

BOARD OF DIRECTORS

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

REGISTERED OFFICE

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

FACTORY

Plot Nos. 68,69 & 70
Anrich Industrial Area,
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.,
Flot No.303, Sanali Havens,
8-3-948, Ameerpet,
Hyderabad- 500 073

DIRECTORS REPORT

Your Directors have pleasure in presenting the Fourteenth Annual Report on the business and operations of the Company and Financial accounts for the year ended 31st March, 2004.

FINANCIAL RESULTS

Particulars	2002-2003	2003-2004
Net Sales/ Income	216.13	222.87
Total Expenditure	97.69	110.07
Gross Operating Profit	118.44	112.80
Interest and Financial Charges	7.47	5.80
Depreciation	52.83	52.15
Amortisation	4.65	6.72
Profit before Tax/Loss	53.48	48.13
Provision for Tax	NIL	NIL
Prior period Adjustments	19.43	1.22
Net Profit	34.06	46.91

DIVIDEND

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

OPERATIONS

During the year under review the total income increased to Rs. 222.87 Lakhs from Rs.216.13 Lakhs in the previous year. The Net Profit for the year rose to Rs.46.91 Lakhs as against to Rs.34.06 Lakhs for the previous year.

Your Directors are glad to inform you that the human trials using our own Meningococcal Meningitis vaccine Mem Vac A,C,Y& W -135™ have completed the critical stage in both African Countries. Due to the conditions and circumstances inherent in conducting human trials in the African countries, the commercial launch of the vaccine has been delayed beyond the expected period. However, the data pertaining to the same has been received by the company and is to be submitted to the respective authorities for manufacture of the same. Further, your Directors are happy to inform you that the results of the trials have shown the expected response comparable to that of well known internationally marketed vaccine. The company is, therefore, making efforts to launch the vaccine during the next quarter.

Your Directors are also happy to inform you that the company has successfully absorbed the transfer of technology from RBB Inc, USA for the manufacture and marketing of Erythropoietin. Erythropoietin is a Bio-Therapeutic drug generating global revenues of US\$8.6 Billion during the year 2003 with an average annual growth rate of 17% during the last 5 years (ASInsights report, 2003). We plan this product into markets during the year 2005.

Four other Bio-Therapeutic drugs are planned for commercialization during 2005 and 2006 using novel technology processes generating high yield of the purified proteins. We are preparing to file several patent applications during the coming months.

In 2003, Bio-Therapeutic drugs have generated global revenues of US \$ 41 Billion with an average annual growth rate of 21% and the revenues are expected to touch US\$ 100 Billion by the year 2010(ASInsights report, 2003).

REPAYMENT OF LOANS

As per the terms of the One Time settlement with M/s IDBI the company has already paid Rs.357.43 Lakhs thus repaying over 55% of the dues to IDBI.

ACQUISITION OF AGRICULTURE BIOTECHNOLOGY RESEARCH LABORATORY ON LEASE

Tour Directors are happy to inform you that the Department of Horticulture, Government of Andhra Pradesh, vide their letter No. HAD(1) 1169/99, dated 30th August 2004 have accepted the company's bid to acquire on lease an Agriculture Biotechnology Research laboratory located at Gopannapalem, west Godavari District, Andhara Pradesh.

The laboratory has state of atr research for undertaking plant and agriculture research using Biotechnology tools. This unit will facilitate the company to under takeseveral activities including plant micro-propagation, leaf testing and developing transgenic species. This unit certainly adds another dimension to the company's diversified activies increasing the potential to generate revenues. The lease is for a period of 5 years initially.

This division of the company is planning to focus preliminarily on the following technologies;

- a) Development of thermos table transgenic vaccines and industrial enzymes using plants as bio- reactors.
- b) Plant tissue culture for micro propagation
- c) Usage of a new cutting edge technology in generating virus and bacterial resistant plants with a potential to generate huge revenues and profits to the company.

PREFERENTIAL ALLOTMENT

Your Directors are happy to inform you that the 10,00,000 Equity shares of Rs. 10/- each issued at a premium of rs.50/- per share on preferential basis to FII's and Dr.K.Koteswara Rao have been listed on The Stock Exchange, Mumbai, and The Hyderabad Stock Exchange limited, Hyderabad w.e.f., 19th October 2003.

The FII's did not exercise there option for conversion of the warrants into equity shares. Hence the amount of Rs.12.50 ps. paid on application per warrant stands forfeited. Dr.K.Koteswara Rao promoter of the company has exercised his option to convert 20,000 warrants into Equity shares by paying the balance amount of Rs.112.50 ps. Per share.

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 Privet Limited (SBPL) has been approved by the shareholders at the court Convened meeting held on 26th August 2004 after the petition has been filed with the Hon'ble High Court of Andhra Pradesh for sanction of scheme.

Since the sanction of the scheme is still awaited from the Hon'ble High Court of Andhra Pradesh the accounts being presented along with this Directors report do not read the combined accounts of the company along with the accounts of M/s SBPL. This is being done since as per the Companies Act, 1956 the accounts are to be adopted at the AGN on or before 31st December 2004. Had the accounts been combined, the Books of Accounts have carried a capital reserve resulting from the technology being acquired and also no carried forward losses would have been reflected.

PROSPECTS

Your company is poised for a phenomenal growth in the field of biotechnology. Apart from preparing for the commercial launch of Mem Vac vaccine, efforts are being made to out-license the Oral delivery of Insulin. The company has been working on several other cutting edge technologies and products as part of its research and development. With these, year 2005 is expected to be launching pad for your company on global biotech area. With the company coming out of the debt burden and also strengthening itself by strategic alliances, the prospects for the company look exciting and formidable.

DIRECTORS

Dr C Basant Kumar has resigned as Director of the company during the year under review. Your Directors place on record their appreciation for the services rendered by him during his tenure as Director of the Company. Sri P.Naryana Murthy retires by rotation at the ensuing Annual general Meeting and being eligible offers himself for reappointment. Your Directors are in the process of strengthening the Board by induction of new directors.

