ANNUAL REPORT 2002

2002

TranXenoGen

Bringing New Transgenic Technologies To Life

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TranXenoGen, Inc. (symbol TXN.L) is a publicly traded biotechnology company. Its shares are quoted on the Alternative Investment Market of the London Stock Exchange. The Company is developing avian transgenics technologies for the production of high volume therapeutic proteins. TranXenoGen is a development stage company and, as such, investors should be aware that an investment in the Company involves a substantially high degree of risk.

This Annual Report contains forward-looking statements that can be identified by terminology such as "expects", "potential", "suggests", "may", "will" or similar expressions. Such forward-looking statements regarding our business, which are not historical facts, are "forward-looking statements" that involve risk and uncertainties, which could cause the Company's actual results and financial condition to differ materially from those anticipated by the forward-looking statements. Actual results may differ materially from statements made as a result of various factors, including, but not limited to sufficiency of cash to fund the Company's planned operations, risk associated with inherent uncertainty of product research and development, risk of protecting proprietary rights and competition. Forward-looking statements speak only as to the date they are made. The Company does not undertake to update forward-looking statements to reflect the circumstances or events that occur after the date the forward-looking statements are made.

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S STATEMENT

OVERVIEW

2002 was a year in which TranXenoGen:

- Achieved proof of principle for two monoclonal antibodies in the eggs of chimeric chickens.
- Significantly advanced its breeding program designed to create transgenic chickens for proprietary and partner products.
- Incorporated pre-screening and selection methods into the technology in an effort to improve the percentage of transgenic animals obtained in the breeding program and to reduce the overall development time.
- Completed the start-up of the Shrewsbury, Massachusetts facility.
- Consolidated animal care operations in the Shrewsbury facility through the build out of a 7,500 sq. ft. chicken facility.

Our accomplishments during 2002 significantly advanced the platform technologies supporting our proprietary avian transgenic focus.

The financial markets during 2002 have been challenging for companies such as TranXenoGen. The combination of a difficult equity market and our current stock price make equity fundraising onerous and expensive at this time. As a result, the Company has tightly controlled its cash spending during 2002 with an operating focus on proving the science. In addition, the Company has submitted government grant proposals to aid in the development of its key programs. The main objectives of the grants are to obtain partial funding of current development programs, to expand the utility of the technology platform and to advance the development of the Company's key products. The Company believes this strategy will allow it to achieve the scientific milestones which are required to obtain funded research agreements, strategic alliances and other financing events.

Our unrestricted cash balance at December 31, 2002 was $5.5 million, which, at our current cash burn rate, should be sufficient to support our efforts through at least March 2004. We believe that this level of cash provides a sufficient timeframe to develop the business to the level where attractive financing opportunities will become more available to the Company.

FINANCIAL REVIEW

TranXenoGen finished 2002 with an unrestricted cash position of $5.5 million, which at the current cash burn rate, should be sufficient to support our current level of operations through the first quarter of 2004. To the extent that the Company's grant applications are approved, the resulting funding will reduce the Company's net cash burn rate and extend the time period supported by our current funding. For the year ended December 31, 2002, TranXenoGen reported a net loss of $4.4 million, or $0.14 per share, compared to a net loss of $4.0 million, or $0.13 per share, for 2001. On a cash basis (net loss excluding (i) the non-cash charge related to the issuance of stock options granted to directors and employees prior to the Initial Public Offering in 2000, (ii) depreciation and (iii) amortization), the net cash loss was $3.3 million in 2002 as compared to $3.1 million in 2001.

The $0.2 million increase in the cash loss is principally the result of a $519,000 decrease in net interest income as interest income decreased $344,000 due to the use of proceeds from the Company's 2000 Initial Public Offering to fund operations and capital expenditures, while interest expense increased $175,000 as average borrowings under the mortgage loan were higher in 2002 vs. 2001. The mortgage loan financed the initial build out of the Shrewsbury facility which the Company moved into in November 2001. Partially offsetting the impact of the lower net interest income was a decrease in foreign currency translation loss ($269,000 in 2001 vs. $6,000 in 2002) and a $54,000 increase in revenue/other income in 2002 as compared to 2001.

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S STATEMENT

Operating expenses were essentially unchanged in 2002 vs. 2001 as research and development spending increased by $45,000, or 2.4%, from 2001 to 2002, as the cost of the increased level of activity to support the development of the Company's generic biologicals and its collaborative monoclonal antibody projects, was partially offset by $280,000 in savings from consolidating the animal care operations. Selling, general and administrative expense was virtually flat from 2001 to 2002 as the Company's focus was on developing the science. Sales and marketing expenses were reduced by $180,000 in 2002 as compared to 2001 to conserve cash, offsetting the higher cost of the Shrewsbury facility not currently utilized in R&D operations.

The Company had 20 employees as of December 31, 2002 as compared to 17 as of December 31, 2001.

SCIENCE UPDATE

The Company is currently focused on three scientific objectives: the generation of transgenic founder hens for the production of insulin and human serum albumin ("HSA"); the production of monoclonal antibodies using its avian platform; and the refinement of its technology platform in an effort to streamline the transgenic process.

Using proprietary direct-egg transfection technology, the Company has conducted extensive egg injections for its product development programs to produce chimeric chickens for breeding. The direct-egg technology has been optimized at several key steps including pre-selection of eggs and formulation of DNA to increase gene transfection. Utilizing this optimized process, chimeric chickens have been produced for HSA, insulin, and the four antibody programs.

The chimeric chickens are being bred in an effort to produce transgenic founder chickens, which will provide commercial levels of the product required for production. The Company has been developing a number of tests such as PCR analysis of blood/semen and expression analysis of eggs to improve the breeding program and thus reduce the time necessary to produce the founder flock required for a specific product.

In May 2002, the Company announced that it had achieved expression of two monoclonal antibodies in eggs derived from chimeric chickens. Using an enzyme-linked immunoassay, the antibody expression level in the chimeric eggs was determined to be up to 1.5 ng/ml. To demonstrate the ability of the antibody to correctly recognize its target, a fluorescent cell based assay was used. Egg white collected from chimeric chickens was incubated in the presence of cells expressing the CD4 protein followed by a fluorescently tagged antibody. Positive fluorescence was observed in the chimeric chicken eggs and not in control samples indicating the monoclonal antibody could correctly bind to its target. The binding of the monoclonal antibody to its target is a crucial function and indicates the correct assembly of the subunits.

In parallel with its product development efforts, the Company has focused its research on the refinement of its technology platform. While the technology platform can be applied to the production of transgenic animals from multiple species, our main focus is on avians. The cloning program has demonstrated progress with the efficient production of several cloned mice but presents a challenge with chickens due to their unique reproductive physiology. The Company is currently evaluating the potential benefits of avian cloning to reduce development timelines and increase the number of transgenic founders. The main research emphasis has been on the development of an avian stem cell line that would provide a rapid and reliable system for producing transgenic chickens. Two distinct avian stem cell lines, known as primordial germ cells ("PGC") and chicken embryonic cells ("CEC"), have been developed in parallel due to inherent benefits and synergies between the two cell types.

The PGC technology has made rapid progress with its ability to incorporate a gene of interest and create a chimeric chicken. As a result, the Company has increased its development efforts on the PGC system. Chimeric chickens have been produced using the PGC technology for insulin, HSA, and a research antibody and are currently being bred in an effort to produce founder chickens. The Company believes the PGC technology represents a more powerful avian transgenic technology that will allow it to reduce the time required to generate founder chickens.

