine. Your Directors bring it to your notice that JNI has defaulted yet again on one pretence or the other after assuring to transfer meningococcal cultures. Even after taking an initiative by the Managing Director of your company to open the dialogue in order to resolve the issue, if any, Dr Reddy, CEO of JNI went back on his word even for a conference call with the scientists of your company. In view of the documented fraudulent actions by JNI, your Directors have been exploring the possible options including the initiation of legal actions - civil and criminal, to proceed against all the Directors of that company.

#### ii. HIV Vaccine

The world is now well into the third decade of the pandemic of human immunodeficiency virus (HIV) and AIDS. We have seen dramatic successes in the treatment of HIV-infected persons in many countries of the world with the advent of anti-retroviral drugs. Yet the pandemic still rages, with 2.7 million new infections in 2007. Indeed, for every infected person who began receiving antiretroviral therapy in 2007, 2.5 people were newly infected with HIV. Historically, vaccines have been among the most effective public health interventions, preventing the spread of viral infections. But an HIV vaccine has thus far been elusive and the quest disappointing and frustrating, prompting some to wonder whether an effective vaccine will ever be added to the HIV-prevention toolbox.

#### TBL 1203 Vaccine

TBL 1203 vaccine is a therapeutic vaccine based on a novel platform using two TBL's proprietary toxins. The vaccine is aimed at reversing the process of AIDS in HIV infected



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people through selective elimination of infected B cells and allowing the body to reactivate its natural immunity.

The progress on this drug continues to be encouraging. The in-vitro study data has clearly demonstrated the selective targeting of gp120 affected cells. Proof of Concept on selective cytotoxicity of the cells has been established using a placebo controlled study with the maximum affect being witnessed at 48 hours.

Construction of clones using the TBL's proprietary toxins is now completed. The scheduled progression towards pre-clinical animal studies is proceeding smoothly. As reported earlier, patents have been filed in USA and PCT countries.

### iii. Universal Meningococcal Vaccine

In line with the focus on generating revenues from the APIs first, the management of your company has slowed down R&D work on this project. This project shall be activated fully after getting the financial stability and comfort to the company.

### iv. New Vaccines

The management is continuing its dialogue with the foreign institutes to bring a range of vaccines to fill the void left by the failed launch of MemVac vaccine. This entails early launch of finished products as well as technology transfer for other vaccines.

The management shall report about the developments on this front during the next AGM.

### ORAL DELIVERY OF INSULIN

As stated earlier, there is a continued progress of this technology to deliver Insulin through oral route. However, we have identified the problem of scaling-up the technology needed to advance this to the next level. We expect to get over this problem by the time the pre-clinical animal toxicity studies are completed.

The animal toxicity studies (Pre-clinical trial study) are delayed beyond the expected period which will have direct bearing on the progress to the human trials. However, the animal studies conducted till date, continue to demonstrate encouraging results.

### ONCOLOGY PRODUCTS

Reiterating the above stated strategy of the management, your Directors wish to state that R&D work on these drugs has also been slowed down in order to focus on the revenue generating aspect of the company. Once the revenue generation and financial objectives are achieved, the development on these drugs shall be reactivated.

### TRANSGENE MEDICAL CENTERS

Your Directors bring to your notice that the medical centers have been operating well except for the one located at Palakol, in the WG. Dt. An appropriate decision shall be taken by the board after proper review for further course of action on this center. We are happy to point out that the remaining centers have been operating very well and profitably throughout the period in review.

### AGRI-BIOTECH

The Agri-Biotech division has been operating on the expected lines with seasonal variations for the sale of the plants.

### GOALS AND STRATEGY

Taking into account of the experience during the last few years, your Board has set defined goals, adopt new strategies and methods for performance measurement.

#### i. Goals

Our goal is to create an enduring value for shareholders by being one of the best-performing Biotech companies. In order to achieve this, the board recommends bringing in some additional overall discipline along with new strategies.





## TRANSGENE BIOTEK LIMITED

Our goals include:

- achieving initially a median 3-5 year product revenue generating cycle for the ensuing period.
- Deliver or out-license at least one new entity every year from the year 2010 onwards.
- Our goal is to deliver overall sales growth in line with market growth.
- Our goal is to launch our own and our in-licensed products to generate the expected profits.
- Maintain our gross profit margin.
- Efficiently deliver on our R&D investment.

### ii. Strategies

Our strategies include:

- Promotion and inculcation of a culture of responsibility and accountability among all the employees.
- Investing in leadership development.
- Driving the accountability of managers for the performance of their people.
- Inculcating corporate responsibility into everyday business thinking and decision-making.

### EMPLOYEES STOCK OPTION SCHEME

The shareholders had given their consent for issue of stock options to the employees of the company at the Annual General Meeting held on 21st December 2005. However, the scheme was not implemented and hence a revised scheme is being proposed for approval of the shareholders at the ensuing Annual General Meeting.

### DIRECTORS

S/Sri N Srikrishna and Dr P K Ghosh retire by rotation and being eligible offer themselves for re-appointment.

### EXPANSION OF KEY SCIENTIFIC & ADMINISTRATIVE PERSONNEL

During the financial year under review, the company has witnessed the stability among the scientific and administrative manpower, although few minor changes have taken place in line with the management of similar companies.

### 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

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- 6) That they have prepared the accounts for the year ended 31st March, 2008 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.

### 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.

Place : Hyderabad  
Date : 31.10.2008

### 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.1,45,50,006/-

### ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation for the assistance and co-operation received from M/S Union Bank of India, Bankers to the company, 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