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 Accountants, 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:

- That the preparation of the annual accounts, the applicable Accounting standards had been followed along with proper explanation relating to material departures.
- 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 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.
- That they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with provisions of the Companies Act,1956 safeguarding the assets of the company and for preventing and detecting fraud and other irregularities: and
- That they have prepared the accounts for the year ended 31st March, 2004 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 at present listed on the Stock Exchanges at Mumbai and Hyderabad. The Company has paid the Annual Listing fees for the year 2004-05.

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 of 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.

CONVERSION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE

- A. Conversion of Energy, Power and fuel Consumption : Efforts for conservation is an ongoing process in the Company and every effort is made in that direction.
- B. Research & Development : The Company as its own research and Development for the purpose of rationalization and cost reduction steps. Continuous efforts are on to streamline and indigenize the manufacturing process.
- C. Foreign Exchange Earnings : Nil
- D. Foreign exchange outgo : Rs.1,31,27,515/-

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation for the assistance and co-ordination 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 : 02.12.2004

MANAGEMENT DISCUSSION AND ANALYSIS

a) INDUSTRY STRUCTURE & DEVELOPMENT

The modern biotechnology industry is vast and encompasses bioinformatics, pharma, agriculture, natural products, environment and marine biotech among other areas. Biotechnology is one of the most research intensive industries in the world.

More than 325 million people worldwide have been helped by more than 155 biotechnology drugs and vaccines. There are more than 370 biotech drug products and vaccines currently in clinical trials targeting more than 200 diseases, including various cancers, Alzheimer's disease, diabetes, multiple sclerosis, AIDS and arthritis.

The biotechnology industry has mushroomed since 1992, with revenues increasing from \$8 billion in 1992 to \$34.8 billion in 2001 and expected to touch US \$100 billion by 2010 through Bio-Pharmaceutical sector alone. Market capitalization, the total value of publicly traded companies at market prices, was \$ 206 billion as of mid- April 2003.

As a country, India offers some significant competitive advantages in many sectors of Biotechnology due to significant low-cost in areas such as clinical research, product research and development, molecule synthesis etc.

The Government of India estimates that over the next five years, possibilities could be created for fresh investment of US \$ 150 million in India that hold the promise of changing the biotech production scenario- not just domestically but globally as well - considerably. This is an opportunity for both the Indian as well as overseas organizations to evaluate and exploit for investment strategy not only as a producer but also as a major developer.

b) OPPORTUNITIES & THREATS

Indian Pharmaceutical Industry is at a turning point. Drug discovery process has undergone a major change because of emergence of biotech base drug molecules. The tight intellectual property regime, WTO treaty coming into effect from 2005 onwards, requires focusing on new drugs to discover and their protection. Indian pharmaceutical firms have to change their trajectories to meet these challenges. This may need quantum jumps in quality systems, innovation manufacturing and marketing competence.

In the Genetics field, where ethical questions raised by the use of genetic information are very sensitive, common regulations are essential. In regard to current genetic developments, there are great hopes for developing preventive and curative treatments genetically inherited diseases. But there are also concerns that discrimination against a person on grounds of his genetic heritage may appear. These fears are substantiated also in the insurance and employment fields.

c) PRODUCTWISE PERFORMANCE, OUTLOOK & CONCERNS

Your company has changed its initial focus on diagnostics to genetically engineered products- Vaccines and therapeutics. Your company is taking significant strides with reputed scientists, research institutes and companies to develop cutting edge technologies and treating various diseases such as cancers and viral infections. Manufacturing of diagnostic products has been stopped and the existing facilities are to be modified to address the emerging needs of the vaccines and therapeutic drugs. In its efforts to protect the Intellectual property Rights developed by its scientists and associates, your company is seeking the advice and services from highly reputed attorneys who are specialists in the field of Bio-technology relevant to the areas focused by your company.

d) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has adequate internal control procedures commensurate with its size and nature of business. These internal policies ensure efficient use and protection of assets resources, compliance with polices, statutes, etc.

e) FINANCIAL PERFORMANC WITHRESPECT 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 continuously making efforts to pay of its debts and to make it a zero debt company and also increase its performance.

f) DEVELOPMENT IN HUMAN RESOURCES/NDUSTRIAL RELATIONS FRONT

The company has several key scientists located at different R&D centers in tune with the development of several bio-pharmaceuticals. 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 onwards. Likewise, the management appreciates the loyalty and commitment scientists working at various diagnostic centers.

The management is conscious of its responsibility to under stand and respond appropriately to the needs of the scientists stimulating the 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 continues to lay emphasis on improving the Corporate Governance practices in the company which can contribute substantially in achieving governance and thus resulting in enhancement of values 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
DR C BASANT KUMAR	PROMOTER, NON-EXECUTIVE DIRECTOR	NIL	NIL
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.

The company is already in the process of appointing additional directors to comply fully with the corporate Governance.

3. AUDIT COMMITTEE

An Audit Committee of the Company was constituted at the meeting of the Board of Directors held on 31st July 2002 w.e.f., 1st August 2002. The said committee comprises 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 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

During the financial year ended 31st March 2004, four meetings of the Committee were held on 30th April 2003, 20th August 2003, 29th November 2003, and 21st January 2004. The attendance of each member of the Committee is given below:

TRANSGENE BIOTEK LIMITED

NAME OF THE DIRECTOR	NO OF METINGS ATTENDED
DR K KOTESWARA ARO	4
SRI S S MARTHI	4
SRI P NARAYANA MURTHY	4

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 of redressal of investors/ Shareholders 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 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 Gopala Krishna, Finance Manager, is the Compliance Officer of the company.