The Company's scientific focus for 2003 includes:

- Achieving commercial levels of expression for one or more potential products;
- Generation of transgenic founders for its key programs;
- Refinement of the avian transgenic technology to increase production efficiency of founder chickens; and
- Incorporation of automated/high through put assays for the identification of transgenic chimeric chickens and founder chickens.

BUSINESS DEVELOPMENT

The Company's current business development focus is designed to give TranXenoGen's avian transgenic technology reasonable visibility in the industry while focusing the Company's spending on proving the science.

TranXenoGen's objective is to develop a practical, effective manufacturing platform to address the increasing demand for high-volume protein based therapeutics. The Company is focused on three principal areas of business.

- Generic Biologicals – Development and manufacture of proven products for established and growing markets, including insulin and HSA.
- Contract/Partnerships – Development and manufacture of high-volume novel therapeutics such as monoclonal antibodies for strategic partners. TranXenoGen is performing research under agreements to develop monoclonal antibodies for Abbott Laboratories, KS Biomedix Holdings plc and Amgen Inc.
- Proprietary Novel Products – Development and manufacture of TranXenoGen owned novel therapeutic proteins. The first of these is an anti-cancer product known as human anti-neoplastic urinary protein.

We anticipate that if we are successful in achieving commercial expression levels of protein in the egg albumin, at least one of the strategic alliances or generic biological products should lead to a product development and manufacturing agreement. We will also look to secure additional partnerships with companies looking to address their manufacturing requirements for protein-based drugs. In addition, we shall actively seek strategic partners to market or license our generic biological or proprietary novel products on a product and/or geographic basis.

SUMMARY

Our three principal areas of business focus, generic biologicals, contract/partnerships and proprietary novel products, in our opinion, provide a well-balanced strategy that lays the groundwork for TranXenoGen's future commercial success. We believe that TranXenoGen is well positioned to capitalize on the increasing market requirements for large-volume biological products. We expect the avian transgenic platform to offer an effectively priced product with increased flexibility and improved time to market.

George Uveges

President and Chief Executive Officer

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended December 31, 2002.

PRINCIPAL ACTIVITIES

TranXenoGen is a development stage, biotechnology company specializing in avian transgenics for the production of high volume therapeutic proteins. The objective is to provide a practical, effective production platform to address the increasing demand for high volume therapeutic proteins. TranXenoGen has three principal areas of business focus: the development and manufacture of well-characterized biological products; high volume production of novel therapeutic proteins, such as antibodies for corporate partners; and the development and manufacture of proprietary novel therapeutic protein products. TranXenoGen utilizes proprietary technology to generate transgenic chickens that express the selected protein or monoclonal antibody in the albumin fraction of their eggs. The avian transgenic manufacturing platform is expected to offer an effectively priced alternative with increased flexibility, scalability and improved time to market.

BUSINESS REVIEW

Details of developments during the year and comments on expected future developments are given in the President and Chief Executive Officer's statement.

RESULTS AND DIVIDENDS

The audited financial statements as of and for the year ended December 31, 2002 are set out on pages 13 to 30. The Directors did not recommend the payment of a dividend for the year.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Directors consider that continued investment in research and development is essential to the future of TranXenoGen.

DIRECTORS

The directors as of December 31, 2002 were, and currently are, as follows:

Cary Edmund Garner BSc — *Non-Executive Chairman (55) (Term expires 2003 and is standing for re-election)*

Mr. Garner has over 28 years' of experience in rapid-growth, technology-driven businesses. Mr. Garner currently serves as Vice President and General Manager, Client Research Services, for Parexel International, a contract research organization. Prior to joining Parexel International, Mr. Garner was employed as Senior Vice President of Oread Biosafety, Inc., a contract pharmaceutical company that provides comprehensive product development and manufacturing services to the pharmaceutical and biotechnology industries. Mr. Garner was previously a principal at Cambridge Consulting Group (CCG). CCG specialized in establishing operating companies based on proprietary, innovative technologies. While at CCG, Mr. Garner participated in the formation of seven companies. Prior to joining CCG, Mr. Garner held sales and marketing positions with Abbott Laboratories and IBM Corporation. Mr. Garner served as a Director of Oread Biosafety, Inc., Angenics, Inc., Brain Delivery Systems and RSP Amino Acid Analog. Mr. Garner was appointed to TranXenoGen's Board of Directors in March 2000 and is a member of TranXenoGen's Audit Committee and Chairman of the Company's Compensation Committee. Mr. Garner became the Non-Executive Chairman of TranXenoGen on January 1, 2003.

Dr. Kim Sze Tan BS, PhD — *Non-Executive Director (48) (Term expires 2004)*

Dr. Tan is the founder and a director of KS Biomedix Holdings plc, GeneMedix plc and Asiaprise Sdn Bhd, Chairman of Spring Hill Bioventures Sdn Bhd and a director of 3PC Investment Trust plc. Dr. Tan is also the inventor of the sheep monoclonal antibody technology. He is the author of more than 40 scientific publications and is a Fellow of the Royal Society of Medicine. Dr. Tan has been a Director of TranXenoGen since March 2000 and served as Non-Executive Chairman from March 2000 through December 2002. Dr. Tan is a member of TranXenoGen's Compensation Committee and Chairman of the Company's Audit Committee. Dr. Tan was appointed to the Board in March 2000 and was re-elected to the Board in 2001.

George Uveges *President and CEO (55) (Term expires 2004)*

Mr. Uveges joined the Company as President and Chief Executive Officer in October 2001. Mr. Uveges was previously the Chief Operating Officer of BioSource International, Senior Vice President and Chief Financial Officer of NEN Life Science, Chief Financial Officer and Vice President of Administration of Gelman Sciences, Chief Financial Officer, Treasurer and VP of Administration of GI Plastek and Corporate Controller Treasurer and Chief Accounting Officer of Invacare Corporation. Mr. Uveges was appointed to the Board of Directors in October 2001.

Paul Anthony DiTullio BSc, MSc *Vice President, Product Development (38) (Term expires 2005)*

Mr. DiTullio has over 14 years' experience in the transgenics industry as a research scientist for Integrated Genetics and Genzyme Transgenics Corporation, and has developed more than 40 different transgenic constructs for protein expression. Mr. DiTullio's expertise includes not only the cloning and engineering of specific genes for the expression of proteins in eggs and milk, but also the cloning and engineering of human genes for other proprietary expression systems. Mr. DiTullio also has extensive experience with large and small animal biology and husbandry. Mr. DiTullio was appointed to the Board of Directors in February 2000 and re-elected to the Board in 2002.

DIRECTORS' INTERESTS

The interests of the Directors in the shares of the Company and share options are disclosed in the report of the Compensation Committee on page 8.

SUBSTANTIAL SHAREHOLDINGS

To the Company's knowledge, the only persons who, directly or indirectly, were owners of record of three percent or more of the Company's common stock at February 27, 2003 were as follows:

Stockholder	*Number of shares held*	*Percentage of issued capital*
Vidacos Nominees Limited(1)	4,745,500	14.75%
Karl Ebert	3,020,000	9.39%
Pershing Keen Nominees Limited	2,940,950	9.14%
Chase Nominees Limited	2,012,880	6.26%
PKF Trustees Limited(2)	1,800,000	5.60%
Cosign Nominees Limited	1,800,000	5.60%
Nortrust Nominees Limited	1,618,000	5.03%
Nigel Wray	1,580,000	4.91%
Cheapside Nominees Limited	1,120,000	3.48%

(1) Includes 3,850,000 held by CDT Riflemen's Partnership, of which Mr. DiTullio is a limited partner.

(2) These shares are beneficially owned by Dr. Tan.

