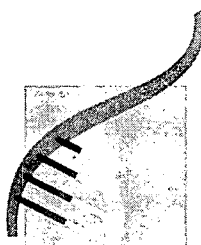


19th Annual Report
2008-09

Reaching out to New Horizons

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TRANSGENE
BIOTEK LIMITED
INNOVATING. FOR LIFE.



BOARD OF DIRECTORS

Dr. K Koteswara Rao Chairman &
Managing Director

Dr. P K Ghosh 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.

Share Transfer Agents

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



TRANSGENE BIOTEK LIMITED

Notice

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of M/S TRANSGESNE BIOTEK LIMITED will be held on Wednesday, the 30th September, 2009 at 11.00 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, 2009, 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 : 05.09.2009

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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 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 Friday the 25th September, 2009 to Wednesday the 30th September, 2009 (both days inclusive).





Directors' Report

The Directors of your Company have pleasure in presenting to you the 19th Annual Report on the business & operations of the company and Audited Statement of Accounts for the year ended 31st March, 2009 along with the Auditor's Report thereon.

FINANCIAL RESULTS

Rs. in Lakhs

Particulars	2008-09	2007-08
Net Sales / Income	370.02	374.46
Total Expenditure	217.29	195.66
Gross Operating Profit	152.73	178.80
Interest & Financial Charges	75.37	42.59
Depreciation	34.81	31.90
Profit before Tax/Loss	42.55	104.31
Provision for Tax	4.82	11.00
Net Profit	37.73	93.31

Your Directors bring to your notice on the receipt of manufacturing license for the production of Orlistat from the Drug Controller of Andhra Pradesh during the year 2008-09. With the receipt of license, your company has commenced the production and dispatch of initial sample orders for this product. It has been comforting to learn about the quality of materials in the samples being approved by several companies.

However, abandoning the production of *Tacrolimus* at the earlier contracted facility because of problems of contamination in successive batches is disappointing.

Certain technical aspects prevented the production of both *Tacrolimus* and *Orlistat* at the same premises of your company using 4 kl fermentation facility, hence the production of *Tacrolimus* has been put on hold temporarily. Serious efforts are put in to overcome this shortage of production facilities.

These efforts being taken up are expected to result in the generation of long expected revenues and profits from the year 2009-10 onwards.

OPERATIONS

During the year under review the total income was Rs.370.02 Lakhs as against Rs.374.46 Lakhs in the previous year and the Net Profit for the year was Rs.37.73 Lakhs as against Rs.93.31 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.239.11 lakhs on ongoing product development and Rs. 13.14 Lakhs on Fixed Assets as against Rs.253.09 lakhs and Rs.115.28 Lakhs respectively in 2007-08.

Due to the production of *Tacrolimus* being put on hold for the reasons stated above, the turnover of your Company has been adversely impacted to some extent. The impact of interest on the bank loan has also contributed to the reduction in the profits of your company.

DIVIDEND

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

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GROWTH PLANS AND OUTLOOK

1. With the optimization of technologies for two APIs being completed and with the receipt of manufacturing license for those products, the management has decided to restructure the business model of your company. In line with that plan, *production and marketing of Orlistat and Tacrolimus* along with other API products, are given priority over the ongoing R&D projects which require continuous and significant funding.
2. In order to carry forward the stated business model successfully, your management is making efforts not only to expand the current facilities at your company's premises but also to bring in strategic partnerships for commercial exploitation of the technologies being developed in house. This will help in expanding the manufacturing and commercialization operations. Further, funding for R&D projects reaching critical milestones may also be achieved through the creation of SPVs, as one of the options.
3. With the receipt of manufacturing license for the production of APIs at your own facility and with the commencement of marketing operations for Orlistat in increasing quantities, the management is confident about meeting the long awaited expectations on revenues and profits from the current year 2009-10 onwards.
4. In line with the change in business model, the management of your company will be leveraging the inherent strengths in R&D and manufacturing capabilities through strategic partnerships and expansion of existing facilities at the company's premises.
5. Your company has commenced the commercial operations for Orlistat and started delivering increased quantities to the customers after their initial assessment on the quality of material being delivered. Receipt of number of enquiries for the supply of this product in large quantities, has prompted your management to address this shortfall as a matter of utmost urgency. The management is confident about meeting this challenge successfully in order to capitalize the demand for this product.
6. The constraint in producing Tacrolimus at your company's facility currently producing Orlistat, due to technical reasons, the management is actively exploring for a strategic alternative to meet an increasing demand for this product too.
7. A team of scientists at your company has achieved an exciting break through and reached a critical milestone in the development of therapeutic vaccine for HIV.
8. On the development of Oral Insulin, inherent financial constraints and economic recession in general to source the required funds, has forced your company to take a temporary pause on the development of this project.
9. On Meningococcal vaccines front, the agreement with JNI is being terminated, in spite of obvious fraud and forgery committed by JNI, for the reasons of continuous drain on the company's finances to meet the legal challenges, without any result in sight. Additionally, this is adversely impacting the progress of other projects also necessitating the termination of agreement with JNI.



10. The progress on the development and commercialization of combination vaccines and Universal meningococcal vaccine is rather slow at present and we hope to advance this further during the year 2009-10 onwards.
11. The development of cancer drugs has also been put on hold for the reasons of financial constraints. The commercial operations of APIs are expected to provide an opportunity for either direct funding or to explore other avenues for funding this project.
12. On the diagnostics division, the medical center premises at Tanuku, AP has been expanded and the results from this center have substantiated the management's expectations.
13. On the Agro division front, your management is to report that there has been a continuous decline in the commercial results of this division, a result that prompted your company's management to halt the operations of this division which also helps in focusing more on the revenue generating APIs.