5. REMUNARATION OF DIRECTORS

The details of remuneration paid to directors are given below:

NAME OF THE DIRECTOR	RELATIONSHIP WITH OTHER DIRECTORS	SITTING FEE (Rs.)	SALARY & PERKS(Rs.)	TOTAL (Rs.)
DR K KOTSWARA RAO	Related to Dr C Basant Kumar	—	9,79,000	9,79,000
SRI S S MARTHI	None	4,000	—	4,000
SRI P NARAYANA MURTHY	None	—	—	—
DR C BASANT KUMAR	Related to Dr K Koteswara Rao	4,000	—	4,000

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

The Board of Directors of the Company met 7(Seven) times during the last financial year i.e.24th June 2003, 24th July 2003, 29th October 2003, 29th November 2003, 21st January 2004 and 22nd March 2004. 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 were placed before the Board Meeting as and when the same takes place.

The attendance at the Board Meeting and annual general Meeting was as under:

NAME OF THE DIRECTOR	ATTENDANCE AT BOARD MEETINGS	ATTENDANCE AT ANNUAL GENEARL MEETING
DR K KOTESWARA RAO	7	YES
SRI S S MARTHI	7	YES
SRI P NARAYANA MURTHY	7	YES
DR C BASANT KUMAR	7	NO

7. DISCLOSURES

Disclosures on materially significant related party transactions i.e. transactions of the company of material nature, with its Promoters, the directors or the Management, their subsidiaries or relatives etc., the may have potential conflict with the interest of the company at large.

During the year, there were no transactions of material nature with the Directors or the Management or the subsidiaries or relatives that had potential conflict with the interest of the company.

8. MEANS OF COMMUNICATION

The company publishes its quarterly results in the Regional circular News paper (Andhra Jyothi) and National News paper (Business Line).

The Company has a website www.transgenebiotek.com where all the official news releases and developments that are taking place in relation to the company are updated.

9. AUDITORS CERTIFICATE ON COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

A certificate from the auditors is enclosed along with this report.

SHARE HOLDERS INFORMATION

A	REGISTRED OFFICE	Plot No. 68,69 &70 Anrich Industrial Area IDA Bollaram Medak District.A.P.
B.	Annual General Meeting Date & Time Venue	31st December 2004 at 11.00 AM Plot No. 68,69&70 Anrich Industrial Area IDA Bollaram Medak District.A.P
C.	Financial Calendar Financial reporting for Quarter ending June, 30 2003 Quarter ending September, 30 2003 Quarter ending December, 30 2003 Quarter ending March, 31 2005 Annual General meeting for FY Ended 31st March 2004	Last week of July 2003 Last week of October 2003 Last week of January 2004 Last week of April 2004 31st December 2004
D.	Date of Book Closure	Monday the 27th December 2004 to Friday the 31st December 2004
E.	Dividend payment Date	Not Applicable
F.	Listing on Stock exchange	The Hyderabad Stock Exchange Adjacent to Erramanzil Bus stop Somajiguda, Hyderabad- 500 082 And The Stock Exchange, Mumbai PJ Towers, Dalal Street, Mumbai-400 001 526139
G.	Stock Code	526139
H.	Stock Market Data	The share is actively traded on The stock Exchange, Mumbai
I.	Registrar and Share Transfer Agents	M/s Ikon Visions Private Limited Flat No. 33, Sanali Havens, 8-3-948 Ameerpet, Hyderabad-500 073
J.	Share Transfer System	Generally the shares have been transferred and returned in 30 days from the date of receipt, so long as the documents have been clear in all respects
K.	Share Transfer Committee	The Share Transfer Committee generally meets once a fortnight
L.	Investor Relations	The Company has been able to substantially improve its investor relations.

M. Distribution of shareholding as on 31st March 2004

Share Holders or Debenture Holding of nominal value of			Share Holders or Debenture Holding of nominal value of		Share/ Debenture Amount	
Rs		Rs.	Number	% of Total	Number	% of Total
	(1)		(2)	(3)	(4)	(5)
Upto	----	5000	3854	85.13	19263070	21.55
5000	----	10000	296	6.54	2523030	2.82
10001	----	20000	150	3.31	2386100	2.67
20001	----	30000	61	1.35	1645410	1.84
30001	----	40000	18	0.40	677780	0.76
40001	----	50000	32	0.71	1529010	1.71
50001	----	100000	60	1.32	4710150	5.27
100001	and	above	56	1.24	56665450	63.38
	TOTAL		4527	100.0	89400000	100.00

N. SHAREHOLDING PATTERN FOR THE QUARTER ENDED 31.03.2004

Sl.No	Category	No. of Shares Held	Percentage of Shareholding
A.	Promoter's Holding		
1.	Promoters		
	Indian promoters:		
	Dr.K.Koteswara Rao(& Director)	42,53,600*	47.58%
	Dr.C. Basant Kumar(&Director)	16,400	0.18%
	Foreign Promoters:	NIL	NIL
2.	Persons acting in concert	NIL	NIL
	Sub-Total	42,70,000	47.76%
B.	Non-Promoters Holding		
3.	Institutional Investors	NIL	NIL
A.	Mutual Funds and UTI(Govt.Financil Institutions)	NIL	NIL
B.	Banking, Financial Institutions/ Insurance Companies(Central/ State Government Institutions/ Non- Government Institutions)	NIL	NIL
C.	FII's	9,80,000	10.96%
	Sub-Total	9,80,000	10.96%
4.	Others		
a.	Private corporate Bodies	11,05,906	12.37%
b.	Indian Public	20,80,423	23.27%
C.	NRIs/ OCBs	5,03,671	5.64%
d.	Any Other (Please Specify)		
	Directors & Relatives	NIL	NIL
	Sub-Total	36,90,000	41.28%
	Grand Total	89,40,000	100.00%

Note:

- 1) Total Foreign Share Holding is 14,83,671 shares i.e.,16.06%
- 2) The shares shown against Dr K.Koteswara Rao, Promoter, include 25,00,000 shares allotted but pending listing approval

TRANSGENE BIOTEK LIMITED

O. Dematerialization of shares and liquidity as on 2nd December 2004 out of the total share holding 89,40,000 equity shares 64,40,000 equity shares are listed on the stock exchange out of which 96.29% of equity shares in dematerialized form.