SHARE CAPITAL

Details of the shares issued during the year and outstanding options are presented in Note 7 and Note 10 to the audited financial statements.

CREDITOR PAYMENT POLICY

It is the Company's policy to agree to payment terms with suppliers at the commencement of trading relationships and to abide by those terms. The Company does not have significant trade creditors.

FIXED ASSETS

Details of the fixed assets are presented in Note 4 to the audited financial statements.

DIRECTORS' REPORT

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year, the Company made charitable contributions of $195. The Company made no political contributions.

EMPLOYEES

The Company places considerable value on the involvement of its employees and has continued to keep them informed on general business matters and other matters of concern. The Company has a policy of offering share options to all eligible employees, subject to availability of shares under the 1998 Equity Incentive Plan.

The Company does not discriminate on grounds of race, religion or gender.

ANNUAL MEETING OF STOCKHOLDERS

Explanatory information concerning the resolutions to be proposed at the Annual Meeting of Stockholders to be held on May 2, 2003 is set out on page 31.

In addition to the annual resolutions (see page 31) two special resolutions will be placed before the annual meeting. The first resolution is to amend the Company's Amended and Restated Certificate of Incorporation (the "Charter") to increase the number of authorized common shares from 50 million shares to 100 million shares. The second resolution is to amend the Charter to eliminate provisions providing for the Class C Preferred Stock and to decrease the number of authorized preferred shares from 1,150,000 shares to 1,000,000 shares.

The increase in the number of authorized common shares is to provide the Company sufficient shares for capital market transactions and/or issuance of shares in connection with strategic alliances. While TranXenoGen shareholders do not have preemptive rights under the Delaware general corporation law, the directors intend to provide shareholders with the opportunity to participate in offerings of new shares for cash, where circumstances permit and where it is customary for an English company admitted to the Alternative Investment Market of the London Stock Exchange to provide its shareholders with such a right.

As described in Note 7 to the audited financial statements, the 150,000 shares of Class C Preferred Stock currently authorized, were issued and converted into common stock in 2000. By their terms, they are not available for reissuance. The second resolution amends the Company's Charter to eliminate the provisions providing for the Class C Preferred Stock since no Class C Preferred Shares can be issued and to decrease the number of authorized preferred shares from 1,150,000 shares to 1,000,000 shares.

CORPORATE GOVERNANCE

The Company supports the Combined Code, which is appended to the Listing Rules of the UK Listing Authority. The Combined Code sets out the principles of good governance and code of best practice prepared by the UK Committee on Corporate Governance, chaired by Sir Ronald Hampel, which was published in June 1998. Although the Company is a Delaware corporation, since its shares are quoted in London, the Board believes that it is appropriate generally to support the Combined Code. In view of the size of the Company, the Board intends to have regard to the guidance for smaller quoted companies on corporate governance published by the UK Quoted Companies Alliance in April 2001. Accordingly, there will follow in this document a Compensation Report and a report on Corporate Governance.

Registered Office:
1209 Orange Street
Wilmington, DE 19801
United States

March 24, 2003

By order of the Board,

Marc A. Rubenstein
Company Secretary

COMPENSATION REPORT

COMPOSITION OF THE COMPENSATION COMMITTEE

The Compensation Committee is comprised of the Company's Non-Executive Directors: Cary Garner, Non-Executive Chairman, and Dr. Kim Tan. The Committee, which is chaired by Mr. Garner, meets at least once a year and more often as required.

COMPLIANCE

The Company has, during the year under review, complied with the Combined Code in respect of the membership and operation of the Compensation Committee.

The Company's Compensation Committee decides the compensation policy that applies to all senior management and Executive Directors. Currently, the Company has two Executive Directors. In setting the policy, the Compensation Committee considers a number of factors, in addition to the performance of the individual, including:

(a) the basic salaries and benefits available to senior management and Executive Directors of comparable companies;

(b) the need to attract and retain senior management and Executive Directors of an appropriate caliber; and

(c) the need to ensure senior management and Executive Directors' commitment to the continued success of the Company by means of incentive plans.

COMPENSATION OF DIRECTORS

Mr. Garner and Dr. Tan have letters of appointment with the Company, which are reviewed on an annual basis. The compensation of the Non-Executive Directors is determined by the Board of Directors as a whole, based on review of current practices in other companies. The Compensation Committee considers and sets the annual salaries for senior management and Executive Directors.

ANNUAL BONUS

The Company does not have a formal bonus program. The Compensation Committee has the right to award discretionary bonuses based on Company or individual performance. No bonuses were paid in 2002 or 2001. The decision by the Compensation Committee not to pay any discretionary bonuses was based upon TranXenoGen being an early-stage company and is not a reflection of performance.

DIRECTORS' COMPENSATION

Details of Directors' compensation and other benefits for the years ended December 31, 2002 and 2001 are as follows:

Name of director	*2002 Basic salary/fees US$*	*2002 Taxable benefit US$*	*2002 Non-taxable benefits US$*	*2002 Annual bonus US$*	*2002 Total US$*	*2001 Total US$*
Executive						
George Uveges	160,000	–	9,555	–	169,555	31,691[1]
Paul A DiTullio	100,000	–	2,717	–	102,717	93,184
Non-Executive						
Cary E Garner	10,000	–	–	–	10,000	10,000
Dr. Kim S Tan	36,000	–	–	–	36,000	36,000

(1) Reflects compensation paid to Mr. Uveges from October 22, 2001 to December 31, 2001.

COMPENSATION REPORT

DIRECTORS' CONTRACTS

Mr. DiTullio has an Employment Agreement that provides for a base salary of $100,000, expires on July 3, 2003 and is automatically renewed for an additional year if not cancelled by the Company. In the event of early termination without cause, Mr. DiTullio will receive 50% of his annual base salary. Mr. Uveges has an Employment Agreement that provides for an annual salary of $160,000, a severance period of twelve months for termination other than for cause and a change of control provision, which includes an acceleration of vesting of previously unvested stock options. Mr. Garner and Dr. Tan do not have service contracts, but letters of appointment. Mr. Garner and Dr. Tan will each receive $23,000 for their contracted services in 2003.

The Non-Executive Directors have no notice period.

DIRECTORS' SHARE OPTIONS

Aggregate compensation disclosed above does not include any amounts for the value of options to acquire shares in the Company granted to or held by the Directors. Details of Directors' share options are as follows:

Name of director	*Held on January 1, 2002*	*Granted during 2002*	*Exercised during 2002*	*Held on December 31, 2002*	*Exercise price US$*	*Expiration Date*
Executive						
George Uveges	700,000[1]	–	–	700,000	$2.54	October 22, 2011
Paul A DiTullio	500,000[2]	–	–	500,000	$0.04	March 3, 2010
Non-Executive						
Cary E Garner	200,000[3]		–		$0.04	March 3, 2010
		25,000[4]		225,000	$0.20	December 12, 2012
Dr. Kim S Tan	2,000,000[5]	–	–	2,000,000	$0.04	March 25, 2010
	3,400,000	25,000	–	3,425,000		

(1) 175,000 shares are currently exercisable as of March 3, 2003 and an additional 175,000 shares become exercisable on October 22, 2003, 2004 and 2005, respectively.

(2) 375,000 shares are currently exercisable as of March 3, 2003 and an additional 125,000 shares become exercisable on March 3, 2004.

(3) 150,000 shares are currently exercisable and an additional 50,000 shares become exercisable on March 3, 2004.

(4) 6,250 shares become exercisable on November 12, 2003, 2004, 2005 and 2006, respectively.

(5) 1,000,000 shares are currently exercisable and an additional 500,000 shares become exercisable on March 25, 2003, and 2004, respectively.