In conclusion, the change in the stated business is likely to make significant contribution to the Company's bottom line from the current year onwards. Apart from this, entering into strategic partnerships and creation of possible SPVs, is expected to meet the long awaited financial objectives of the company in all respects.

COMMENTS OF AUDITORS

As per the Audit Report, it has been reported that the company has not remitted the amounts

pertaining to PF, ESI, Income Tax, Central Excise, etc. Your Directors wish to inform you that due to inadequate financial resources, the company was unable to remit the said amounts within stipulated time. However, the same are being paid since then. The company is also in the process of strengthening the internal control procedures

EMPLOYEES STOCK OPTION SCHEME

The shareholders had given their consent for issue of stock options to the employees of the company at the last Annual General Meeting held on 29th November 2008 which is under implementation.

DIRECTORS

During the year under review, Mr. N. Srikrishna has resigned from the Directorship of the Company w.e.f. 18th February 2009. The Board while accepting his resignation recorded with appreciation his contribution during his tenure on the Board.

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

The management is actively seeking to expand the Board further to strengthen it on technical and financial fronts.

PREFERENTIAL OFFER TO THE PROMOTERS

7,50,000 shares of Rs.10/- each at a conversion price of Rs.80/- share have been allotted to Dr K K Rao, promoter of the Company, on preferential basis. The Listing permission is awaited from Bombay Stock Exchange.

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KEY SCIENTIFIC & ADMINISTRATIVE PERSONNEL

The cessation of operations at agri-division and pausing on some R&D projects is reflected on the over all reduction on the number of employees at your company. However, the commencement of manufacturing operations has necessitated the addition of few key scientific staff to carry out those activities.

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.
- b) That the Directors had 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 the Directors had 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 the Directors had prepared the accounts for the year ended 31st March, 2009 on a 'going concern' basis.

CORPORATE GOVERNANCE

As required by Clause 49 of the Listing Agreement with the Stock Exchanges, your Company believes in conducting the business with due compliance of all the applicable laws, rules and regulations. The Company has duly implemented the system of Corporate Governance as per the requirement of the said Listing Agreement. Report on Corporate Governance along with Compliance Certificate of the Auditors and Management Discussion and Analysis Report are annexed hereto.

EMPLOYEE RELATIONS

Your Directors wish to express their sincere appreciation of the efficient services rendered by the employees at all levels of the company for their excellent support and contribution at all times.

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.



TRANSGENE BIOTEK LIMITED

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.5,54,663/-

ACKNOWLEDGEMENTS

Your Directors wish to place on record their gratitude to the Government authorities, for the support and co-operation received from M/S Union Bank of India, Bankers of the company, Shareholders, Auditors, Customers, vendors, business associates and Staff of the Company for their valued support during the year under review.

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By the Order of the Board
For Transgene Biotek Limited

Sd/-

Dr.K.Koteswara Rao
Chairman &
Managing Director

Place : Hyderabad
Date : 05.09.2009

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Management Discussion & Analysis

A. INDUSTRY STRUCTURE & DEVELOPMENT

So far in the country and to some extent globally, the focus in health related matter has been to contain and eradication of major communicable diseases such as AIDS, small pox, malaria, polio, hepatitis etc. But this year, Swine Flu programme has been added to the Government's agenda.

With the commencement of commercial operations, this year, of Tacrolimus and Orlistat the management had an in-depth discussion analyzing the prospects for these and other related drugs, soon to be commercialized.

Opportunities for immuno-suppressant drugs - Tacrolimus

Multiple immuno-suppressant and anti-inflammatory drugs have been developed that inhibit distinct pathways involved in either innate or adaptive immunity. Several innate immune antagonists or agonists ligands for Toll-like receptors are now in clinical trials to improve the efficacy of some viral vaccines and to treat hepato-biliary diseases. Immuno-suppression and immuno-modulation of adaptive immunity can now target T-cell activation, co-stimulation, clonal proliferation, differentiation and maturation of effector functions and trans-endothelial cell migration into tissues.

The remarkable success in the human organ transplantations are due to the development of immuno-suppressant drugs. Cyclosporine has been used most successfully as a primary drug to suppress the rejection of transplants and as a novel therapy in auto-immune diseases. However, Cyclosporine causes severe adverse effects such as nephro-toxicity, hepato-toxicity and central nervous system disturbances.

The immuno-suppressive ability of Tacrolimus has been reported to be 100 times greater than of Cyclosporine. Tacrolimus is used in organ transplants and as a dermatological ointment in the treatment of atopic dermatitis, psoriasis and in vitiligo.

Opportunities for immuno-suppressant drugs - Orlistat

As described in the Directors report for the year 2007-08, Orlistat presents a huge opportunity not only among the global population because of obesity attaining epidemic proportions but also among Indian population due to rapidly changing lifestyles and an alarming rise of diabetic population. Combined with the opportunity arising out of the increasing opportunity, complex technology needed to produce this drug and success achieved by the scientists of Transgene presents an immense opportunity for the generation of significant revenues and profits for the years to come.

B. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your company has adequate and proper system of internal control. Your company also ensures that transactions are authorized, recorded and reported correctly.

C. DEVELOPMENT OF HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Adequate facilities and opportunities are being provided to all the staff to update themselves in the changing business environment at the company and also in relation to the clients from the countries the company is preparing to export its products.