P. Particulars of past Three AGMs

AGM	Year	Venue	Date	Time
13th	2003	Plot No.68,69&70 Anrich Industrial Area IDA Bollram Medak District. A.P.	29th December 2003	11.00A.M.
12th	2002	Plot No.68,69&70 Anrich Industrial Area IDA Bollram Medak District. A.P	30th September 2002	10.30A.M.
11th	2001	Community Hall Bharatinagar Colony, LIG, Ramachandrapuram	10th November 2001	11.30A.M.

Q. Postal Ballot
No resolution requiring ballot under Section 192A of the Companies Act,1956 was placed Before the last AGM nor is being proposed to be passed at the ensuing AGM

R. Nomination Facility
Shareholders, holding shares in physical form and desirous of making/ changing a nomination in respect of their shareholding in the company as permitted under Section 109A of the Companies Act 1956 are requested to submit to the Compliance Officer in the prescribed form 2B for this purpose, which can be furnished by the company on request.

SARATH & ASSOCIATES
CHARTERED ACCOUNTANTS

To

The Board of Directors of
TRANSGENE BIOTEK LIMITED

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to the compliance conditions of Corporate Governance of TRANSGENE BIOTEK LIMITED (the company) for the year ended 31.03.2004as stipulated in clause 49 of the listing agreement of the said company with the stock exchange

The compliance of the conditions of the corporate governance is the responsibility of the management. Our examination conducted in the manner described in the guidance note on Certification of Corporate Governance issued by the Institute of Chartered Accountants of India was limited to procedures and implementation thereof adopted by the company for ensuring compliance with the conditions of corporate Governance. Our examination was neither an audit nor was it conducted to express an opinion on the financial statements of the company.

In our opinion and to the best of our information and explanations given to us and on the basis of our examination described above, the company has complied with the conditions of corporate governance as stipulated in clause 49 of the listing agreement.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For SARATH & ASSOCIATES
Chartered Accountants
Sd/-
P.SARATH KUMAR
PARTNER

Place: Hyderabad
Date: 02.12.2004

AUDITORS' REPORT

To

**THE MEMBERS OF
M/S. TRANSGENE BIOTEK LIMITED
HYDERABAD.**

We have audited the attached balance sheet of M/S. TRANSGENE BIOTEK LIMITED, HYDERABAD as at 31st March, 2004 and the Profit and Loss account and Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test bases, evidence supporting the amounts and disclosures in the financial statements. And audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Further we report that:

1. As required by the Companies (Auditor's Report) Order, 2003, issued by the Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said order.
2. Further to our comments in the Annexure referred to in paragraph 1 above.
 - (i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
 - (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement are in agreement with the books of account;
 - (iv) In our opinion, the Balance Sheet, the Profit and Loss Account and Cash Flow statement, dealt with by this report are in compliance with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956 and subject to:
 - a) No provision has been made for Retirement Benefits to the employees as required by the Accounting Standard 15, issued by the Institute of Chartered Accountants of India.
 - (v) On the basis of written representations received from the directors, as on 31st March, 2004, and taken on record by the Board of Directors, none of the directors is disqualified from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - (vi) In our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view-
 - (1) In the case of the Balance Sheet, of the state of the affairs of the Company as at 31st March, 2004; and
 - (2) In the case of the profit and Loss Account, of the profit of the Company for the year ended on that date.

- (3) In the case of Cash Flow Statement, of the cash flows of the company for the year ended on that date

For SARATA& ASSOCITE
CHARTERE ACCOUNTANTS

Sd/-

P.SARATH KUMAR
PARTNER

Place: Hyderabad
Date : Dec 02, 2004

ANNEXURE TO THE AUDITOR'S REPORT

1. (a) The Company has to update the records to show full particulars including quantitative details and situation of its fixed assets.
(b) The fixed assets of the Company have been physically verified by the management during the year and this revealed no material discrepancies.
(c) The Company has not disposed off any fixed assets during the year.
2. (a) The inventory has been physically verified during the year by the management. In our opinion the frequency of verification is reasonable.
(b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
3. The company has neither granted nor taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Act.
4. In our opinion, there is an adequate internal control procedure commensurate with the size of the Company and the nature of its business, for purchase of store, raw materials including components, fixed assets and with regard to sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.
5. In our opinion, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and aggregating to Rs. 500,000 or more in value during the year in respect of each party have been made at prices which are reasonable having regard to the prices at which transactions for similar services have been made with other parties. The Company has not purchased goods and materials and sold goods and materials aggregating to Rs. 500,000 or more in value during the year from/to any of the parties listed in the register maintained under section 301 of the Act.
6. The Company has not accepted any deposits from the public, during the year.
7. In our opinion, the Company's present internal audit system is commensurate with its size and nature of business.
8. According to the information explanation given to us maintenance of cost records has not been prescribed by the Central Government under section 209 (1) of the Companies Act, 1956, for any of activities of the Company.
9. a)As explained to us by the Management, Provident Fund, Employees State Insurance Act is applicable to the company and the amounts of deductions and employer's contribution under the provident Fund Act are regularly deposited in the Government Account by the Company.

- b)At the last day of the financial year there was no amount outstanding in respect of undisputed income tax, wealth tax, sales tax, customs duty and excise duty which were due for more than six months from the date they became payable. However, old Professional tax dues of Rs.12,929/- and an amount of Rs.4,30,673/- is outstanding as on 31st March, 2004 towards Tax Deducted at Source was not paid in time.
10. In our opinion, the accumulated losses of the company are more than fifty percent of its net worth. The company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.
 11. In our opinion and according to the information and explanations given to us, the company has defaulted in repayment of dues to the IDBI, to the extent of Rs.82.63 lacs.
 12. We are of the opinion that the company has maintained adequate records where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
 13. In our opinion, the company is not a chit fund or a nidhi mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the companies (Auditor's Report) order, 2003 are not applicable to the company.
 14. In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the companies (Auditor's Report) order, 2003 are not applicable to the company.
 15. The company has not given any guarantees for loans taken by others from banks or financial institutions.
 16. In our opinion, the term loans have been applied for the purpose for which they were raised.
 17. According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.
 18. The Company has made preferential allotment of shares to parties not covered in the register maintained under section 301 of the Companies Act, 1956. In our opinion, prices at which shares have been issued is not prejudicial to the interest of the company.
 19. According to the information and explanations given to us, during the period covered by our audit report, the company has not issued any debentures.
 20. The company has not raised any money by way of public issues, during the year.
 21. In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state that during the year under audit, the company has not noticed or reported any fraud on or by the company.