The market price of the Company's shares as of December 31, 2002 was £0.13 (December 31, 2001 £1.62) and the range of market prices during 2002 was £0.13 to £1.69 (during 2001 the market price range was between £1.55 and £5.42).

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors in the shares of the Company at December 31, 2002 and 2001 were as follows:

Name of director	*Beneficial ownership as of December 31, 2002*	*December 31, 2001*
Executive		
George Uveges	443,000	43,000
Paul A DiTullio[1]	7,070,000	7,070,000
Non-Executive		
Cary E Garner	–	–
Dr Kim S Tan[2]	1,800,000	1,800,000

(1) Includes 3,850,000 shares held by CDT Riflemen's Partnership, of which Mr. DiTullio is a limited partner.

(2) These shares are held by PKF Trustees Limited, of which Dr. Tan is the beneficial owner.

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

GeneMedix plc, a publicly quoted company, has granted the Company an exclusive worldwide license with the right to sublicense certain proprietary technologies relating to a novel pre-cursor gene used in recombinant insulin production. The Company is required to make one-time payments to GeneMedix based on the region where regulatory and market approvals are granted: $2 million for the United States, $2 million for Europe and $1 million for Asia. Additional one-time payments from $50,000 to $750,000 are due to GeneMedix from the Company upon development milestones being achieved by the Company. Such milestones or approvals have yet to be achieved. Dr. Tan, a Non-Executive Director of the Company, also serves as the Non-Executive Chairman of, and holds 154,309,111 shares (approximately 54% of the entire issued share capital) of GeneMedix plc.

CORPORATE GOVERNANCE

TranXenoGen is a US company incorporated in the State of Delaware under the Delaware General Corporation Law ("DGCL"). There are a number of differences under the DGCL and the corporate structure of the Company as compared to a public limited company incorporated in the UK under the Companies Act of 1985. While the Directors consider that it is appropriate to retain the majority of the usual features of a publicly traded Delaware corporation, since the Company's shares are quoted on the London AIM market they intend to take certain actions, whenever practicable, to meet UK standard practice.

During 2002, the Company has sought to comply fully with the Combined Code and has, in the Directors' opinion done so, except as noted below. The following statement, together with the Report of the Compensation Committee on pages 7 through 9, sets out the manner in which the Company has applied the principles contained in Section 1 of the Combined Code.

BOARD OF DIRECTORS

The Board consists of two Executive Directors (Mr. Uveges and Mr. DiTullio) and two Non-Executive Directors (Mr. Garner and Dr. Tan), who bring considerable knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct. Their biographical details are shown on pages 4 and 5.

The Board considers that both of the Non-Executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgment, except for Dr. Tan's association with GeneMedix plc as disclosed in the Compensation Committee Report on page 9 and as disclosed in Note 5 to the Company's 2002 audited financial statements. The Board does not consider that this impairs the independence of Dr. Tan when balanced with the considerable expertise that he provides the Company.

The Board, which endeavors to meet at least six times a year, has ultimate responsibility and accountability for the Company's operations and has a formal schedule of matters reserved for its sole approval. The Company has sought to ensure that Directors are properly briefed on issues arising at board meetings by establishing procedures for distributing meeting agendas, up-to-date reports on key areas of the business and information to support decisions in advance of the meetings. At each meeting, the Board reviews the progress of the Company towards its objectives, particular projects in development, major capital expenditure projects and financial performance against budget. Senior management endeavor to meet weekly to monitor and discuss all major issues affecting the Company which do not require Board discussion or approval by Board Committees.

All Directors are aware of their right to seek independent advice at the Company's expense, where they feel it is appropriate, and have access to the advice and guidance of the Company Secretary, if required.

The Board is committed to ensuring that there continues to be a clear balance of authority and decision-making in its activities. The Board considers that having independent Non-Executives comprising 50% of the Board and a separation of the roles of CEO (Mr. Uveges) and Chairman (Mr. Garner) are the key to achieving this objective.

The Company's Audit and Compensation Committees are comprised solely of the Non-Executive Directors. Dr. Tan is chairman of the Audit Committee and Mr. Garner is chairman of the Compensation Committee. The Combined Code requires that the Audit Committee should be comprised of at least three Non-Executive Directors, whereas TranXenoGen's Board and Audit Committee include only two Non-Executive Directors, as recommended by the Quoted Companies Alliance ("QCA"). The Board considers that, as the two Non-Executive Directors who comprise the Audit Committee are independent, the functioning of the Committee is not compromised by this departure from the Combined Code.

Since there are only four Directors, and as permitted by the Combined Code, the Board has not established a nomination committee, Mr. Uveges' appointment in 2001 to fill the vacancy created by the resignation of Mr. Parkinson was discussed and approved by the full Board. Any future appointments may be proposed by any Director and will be discussed and voted on by the full Board.

Under the DGCL, the certificate of incorporation of a Delaware corporation may provide for the classification of the board of directors into classes with staggered terms for re-election. The Company's Charter provides for a classified board of three classes. Pursuant to the Company's Charter, all Directors are subject to re-election every three years as required by the Combined Code.

BOARD COMPENSATION

The Compensation Committee reviews annually the remuneration packages of the Executive Directors, and the Executive Directors are responsible for the compensation packages of the Non-Executive Directors.

In framing policy, the Compensation Committee consults with the Board of Directors, and the Chief Executive Officer attends Compensation Committee meetings upon invitation.

The Compensation Report on pages 7 through 9 contains a detailed description of compensation and applicable policies.

RELATIONS WITH STOCKHOLDERS

The Directors seek to build on a mutual understanding of objectives between the Company and its stockholders by encouraging two-way communications with institutional investors, analysts and private investors. The Non-Executive Directors and the Chief Executive Officer are the principal spokesmen for the Company with both institutional and private investors. Collective and individual presentations to institutional investors are held regularly.

The Company has established a website (www.TranXenoGen.com) to further aid global communications to investors by providing background information on the Company.

All stockholders are sent an Annual Report and are given notice to enable them to attend the Company's Annual Meeting of Stockholders. This year's Annual Meeting of Stockholders will be held at the offices of the Company, 800 Boston Turnpike, Shrewsbury, Massachusetts 01545, United States, on May 2, 2003 at 10:00 a.m. Eastern Daylight Time.

GOING CONCERN

After making inquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence through at least March 2004. For this reason, the Company continues to adopt the going concern basis in preparing the financial statements. The Directors consider that the financial statements present a balanced and understandable assessment of the Company's position and prospects.

INTERNAL CONTROL

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and consequently for taking steps for the prevention and detection of fraud and irregularities.

The Board has overall responsibility for the Company's system of internal control. Internal control systems are designed to meet the particular risks to which the Company is exposed. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The Board has applied Principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces. The Board regularly reviews the process, which is in accordance with Internal Control: Guidance for Directors on the Combined Code, published in September 1999. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE

In compliance with Provision D.2.1 of the Combined Code, the Board continuously reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. In so monitoring, the Board reviews reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report. The Audit Committee assists the Board in discharging its review responsibilities.

In compliance with Provision D.2.2 of the Combined Code, the Board has considered the need for an internal audit function and concluded this would not be appropriate for a development stage company.

The Company has in place an organizational structure with clearly defined and understood lines of responsibility and delegation of authority from the Board.

The Board has the primary responsibility for identifying the major business risks facing the Company and developing the appropriate policies to manage those risks. The Board continues to assess the policies that manage those risks. The Directors, through the Audit Committee, have considered the principal business risks for the Company and, in that context, have reviewed the effectiveness of the Company's internal controls.

Financial results and key operational and financial performance indicators are reported monthly by management and the Board, and variances from plan and budgets are thoroughly investigated by the Board and reviewed with senior management.

The Company has a system of control procedures and compliance with these procedures is monitored through a system of internal review.

The Audit Committee is responsible for ensuring that the accounting policies and internal controls adopted by the Company are appropriate and prudent considering the size of the Company and that the Company's auditors perform an effective year-end audit and half-year review. The Audit Committee meets at least twice per year, and the external auditors, Chief Executive Officer and members of management may attend such meetings by invitation. Periodically, the Audit Committee reviews the cost-effectiveness of the audit and the independence and objectivity of the auditors.

The Audit Committee has independent access to the auditors throughout all reporting periods.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of TranXenoGen, Inc.
Shrewsbury, MA

We have audited the accompanying balance sheet of TranXenoGen, Inc. (the "Company") (a development-stage company) as of December 31, 2002, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and for the period from April 16, 1996 (date of inception) to December 31, 2002. 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. The Company's financial statements as of and for the years ended December 31, 2001 and 2000, and for the period from January 1, 1997 through December 31, 2001, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 4, 2002 and stated that they did not audit the financial statements of the Company for the period from inception (April 16, 1996) to December 31, 1996. The financial statements for the period from April 16, 1996 (date of inception) to December 31, 2001 reflect total revenues and net loss of $975,668 and $8,020,403, respectively, of the related cumulative totals. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to amounts included for such prior period, is based solely on the report of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those 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 a test basis, evidence supporting the amounts and disclosures in the financial statements. An 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.

In our opinion, based on our audit and the report of other auditors, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2002, and the results of its operations and its cash flows for the year then ended and for the period from April 16, 1996 (date of inception) to December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Boston, Massachusetts
February 7, 2003

This is a copy of a report previously issued by Arthur Andersen LLP. This report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in these financial statements. The financial statements as of December 31, 2000 and for the year ended December 31, 1999 are not presented herein.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
TranXenoGen, Inc.:

We have audited the accompanying balance sheets of TranXenoGen, Inc. (the Company) (a Delaware corporation in the development stage) as of December 31, 2001 and 2000 and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 audits. We did not audit the financial statements of the Company for the period from inception to December 31, 1996. Such statements are included in the cumulative from inception to December 31, 2001, totals of the statements of operations and cash flows and reflect total revenues and net loss of 9% and 0%, respectively, of the related cumulative totals.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those 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 a test basis, evidence supporting the amounts and disclosures in the financial statements. An 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Boston, Massachusetts — Arthur Andersen LLP

February 4, 2002

BALANCE SHEETS

December 31, 2002 and 2001

	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,526,361	$ 9,992,726
Restricted cash	–	351,536
Prepaid expenses	91,618	71,674
Other current assets	3,911	17,288
Total current assets	5,621,890	10,433,224
Property and equipment	8,747,299	8,115,107
Accumulated depreciation	(682,179)	(167,014)
Property and equipment, net	8,065,120	7,948,093
Other Assets:		
Restricted cash	360,130	–
Intangible assets	21,189	66,470
Deposits	9,013	9,013
Total other assets	390,332	75,483
Total assets	$14,077,342	$18,456,800
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 178,484	$ 650,700
Accrued expenses	233,284	538,167
Current portion of long-term debt	109,841	79,549
Other current liabilities	2,500	10,833
Total current liabilities	524,109	1,279,249
Long-term debt, less current portion	3,698,622	3,412,746
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value; authorized, 1,150,000 shares Class C Convertible Preferred Stock, $0.01 par value per share; authorized, 150,000 shares; issued and outstanding, 0 shares in 2002 and 2001	–	–
Common stock, $0.001 par value per share; authorized, 50,000,000 shares; issued, 40,560,000 and 40,410,000 shares in 2002 and 2001, respectively	40,560	40,410
Treasury stock, at cost, 8,390,000 shares of common stock in 2002 and 2001	(195,659)	(195,659)
Additional paid-in capital	22,962,668	23,339,318
Deferred compensation	(512,486)	(1,398,861)
Accumulated deficit	(12,440,472)	(8,020,403)
Total stockholders' equity	9,854,611	13,764,805
Total liabilities and stockholders' equity	$14,077,342	$18,456,800

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS

Years Ended December 31, 2002, 2001, and 2000 and Cumulative from Inception (April 16, 1996) to December 31, 2002

	Years Ended December 31,			*Cumulative From Inception (April 16, 1996) to December 31,*
	2002	*2001*	*2000*	*2002*
Revenue – contract revenue	$ 33,333	$ 16,667	$ 37,200	$ 1,009,001
Expenses:				
Selling, general and administrative	1,496,290	1,496,932	960,332	4,821,368
Research and development	1,871,691	1,827,074	1,184,376	6,301,320
Stock-based compensation	503,875	649,089	486,050	1,639,014
Depreciation and amortization	562,579	254,937	208,538	1,210,782
Total expenses	4,434,435	4,228,032	2,839,296	13,972,484
Operating loss	(4,401,102)	(4,211,365)	(2,802,096)	(12,963,483)
Other Income (Expense):				
Interest income	132,818	476,508	417,931	1,037,781
Interest expense	(219,296)	(44,060)	(4,512)	(270,723)
Other income	73,169	35,393	509	109,308
Foreign currency loss	(5,658)	(269,024)	(71,165)	(345,847)
Loss before provision for income taxes	(4,420,069)	(4,012,548)	(2,459,333)	(12,432,964)
Provision for income taxes	–	–	–	7,508
Net loss	$(4,420,069)	$(4,012,548)	$(2,459,333)	$(12,440,472)
Net Loss Per Share – basic and diluted	$ (0.14)	$ (0.13)	$ (0.12)	
Basic and diluted weighted-average common shares outstanding	32,071,329	31,681,975	20,106,422	

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002, 2001, and 2000 and Cumulative from Inception (April 16, 1996) to December 31, 2002

	Years Ended December 31,			Cumulative From Inception (April 16, 1996) to December 31,
	2002	2001	2000	2002
Cash Flows from Operating Activities:				
Net loss	$(4,420,069)	$ (4,012,548)	$ (2,459,333)	$(12,440,472)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization expense	562,579	254,937	208,538	1,210,782
Compensation expense related to stock options issued	503,875	649,089	486,050	1,639,014
Loss on disposal of equipment	–	4,499	–	4,499
Changes in assets and liabilities:				
Accounts receivable	–	–	10,192	–
Prepaid expenses	(19,944)	144,620	(210,743)	(91,618)
Other assets and deposits	13,377	(9,056)	(85,204)	(96,623)
Accounts payable	(472,216)	426,703	125,392	113,311
Accrued expenses and other current liabilities	(313,216)	389,077	64,639	235,005
Net cash used in operating activities	(4,145,614)	(2,152,679)	(1,860,469)	(9,426,102)
Cash Flows from Investing Activities:				
Purchase of intellectual property	–	(88,854)	(46,306)	(265,741)
Additions to property and equipment	(634,325)	(7,768,417)	(110,557)	(8,561,781)
Increase in restricted cash	(8,594)	(351,536)	–	(360,130)
Net cash used in investing activities	(642,919)	(8,208,807)	(156,863)	(9,187,652)
Cash Flows from Financing Activities:				
Issuance of common stock, net	–	–	17,195,609	17,198,109
Principal payments under capital lease obligations	–	(27,047)	(44,254)	(112,168)
Proceeds from issuance of convertible preferred stock, net	–	–	1,769,329	3,350,799
Exercise of stock options	6,000	18,400	2,000	26,400
Repurchase of common stock	–	–	(141)	(141)
Proceeds from notes payable	407,705	5,522,295	–	5,980,000
Repayment of notes payable	(91,537)	(2,030,000)	(130,345)	(2,302,884)
Net cash provided by financing activities	322,168	3,483,648	18,792,198	24,140,115
Net (decrease) increase in cash and cash equivalents	(4,466,365)	(6,877,838)	16,774,866	5,526,361
Cash and cash equivalents, beginning of period	9,992,726	16,870,564	95,698	–
Cash and cash equivalents, end of period	$ 5,526,361	$ 9,992,726	$16,870,564	$ 5,526,361
Supplemental disclosure of cash flow information:				
Cash paid for taxes	$ –	$ –	$ 991	$ 23,162
Cash paid for interest	$ 219,602	$ 86,324	$ 4,512	$ 312,612
Fair value of shares of common stock used in connection with the acquisition of Gestation	$ –	$ –	$ –	$ 277,420
Notes issued in connection with the repurchase of common stock	$ –	$ –	$ –	$ 195,518
Equipment acquired under capital lease obligations	$ –	$ –	$ –	$ 112,168
Conversion of 1,410,000 shares of convertible preferred stock to 14,100,000 shares of common stock, net of issuance costs	$ –	$ –	$ 3,248,799	$ 3,248,799