For SARATH& ASSOCIATES
CHARTERED ACCOUNTANTS

Sd/-
P.SARATH KUMAR
PARTNER

Place: Hyderabad
Date : Dec 02, 2004

TRANSGENE BIOTEK LIMITED

68,69 & 70, Anrich Industrial Area

Bollarum, Medak District

BALANCE SHEET AS ON 31ST MARCH 2004

PARTICULARS	SCH NO	AS AT 31.03.2004	AS AT 31.03.2003
I. SOURCE OF FUNDS			
1. SHARE HOLDERS FUNDS			
A. Share Capital	I	89400000	79400000
B. Share Application Money	II	39199185	26923735
C. Reserves & Surplus	III	90800000	40800000
2. LOAN FUNDS			
A. Secured Loans	IV	23566024	60252891
B. Unsecured Loans	V	13050867	13703095
Total Source of Funds		<u>256016076</u>	<u>221079721</u>
II. APPLICATION OF FUNDS			
1. FIXED ASSETS			
Gross Block	VI	118391380	116845793
Less: Depreciation		<u>33037022</u>	<u>27822323</u>
Net Block		85354358	89023470
2. CURRENT ASSETS, LOANS & ADVANCES			
A. Inventories		0	0
B. Sundry Debtors		570129	574809
C. Cash & Bank Balances		532524	227836
D. Loans & Advances		<u>23158944</u>	<u>16860963</u>
		24261597	17663608
Less: CURRENT LIABILITIES & PROVISIONS	VIII	<u>4320111</u>	<u>9605934</u>
NET CURRENT ASSETS		19941485	8057674
PROFIT & LOSS A/C		95922985	100614227
3. MISCELLANEOUS EXPENDITURE			
(To the extent not written off)	IX		
A. Preliminary Expenses		122094	135659
B. Public & Rights Issue Expenses		4616105	2592006
C. Product Development Expenses		<u>50059050</u>	<u>20656685</u>
		54797249	23384350
		<u>256016076</u>	<u>221079721</u>
Notes on Accounts	XVI		

Vide our Report of even date

For SARATH & ASSOCIATES

Chartered Accountants

For and on behalf of the Board

Sd/-

P.SARATH KUMAR

Partner

Place : Hyderabad

Date : 02.12.2004

Sd/-

Dr.K.K. Rao

Managing Director

Sd/-

P.N.Murthy

Director

RANSGENE BIOTEK LIMITED

68,69 & 70, Anrich Industrial Area
Bollarum, Medak District

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDING 31ST MARCH 2004

PARTICULARS	SCH NO	As on 31.03.2004	As on 31.03.2003
I. INCOME			
1. Sales & operating income	X	8709895	8546642
2. Other Income	XI	13576854	13079868
3. Decrease in Stock		0	-13717
Total		22286749	21612793
II. MATERIAL CONSUMED			
1. Materials Consumed	XII	670273	699131
2. Manufacturing Expenses	XIII	374146	543089
3. Other Expenditure	XIV	9962271	8527422
4. Finance Charges	XV	579864	747245
5. Depreciation		5214697	5282649
6. Miscellaneous Expenses W/o		672096	464885
Total		17473347	16264420
Profit/ Loss for the Year		4813402	5348373
Prior Period & Extraordinary Items		122160	1942686
Profit/ Loss for the Year		4691242	3405687
Profit/ Loss brought forward from Previous Year		-100614227	-104019914
Profit/ Loss carried forward to Balance Sheet		-95922985	-100614227

Vide our Report of even date
For SARATH & ASSOCIATES
Chartered Accountants

Sd/-

P.SARATH KUMAR

Partner

Place : Hyderabad

Date :02.12.204

For and on behalf of the Board

Sd/-

Dr.K.K.Rao

Managing Director

Sd/-

P.N.Murthy

Director

TRANSGENE BIOTEK LIMITED
68,69&70, Anrich Industrial Area
Bollaram, Medak District.

Schedules Forming Part of the Balance Sheet & Profit and Loss A/c

SCH NO	PARTICULARS	AS AT 31.03.2004	AS AT 31.03.2003
I. SHARE CAPITAL			
	Authorised Share Capital (1,00,00,000 Equity Shares of Rs.10/- each)	100000000	100000000
	Issued Subscribed & Paid Up Capital (89,40,000 Equity Shares of Rs.10/- each)	89400000	79400000
	(Previous year 79,40,000 Equity Shares of Rs.10/- each)		
	Total	89400000	79400000
II. SHARE APPLICATION MONEY			
	From Directors	NIL	9587356
	Others	39199185	17336379
		39199185	26923735
III RESERVES & SURPLUS			
	Share Premium Account		
	Opening Balance	40800000	40800000
	Received during the year	50000000	-
	Closing Balance	90800000	40800000
	Total	90800000	40800000
IV. SECURED LOANS			
	A. Term Loan with IDBI	23566024	54309891
	B. Working Capital from SBI	Nil	5943000
	Total	23566024	60252891
V. UNSECURED LOANS			
	A. Unsecured Loans from corporates	Nil	3617145
	B. Interest Free Sales Tax Loan	3894850	4736487
	C. Lease Financing	Nil	1123457
	D. Others	9156017	4226006
	Total	13050867	13703095