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

years ended December 31, 2002, 2001, 2000, 1999, 1998, and 1997

	Class A Convertible Preferred Stock		*Class B Convertible Preferred Stock*		*Class C Convertible Preferred Stock*	
	Number of Shares	*$0.01 Par Value*	*Number of Shares*	*$0.01 Par Value*	*Number of Shares*	*$0.01 Par Value*
Balance, January 1, 1997	345,000	$ 250,000	–	$ –	–	$ –
Repurchase of common stock	–	–	–	–	–	–
Net loss	–	–	–	–	–	
Balance, December 31, 1997	345,000	250,000	–	–	–	–
Issuance of common stock in connection with Gestation merger	–	–	–	–	–	–
Issuance of common stock	–	–	–	–	–	–
Issuance of Class B Convertible Preferred Stock	–	–	100,000	137,723	–	–
Issuance of option to purchase shares of Class C Convertible Preferred Stock	–	–	–	–	–	–
Net loss	–	–	–	–	–	–
Balance, December 31, 1998	345,000	250,000	100,000	137,723	–	–
Issuance of Class B Convertible Preferred Stock	–	–	440,000	1,091,747	–	–
Purchase of Treasury Stock	–	–	–	–	–	–
Net loss	–	–	–	–	–	–
Balance, December 31, 1999	345,000	250,000	540,000	1,229,470	–	–
Issuance of common stock, net of approximately $1,516,000 in issuance costs	–	–	–	–	–	–
Conversion of 345,000 shares of Class A Convertible Preferred Stock to 3,450,000 common shares	(345,000)	(250,000)	–	–	–	–
Issuance of Class B Convertible Preferred Stock	–	–	100,000	249,730	–	–
Conversion of 640,000 shares of Class B Convertible Preferred Stock to 6,400,000 common shares	–	–	(640,000)	(1,479,200)	–	–
Issuance of Class C Convertible Preferred Stock	–	–	–	–	175,000	524,030
Conversion of 175,000 shares of Class C Convertible Preferred Stock to 1,750,000 common shares	–	–	–	–	(175,000)	(524,030)
Issuance of Class D Convertible Preferred Stock	–	–	–	–	–	–
Conversion of 250,000 shares of Class D Convertible Preferred Stock to 2,500,000 common shares	–	–	–	–	–	–
Deferred compensation in connection with the issuance of stock options	–	–	–	–	–	–
Amortization of deferred compensation	–	–	–	–	–	–
Purchase of Treasury Stock	–	–	–	–	–	–
Exercise of stock options	–	–	–	–	–	–
Net loss	–	–	–	–	–	–
Balance, December 31, 2000	–	–	–	–	–	–
Amortization of deferred compensation	–	–	–	–	–	–
Forfeiture of stock options with deferred compensation	–	–	–	–	–	–
Exercise of stock options	–	–	–	–	–	–
Net loss	–	–	–	–	–	–
Balance, December 31, 2001	–	–	–	–	–	–
Amortization of deferred compensation	–	–	–	–	–	–
Forfeiture of stock options with deferred compensation	–	–	–	–	–	–
Exercise of stock options	–	–	–	–	–	–
Net loss	–	–	–	–	–	–
Balance, December 31, 2002	–	$ –	–	$ –	–	$ –

The accompanying notes are an integral part of these financial statements.

Class D Convertible Preferred Stock		Treasury Stock		Common Stock		Additional Paid-In	Deferred		
Number of Shares	$0.01 Par Value	Number of Shares	Amount	Number of Shares	$0.001 Par Value	Capital Common	Compen-sation	Accumulated Deficit	Total
–	$ –	–	$ –	1,288,000	$ 1,288	$ 712	$ –	$ 32,828	$ 284,828
–	–	–	–	(644,000)	(644)	(356)	–	–	(1,000)
–	–	–	–	–	–	–	–	(40,975)	(40,975)
–	–	–	–	644,000	644	356	–	(8,147)	242,853
–	–	–	–	9,890,000	9,890	267,530	–	–	277,420
–	–	–	–	9,016,000	9,016	(8,516)	–	–	500
–	–	–	–	–	–	–	–	–	137,723
–	–	–	–	–	–	102,000	–	–	102,000
–	–	–	–	–	–	–	–	(333,860)	(333,860)
–	–	–	–	19,550,000	19,550	361,370	–	(342,007)	426,636
–	–	–	–	–	–	–	–	–	1,091,747
–	–	6,982,800	(195,518)	–	–	–	–	–	(195,518)
–	–	–	–	–	–	–	–	(1,206,515)	(1,206,515)
–	–	6,982,800	(195,518)	19,550,000	19,550	361,370	–	(1,548,522)	116,350
–	–	–	–	6,250,000	6,250	17,189,359	–	–	17,195,609
–	–	–	–	3,450,000	3,450	246,550	–	–	–
–	–	–	–	–	–	–	–	–	249,730
–	–	–	–	6,400,000	6,400	1,472,800	–	–	–
–	–	–	–	–	–	–	–	–	524,030
–	–	–	–	1,750,000	1,750	522,280	–	–	–
250,000	995,569	–	–	–	–	–	–	–	995,569
(250,000)	(995,569)	–	–	2,500,000	2,500	993,069	–	–	–
–	–	–	–	–	–	2,806,000	(2,806,000)	–	–
–	–	–	–	–	–	–	486,050	–	486,050
–	–	1,407,200	(141)	–	–	–	–	–	(141)
–	–	–	–	50,000	50	1,950	–	–	2,000
–	–	–	–	–	–	–	–	(2,459,333)	(2,459,333)
–	–	8,390,000	(195,659)	39,950,000	39,950	23,593,378	(2,319,950)	(4,007,855)	17,109,864
–	–	–	–	–	–	–	649,089	–	649,089
–	–	–	–	–	–	(272,000)	272,000	–	–
–	–	–	–	460,000	460	17,940	–	–	18,400
–	–	–	–	–	–	–	–	(4,012,548)	(4,012,548)
–	–	8,390,000	(195,659)	40,410,000	40,410	23,339,318	(1,398,861)	(8,020,403)	13,764,805
–	–	–	–	–	–	–	503,875	–	503,875
–	–	–	–	–	–	(382,500)	382,500	–	–
–	–	–	–	150,000	150	5,850	–	–	6,000
–	–	–	–	–	–	–	–	(4,420,069)	(4,420,069)
–	$ –	8,390,000	$(195,659)	40,560,000	$40,560	$22,962,668	$ (512,486)	$(12,440,472)	$ 9,854,611

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND ACQUISITION

TranXenoGen, Inc. (the Company) was incorporated on October 2, 1995, under the laws of Massachusetts, as Midas Biologicals, Inc. (Midas). The Company began operations on April 16, 1996 and is in the development stage, devoting substantially all of its efforts toward product research and development, obtaining capital, and entering into collaboration agreements.