TRANSGENE BIOTEK LIMITED

**TRANSGENE BIOTEK LIMITED
68,69 & 70, Anrich Industrial Area, Bollarum
MEDAK DISTRICT.
SCHEDULE - VI**

Schedule Forming Part of the Balance Sheet for the period ending 31st March 2004

Sl. No.	PARTICULARS	GROSS BLOCK			DEPRECIATION			NET BLOCK	
		As on 1.04.2003	Additions during the period	As on 31.03.2004	Up to 31.03.2003	For the Year	Up to 31.03.2004	As on 31.03.2004	As on 31.03.2003
1	Land	2008003		2008003		0	0	2008003	2008003
2	Buildings	27166209	165660	27331869	5008304	907351	5915655	21416214	22157905
3	Buildings- Temporaray Errections	64917		64917	64917		64917	0	0
4	Plant & Machinery	69592881	433166	70026047	17464086	3305662	20769748	49256299	52128795
5	Miscellaneous Fixed Assets	370600		370600	110817	17604	128421	242180	259783
6	Furniture & Fixtures	14735	152461	167196	1678	7719	9397	157799	13057
7	Air Conditioner - Factory	5565891		5565891	1885984	352321	2238305	3327586	3679907
8	Electrical Installations - Factory	3047191		3047191	1167749	192887	1360636	1686555	1879442
9	Lab Equipment	4076104	574063	4650167	833855	293484	1127339	3522828	3242249
10	Office Equipment	515982	74137	590119	155049	28016	183065	407054	360933
11	Generator	538430	13000	551430	208172	34083	242255	309175	330258
12	Computers	1109020	133100	1242120	436195	75570	511765	730355	672825
13	Vehicles	1018470		1018470	485519	0	485519	532951	532951
							0		
	Total (A)	115088433	1545587	116634020	27822325	5214697	33037022	83596998	87266110
1	Machinery in Transit	1757360	0	1757360	0	0	0	1757360	1757360
	Total (B)	1757360	0	1757360	0	0	0	1757360	1757360
	Total (A + B)	116845793	1545587	118391380	27822325	5214697	33037022	85354358	89023470

TRANSGENE BIOTEK LIMITED
68,69&70, Anrich Industrial Area
Bollaram, Medak District.

Schedules Forming Part of the Balance Sheet & Profit and Loss A/c

SCH NO	PARTICULARS	AS AT 31.03.2004	AS AT 31.03.2003
VII. CURRENT ASSETS, LOANS & ADVANCES			
A. INVENTORIES			
	Raw Materials	Nil	Nil
	Finished Goods	Nil	Nil
	Sub - Total	<u>NIL</u>	<u>NIL</u>
B. SUNDRY DEBTORS			
	(Unsecured and Considered good)		
	More than Six Months	570129	472133
	Less than Six Months	Nil	102676
	Sub - Total	<u>570129</u>	<u>574809</u>
C. CASH & BANK BALANCES			
	Cash on Hand	59380	123372
	Balances with Scheduled Banks	154134	31428
	Cheques in Transit	240680	Nil
	Cash in Branches	78330	73036
	Sub - Total	<u>532524</u>	<u>227836</u>
D. LOANS & ADVANCES			
	Advance for Capital Goods	1498020	35020
	Advance for Materials	1442898	423162
	Deposits with Government & Others	2587714	1317614
	Other Advances	17630312	15085167
	Sub - Total	<u>23158944</u>	<u>16860963</u>
	Total (A+B+C+D)	<u>24261597</u>	<u>17663608</u>

TRANSGENE BIOTEK LIMITED
68,69&70, Anrich Industrial Area
Bollaram, Medak District.

Schedules Forming Part of the Balance Sheet & Profit and Loss A/c

SCH NO	PARTICULARS	AS AT 31.03.2004	AS AT 31.03.2003
VIII. CURRENT LIABILITIES & PROVISIONS			
	Creditors for Capital Goods	534073	973923
	Creditors for Materials	349388	285912
	Creditors for Expenses	837278	1685037
	Creditors for Others	Nil	3202270
	Over Draft with Scheduled Banks	Nil	393695
	Provision for Expenses	2599372	3065097
	Total	4320111	9605934
IX. MISCELLANEOUS EXPENDITURE (To the extent not written off)			
	A. Preliminary Expenses	122094	135659
	Sub-Total	122094	135659
	Public Issue Expenses	1357186	1507985
	Right Issue Expenditure	975619	1084021
	Preferential issue Expenditure	2283300	Nil
	Sub-Total	4616105	2592006
	Research & Development and Other Deferred Expenditure	1310670	1456300
	<u>Deferred Rev.Expenditure</u>		
	Product Development	36907309	17493241
	Technology Development cost	11841071	1707144
	Sub-Total	50059050	20656685
	Total (A+B+C)	54797249	23384350
X. SALES & SERVICE INCOME			
	Sales	82947	147588
	Testing Charges	8626948	8399054
	Total	8709895	8546642

TRANSGENE BIOTEK LIMITED
68,69&70, Anrich Industrial Area
Bollaram, Medak District.

Schedules Forming Part of the Balance Sheet & Profit and Loss A/c

SCH NO	PARTICULARS	AS AT 31.03.2004	AS AT 31.03.2003
XI. OTHER INCOME			
	Interest & Other Income Received	526854	29868
	Leave & Licence Fee received	13050000	13050000
		13576854	13079868
XII. MATERIAL CONSUMED			
	Stock in hand (opening)	Nil	Nil
	Purchases	812289	838957
	Sub total	812289	838957
	Less: Closing Stock	Nil	Nil
	Less: Raw Material for R&D	142017	139826
		670273	699131
INCREASE / DECREASE IN STOCK			
	Opening Stock	Nil	13717
	Less: Closing Stock	Nil	Nil
	Increase / (Decrease) in Stock	NIL	-13717
XIII. MANUFACTURING EXPENSES			
	Repairs & Maintenance	44023	142592
	Electrical Charges	240506	218306
	Factory Maintenance	27637	41027
	Laboratory Expenditure	40001	32759
	Generator Maintenance	21979	35879
	Total	374146	470563

TRANSGENE BIOTEK LIMITED
68,69&70, Anrich Industrial Area
Bollaram, Medak District.