On August 18, 1998, the Company acquired Gestation, Inc. (Gestation), a Delaware corporation, in a tax-free merger (the Merger). Under the terms of the agreement, Gestation was merged into Midas, with Midas becoming the surviving corporation. Midas simultaneously changed its name to TranXenoGen, Inc., a corporation organized under the laws of the state of Delaware. The holders of Gestation common stock were issued one share of stock in the Company for each share of stock previously held in Gestation (see Note 7).

In the Merger, an aggregate of 9,890,000 shares of the Company's common stock were issued to the Gestation stockholders with a fair value of $277,420, as determined by the Board of Directors, in exchange for all of the outstanding common stock of Gestation.

The Company purchased Gestation to gain access to certain research and patents. The Merger was accounted for as an acquisition using the purchase method of accounting. Prior to its acquisition by the Company, Gestation was also in the development stage and had insignificant operations and no tangible assets. As such, the entire purchase price, which consisted of approximately $277,420 in consideration for Gestation stock acquired and $28,194 in liabilities assumed, was allocated to intangible assets in the accompanying balance sheets. The intangible asset was amortized over three years, the estimated useful life of the asset, and was fully amortized as of December 31, 2001. Amortization expense related to this intangible asset was $64,118, $101,852, and $305,114 in 2001 and 2000 and for the period from inception (April 16, 1996) to December 31, 2002, respectively.

2. OPERATIONS

The Company's strategy is to establish itself as a leading drug development and manufacturing company, using its proprietary avian transgenic technology. The Company has three principal areas of business focus:

- development and manufacture of well-characterized biological products;
- high-volume production of novel therapeutic proteins such as antibodies for corporate partners; and
- development and manufacture of proprietary novel therapeutic protein products.

The Company is currently targeting its efforts primarily on achieving the production of protein drugs in the egg whites of transgenic chickens. The Company is developing transgenic processes to manufacture therapeutic protein-based drugs, including insulin, human serum albumin, and antibodies for strategic partners.

The Company is subject to risks common to emerging companies in the life sciences industry. Principal among those risks are the development of commercially usable products, development by its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations and approval requirements, including those of the U.S. Food and Drug Administration, and the ability to obtain adequate financing necessary to fund product development and operations.

On July 4, 2000, the Company completed an initial public offering on the Alternative Investment Market (AIM) of the London Stock Exchange (see Note 7).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognized during the respective reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents represent cash held in the bank and government security money market funds. Cash equivalents are carried at cost, which approximates their fair market value.

Foreign Currency Translation

The Company maintains a UK cash account denominated in British pounds sterling which is reported at the rate of exchange prevailing at the balance sheet date, and any translation gain or loss is included in the results of operations.

Fair Value of Financial Instruments

The carrying amounts in the balance sheets for cash and cash equivalents, accounts payable, and accrued expenses approximate their fair value because of their short-term nature. The fair value of the Company's long-term debt is estimated to approximate the carrying amount reported in the balance sheets based on current interest rates because it is variable-rate debt.

Property and Equipment

Property and equipment is stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets as follows: building and improvements, 20 years; furniture and equipment, 2 to 20 years.

Intangible Assets

Intangible assets represent intellectual property including patents and licenses to use certain third-party patents. Intangible assets are being amortized on the straight-line basis over their estimated useful lives of three years. Internal patent costs are expensed as incurred and included in research and development costs.

Impairment of Long-Lived Assets

The Company continually evaluates whether events or circumstances have occurred that indicate that the estimated remaining useful lives of long-lived assets and certain identifiable intangibles may warrant revision or that the carrying value of these assets may be impaired. To compute whether assets have been impaired, the estimated undiscounted future cash flows for the estimated remaining useful life of the respective asset is compared to the carrying value. To the extent that the undiscounted future cash flows are less than the carrying value, the fair value of the asset is determined. If such fair value is less than the current carrying value, the asset is written down to its estimated fair value. There were no impairments of the Company's assets during the periods presented.

Revenue Recognition and Contract Accounting

Contract revenue consists of nonrefundable research and development funding under collaborative agreements with corporate partners, typically involving milestone payments, consulting fees, and research and development cost reimbursement, and various U.S. government grants. Research and development funding generally compensates the Company for development and testing related to the collaborating research program. Revenue is recognized for non-refundable license fees, milestones, and collaborative research and development using the lesser of non-refundable cash received or the results achieved using percentage-of-completion accounting. Under percentage-of-completion accounting, revenue is recognized over the development period based on the percentage of costs or labor incurred in relation to the total costs or labor estimated to be incurred to complete the contract. Revisions in cost estimates and expected contractual payments as contracts progress have the effect of increasing or decreasing profits in the current period. Contract amounts which are not due until the customer accepts or verifies the research results are not recognized as revenue until payment is received or the customer's acceptance or verification of the results is evidenced, whichever occurs earlier. Payments received in advance of being earned are recorded as deferred revenue.

For cost-reimbursable contracts, revenue is recognized as costs are incurred and includes applicable fees earned through the date services are provided. Contract costs include direct and indirect costs. Profits expected to be realized on contracts are based on the total contract sales value and the Company's estimates of costs at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts. All adjustments to revenue and gross profit recorded from such reviews are recorded on a cumulative basis in the period in which the revisions are made. When management believes the cost of completing a contract will result in a loss, the full amount of the anticipated contract loss is recognized in the period in which it first becomes determinable.

Research and Development Costs

Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company has elected to continue to use the intrinsic-value-based method to account for stock option grants to employees and members of the Board of Directors under the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and provides related disclosures, based on the fair-value method, in the notes to the financial statements as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Under APB Opinion No. 25, no compensation expense is recognized for stock options granted at fair market value with fixed terms.

Had the Company elected to recognize the compensation cost based on the fair value of the options granted at grant date, as prescribed by SFAS No. 123, net loss and net loss per share would have been increased to the pro forma amounts indicated in the table below:

	2002	*2001*	*2000*
Net loss – as reported	$(4,420,069)	$(4,012,548)	$(2,459,333)
Effect of stock options	(263,339)	(42,782)	(129,101)
Net loss – pro forma	(4,683,408)	(4,055,330)	(2,588,434)
Basic and diluted net loss per share – as reported	(0.14)	(0.13)	(0.12)
Basic and diluted net loss per share – pro forma	(0.15)	(0.13)	(0.13)

The weighted-average fair value of options granted in 2002, 2001, and 2000 was $0.53, $1.13 and $0.55, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2002	*2001*	*2000*
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	844.64%	41.34%	53.76%
Risk-free interest rate	4.38%	4.63%	6.50%
Expected life of the option	5 years	5 years	5 years

Stock or other equity-based compensation for nonemployees is accounted for under the fair-value method as required by SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Under this method, the resulting compensation is measured at the fair value of the equity instrument on the date of vesting and recognized as a charge to operations over the service period, which is usually the vesting period.

Deferred compensation included in changes in stockholders' equity relates to compensatory options granted to employees and directors under the Company's stock option plan prior to the Company's initial public offering and is being amortized over the vesting period, typically four years.