Schedules Forming Part of the Balance Sheet & Profit and Loss A/c

SCH NO	PARTICULARS	AS AT 31.03.2004	AS AT 31.03.2003
XIV. OTHER EXPENDITURE			
	Salaries	966049	998796
	ESI Employer's contribution	33101	27677
	PF Employer's Contribution	67495	57046
	Renovation, Repairs & Maintenance	254660	403832
	Books & Periodicals, Subscriptions	-	18230
	Traveling, Transport & Conveyance	826431	452367
	Printing & stationary	136270	118269
	Discounts	114962	91637
	Directors Sitting Fee	8000	-
	Vehicle Maintenance & Hire Charges	313313	244583
	Postage & Telephones	220472	125466
	Legal & Professional Charges	1423425	946225
	Rent, Rates & Taxes and Fees	854640	476730
	Sales Tax	6635	12297
	Md's Remuneration & Perquisites	977462	999550
	Welfare Expenses	82963	54380
	Marketing & Promotional Expenses	3226276	3079786
	Auditors Remuneration	81000	64800
	General Expenses	369117	428507
	Total Other Expenditure	9962271	8600178
XV. FINANCE CHARGES			
	Bank Charges	165655	33207
	Interest on others / Unsecured Loans	414209	714038
	Total Financial Charges	579864	747245

SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Financial Statements are prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles, Provisions of the Companies Act, 1956 and Mandatory Accounting Standards as applicable to the Company.
2. Accounting Policies not specifically referred to otherwise are consistent and in the consonance with Generally Accepted Accounting Principles as followed by the Company.
3. REVENUE RECOGNITION

Revenue for the company is from sales of products and medical diagnostic services. Revenue from sales and services are recognised on formal acceptance by the customer/patient.

B. BASIS OF PREPARATION OF FINANCIAL STATEMENTS ACCOUNTS

1. FIXED ASSETS - Fixed Assets are valued at Cost.
2. INVENTORIES -
 - Raw Materials - There are no closing stocks of Materials.
 - Finished Goods - There are no closing stocks of Finished goods.
3. Public issue expenditure is being written off 10% per annum on WDV basis. (Previous year – 10 % written off.)
4. Expenditure incurred in connection with issue of Rights Shares is being written off 10% per annum on WDV basis. (Previous year –10% written off.)
5. Product Development expenditure in relation to the Diagnostic Kits capitalised earlier is written off @ 10% per annum. WDV basis.

Amount in Rupees

Opening Balance	Additions	Amortisation	Closing Balance
1456300	NIL	145630	1310670

6. Expenditure on ongoing product development for “Meningitis Vaccine” is under phase III human trials and is under completion stage. After obtaining commercial licenses the same will be capitalised and written off over a period of its useful life. Expenditure on ongoing product development for certain new products is accounted under the head Deferred revenue expenditure.

Amount in Rupees

Opening Balance	Additions	Amortisation	Closing Balance
19200385	29547995	NIL	48748380

The management is of the opinion that the product development expenditure incurred on the products is technical feasible to generate future economic benefits and the company has sufficient technical and financial resources to complete it.

7. Preliminary Expenditure is being written off 10% per annum on WDV basis. (Previous year – 10 % written off.)

8. Prefrential Issue Expenditure is being written off 10% per annum on WDV basis.
(Previous year – Nil.)

9. RETIREMENT BENEFITS:

- A) Gratuity and earned leave encashment will be debited to profit and loss account as and when it has been paid.
- B) The Company is contributing to the Employees Provident fund maintained under the Employees provident Fund Scheme by the Central Government.

10. Previous year figures have been regrouped and reclassified according to the groupings and classifications made for the current financial year.

XVI. NOTES FORMING PART OF THE ACCOUNTS

1. Contingent Liabilities are not provided for in respect of

	<u>2003 – 04</u>	<u>2002-03(Rs. In Lacs)</u>
(i) Customs Duty Demand in Dispute by the Company at CEGAT Tribunal	5.05	5.05

2. Contracts remaining to be executed on Capital Account for the current year are nil. (Previous year NIL).

3. The following are the requirements under the Related Party Disclosures as per the AS-18 issued by the Institute of Chartered Accountants of India.

A)KEY MANAGEMENT PERSONNEL:

Dr. K.Koteswara Rao : Managing Director

The following are the transactions relating to related party disclosure requirements'

	<u>2003-2004</u>	<u>2002-03 (Rs. In Lacs)</u>
Remuneration to MD	7.20	7.20
Perquisites to MD	2.57	2.79

B) Two Directors of the company are interested in M/s SAKET BIOTECHNOLOGIES (P) LTD., which is under the process of merger with M/S TRANSGENE BIOTEK LIMITED.

4. Liability in respect of Retirement Benefits has not been ascertained and provided for in the Books of Account.

5. Depreciation on the Fixed Assets has been provided on straight-line method at the rates prescribed in Schedule XIV of the Companies Act, 1956.

6. Mortgage and first charge on all fixed assets present and future of the Company secure the term Loan from IDBI. The said loan is also Personally Guaranteed by the Managing Director. Interest on the IDBI term loan has not been provided in the Financial Statements for the Financial Year 2003-04. Since IDBI has approved OTS proposal with out interest on term loan upto 31.03.2004

7. Statement of Particulars of employees pursuant to the provisions of the Section 217 (2A) of the Companies act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended up to date are not provided as there are no employees who are in receipt of the amounts prescribed under the said section.

	2003-2004	2002-2003
No. of Employees	NIL	NIL
Amount	NIL	NIL

8. The machinery in transit to the extent of Rs. 17,57,360/- has not been received.
9. Balances appearing under different accounts of Debtors, Creditors, Loans & Advances are subject to confirmation.
10. Additional information pursuant to Part II of Schedule VI to the Companies Act, 1956 to the extent relevant. No import of capital goods or raw materials, spare parts, etc., have been made during the year.

Particulars of Capacities and Production

			2003-2004	2002-2003	
UNIT LICENSED INSTALLED			PRODUCED		
Biochemistry	Tests	129 Lacs	NA	NIL	NIL
Immunology	Tests	166 Lacs	NA	0.28	
Elisa	Tests	2.93 Lacs	NA	NIL	NIL

Particulars in respect of Sale of Finished Goods

		2003-2004		2002-2003	
		Quantity in Kits (in Lacs)	Value in Lacs	Quantity in Kits (in Lacs)	Value in Lacs
Immunology	0.28	0.83		0.07	0.14
		-----		-----	-----
		0.83		0.14	-----
		-----		-----	-----

Particulars in respect of Stock of Finished Goods

		2003-2004		2002-2003	
		Quantity in Kits (in Lacs)	Value in Lacs	Quantity in Kits (in Lacs)	Value in Lacs
OPENING STOCK					
Immunology	NIL	NIL		0.07	0.14
		-----		-----	-----
		NIL		0.14	-----
		-----		-----	-----

CLOSING STOCK - NIL

11. The company has obtained permission for Deferment of Sales Tax Liability from the Government of Andhra Pradesh. The Sales Tax Liability till the end of the period is shown under the head Deferred payment liability amounting to Rs.38,94,850/-.
12. Deferred Tax Liability or Asset has not been provided, as per AS – 22, for in the Financial Statements as the Company has huge accumulated losses and there is no probability of tax liabilities arising in the coming years.

13. During the year, the Company has made Preferential issue of 10,00,000 Equity shares @ Rs.10/-each along with 10,00,000 Convertible Warrants of Rs.10/- each. The Equity Shares of Rs.10/ each were subscribed at a premium of Rs.50/-per share and the convertible warrants to be converted into equity shares after one year on the basis of each warrant into one equity share of Rs.10/- each at a premium of Rs.115/-, from the date of allotment to FII's / Promoters.
14. The company is engaged in the manufacturing of Diagnostic Products & Allied Services which as per accounting standard (AS) 17 is considered the only business segment.

15. AUDITORS REMUNERATION

	2003-04	2002-03(Amount Rs.)
Audit Fee	50,000	40,000
Tax Audit	10,000	10,000
Certification Charges	15,000	10,000
Service Tax Reimbursement	6,000	4,800
	-----	-----
TOTAL	81,000	64,800
	=====	=====

16. Product Development expenses comprise:

	2003-04	2002-03
	(Amount Rs.)	
Personnel costs:		
Salaries , wages and bonus	18,66,048	8,16,700
Welfare expenses	<u>67,880</u>	<u>44,491</u>
	19,33,928	8,61,191
Stores & Spare and Consumables	22,46,756	4,02,737
Laboratory goods and testing expenses	46,371	22,305
Repairs & Maintenance	1,31,690	82,984
Clinical Research expenses	1,19,62,727	17,07,144
Traveling , Conveyance & Vehicle expenses	23,46,500	5,36,591
Other Overheads	<u>1,08,80,023</u>	<u>25,94,796</u>
	<u>2,95,47,995</u>	<u>62,07,748</u>

17. In the opinion of the Board, current assets, loans and advances are realizable at a value, which is at least equal to the amount, at which these are stated, in the ordinary course of business. Independent confirmation of balances of sundry debtors, sundry creditors, loans and advances, and other parties are in progress on date of this report.
18. Periodically the company evaluates all customers' due to the company for collectibles. The need for provisions is assessed based on the various factors including collectibles of specific dues, risk perceptions of the industry in which the customers operates, and general economic factors, which could effect the customers ability to settle.
19. Schedule I to XVI form integral part of the Balance Sheet and Profit & Loss Account and have been duly authenticated.

Vide our report of even date

For Sarath & Associates
Chartered Accountants

Sd/-
P.SARATH KUMAR
Partner
Place : Hyderabad
Date : 02.12.2004

For and on behalf of the Board
for TRANSGENE BIOTEK LIMITED

Sd/-
Dr.K.K. Rao
Managing Director

Sd/-
P.N.Murthy
Director

TRANSGENE BIOTEK LIMITED

68,69 & 70, Anrich Industrial Area

Bollarum, Medak District

CASH FLOW STATEMENT FOR THE YEAR ENDING 31.03.2004

PARTICULARS	As At 31.03.2004	As At 31.03.2003
A.CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) Before Tax & Extra ordinary Income	4813402	5348373
Adjustments for Depreciation	5214697	5282649
Miscellaneous Expenses Written Off	672096	464885
Extra Ordinary Items	-122160	-1942686
Operating Profits/Losses Before Working Capital Changes/ Adjustments	10578036	9153221
Inventories	-	13717
Trade & other Receivables	-6293301	-6315126
Trade payables and other liabilities	-5285823	4658738
Net Cash used from / in Operating Activities	-1001088	7510550
B.CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	-1545587	-4131879
Product Development & Other expenses	-32084992	-6207748
Net Cash used in Investing Activities	-33630579	-10339627
C.CASH FLOW FROM FINANCING ACTIVITIES		
Share Capital/Application money	72275450	8019737
Proceeds from Borrowings (Secured)	-36686867	-1980000
Proceeds from Borrowings (Unsecured)	-652228	-3389348
Net Cash from financing Activities	34936355	2650389
Net Increase/Decrease in Cash and Cash Equivalents(A+B+C)	304688	-178688
Cash And Cash Equivalents as on 01.04.2003 (Opening Balance)	227836	406524
Cash And Cash Equivalents as on 31.03.2004 (Closing Balance)	532524	227836

Vide our Report of even date
For SARATH & ASSOCIATES
Chartered Accountants

Sd/-
P.SARATH KUMAR
Partner
Place : Hyderabad
Date :02.12.2004

For and on behalf of the Board

Sd/-
Dr.K.K. Rao
Managing Director

Sd/-
P.N. Murthy
Director