Segment Information

The Company currently operates as a single business segment conducting research for the development of the Company's products.

Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income*, requires companies to report comprehensive income as a measure of overall performance. Comprehensive income includes certain changes in equity during a period that are excluded from net loss. For all periods presented, comprehensive loss is the same as reported net loss.

Net Loss Per Share

Net loss per share is computed in accordance with SFAS No. 128, *Earnings per Share*. SFAS No. 128 requires companies to report both basic loss per share, which is based on the weighted-average number of common shares outstanding, and diluted loss per share, which is based on the weighted-average number of common shares outstanding and the weighted-average of dilutive potential common shares outstanding during the period. As a result of the losses incurred by the Company for fiscal 2002, 2001, and 2000, all potential common shares from stock options, which were 4,337,600, 4,750,000, and 5,320,000 at December 31, 2002, 2001, and 2000, respectively, were antidilutive and were excluded from the diluted net loss per share calculations.

Income Taxes

The Company provides for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates for the year in which the differences are expected to reverse. A valuation allowance is provided when the realization of deferred tax assets is uncertain.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standard Board (FASB) issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. Under SFAS No. 142, companies may no longer amortize goodwill and certain intangible assets with indefinite lives but will, instead, assess for impairment using a fair-value-based test, on at least an annual basis. Intangible assets with finite lives continue to be amortized over their estimated useful lives and reviewed at least annually for impairment. The Company's adoption of these statements did not have any impact on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which is effective for fiscal years beginning after December 15, 2001. The provisions of this statement provide a single accounting model for impairment of long-lived assets and supersede SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions for the Disposal of a Segment Of a Business*. The Company's adoption of this new standard on January 1, 2002, as required, did not have any impact on its financial position and results of operations.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123.* This statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Management has determined that it will continue to account for stock-based compensation to employees under the provisions of APB Opinion No. 25 and will make all required disclosures in its financial reports.

In December 2002, the EITF reached consensus on EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, that the provisions of EITF Issue No. 00-21 should be used to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. The provisions of EITF Issue No. 00-21 are effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Management will evaluate multiple elements in accordance with this EITF Issue upon its effective date for new arrangements into which it enters.

4. PROPERTY AND EQUIPMENT

Property and equipment is stated at cost at December 31 and consists of the following:

	2002	*2001*
Land	$ 672,000	$ 672,000
Building and improvements	7,140,389	6,816,004
Furniture and equipment	934,910	627,103
	8,747,299	8,115,107
Less accumulated depreciation	(682,179)	(167,014)
Property and equipment, net	$8,065,120	$7,948,093

Depreciation expense was $517,298, $101,066, $42,009, and $688,811 in 2002, 2001 and 2000 and for the period from inception (April 16, 1996) to December 31, 2002, respectively.

5. PATENTS AND LICENSING AGREEMENTS AND RELATED-PARTY TRANSACTION

Costs associated with internally developed patents are expensed as incurred and included in research and development costs in the accompanying statements of operations.

On November 24, 1998, the Company entered into an exclusive, worldwide, royalty-bearing license agreement with Brandeis University to license the rights to certain intellectual property patents involving cloning. The initial cost to license the patents, approximately $102,000, and the subsequent payments of approximately $77,500 have been recorded as intangible assets in the accompanying balance sheets. The patent was stated at cost and amortized over three years, the estimated useful life of the asset, and was fully amortized as of December 31, 2002. The Company is required to pay between 1% and 3.5% of the total net sales of any commercially available products that use the licensed technology. The Company is also required to pay 10% of any license fees and milestone payments from any affiliates, sublicensee, or corporate or research partner. Minimum annual royalty payments and licensing fees due to the licensor under the agreement are $25,000 and are expensed annually until such date as the contract is terminated by either party. The agreement may be terminated by the Company upon 90 days notice.

On February 25, 2000, the Company entered into an exclusive, worldwide, royalty-bearing license agreement with GeneMedix plc, a U.K. public corporation, to license the rights to a proprietary technology for an insulin precursor gene and a process to purify, cleanse, and convert said gene to human-identical insulin. In consideration of the rights granted to the Company, the Company will pay license fees and royalties based on net sales of licensed products on a country-by-country basis. Based on the agreement, the Company will pay base royalties of 10% of net sales of licensed products, as defined. The Company will also pay a royalty of 25% on all sublicensed products, as defined. Percentage rates can be adjusted to account for third-party royalties and competing products, as defined. The Company has to pay one-time license fees to GeneMedix based upon successful approval by the appropriate regulatory authorities for sales of products in certain countries. The fee for sales in the United States, Europe, and Asia are $2.0 million, $2.0 million, and $1.0 million, respectively. The Company also has to pay one-time fees to GeneMedix upon the successful completion of certain production milestones ranging from $50,000 to $750,000. The agreement is in effect until the statutory expiration of the patents; however, the Company has the right to terminate the agreement for any reason after February 25, 2003. Dr. Kim Tan, a Non-Executive Director of the Company, also serves as the Non-Executive Chairman of GeneMedix plc. No payments have been made to date under the GeneMedix agreement.

On February 6, 2001, the Company entered into an exclusive, worldwide, royalty-bearing license agreement with Antitumor Research Products to license the rights to a novel anti-cancer product, human anti-neoplastic urinary protein. The initial cost to license the patent, approximately $50,000, and the subsequent payments of approximately $8,600, have been recorded as an intangible asset in the accompanying balance sheets. The patent license is stated at cost and is being amortized using the straight-line method over its remaining useful life, which has been estimated at three years. The Company is required to pay, on a country-by-country basis, a royalty of 2.5% of the total net sales of licensed products that use the technology. The Company is also required to pay 10% of all sublicensed revenues, as defined. Percentage rates can be adjusted to account for third-party royalties and competing products, as defined. The Company has to pay one-time license fees to Antitumor Research Products of $1 million based upon successful approval by the appropriate regulatory authorities for sales of products in each of the United States, Europe, and Asia and the successful launch of the licensed product in such territory. The Company also has to pay one-time fees to Antitumor Research Products upon the successful completion of certain production milestones ranging from $10,000 to $500,000 and 10,000 shares of the Company's common stock. To date, none of these milestones has been achieved and, accordingly, no amounts are due pursuant to this agreement. The agreement is in effect until the earlier of the statutory expiration of the patent right on a country-by-country basis or February 6, 2011, whereupon the license rights and patent become fully paid and royalty-free.

Total amortization expense on patents and licensing agreements was $45,281, $89,753, $64,677, and $216,857 in 2002, 2001 and 2000 and from inception (April 16, 1996) to December 31, 2002, respectively.

6. LONG-TERM DEBT

On January 26, 2001, the Company borrowed $2,030,000 at the prime rate (as published in the Wall Street Journal), which ranged from 7.5% to 9.0% during the period, from the mortgage lender on its facility in anticipation of a mortgage loan and repaid the borrowings on April 26, 2001. The proceeds were held by the lender as security on the loan and bore interest at 5.05%.

On June 6, 2001, the Company entered into a $3.9 million construction/mortgage loan agreement, the proceeds of which were used to finance the build-out of its new facility. The mortgage loan bears interest at 1% above the prime rate (as published in the Wall Street Journal; 4.25% at December 31, 2002), requires equal monthly payments based on a 20-year amortization schedule, and is due in full on January 31, 2007. The loan converted to a mortgage loan in the first quarter of 2002, and monthly payments of principal and interest began in March 2002. At December 31, 2002, $3,808,463 is outstanding.

The loan is secured by the Company's Shrewsbury, Massachusetts, facility. The Company is also required to keep on deposit with the lender an amount equal to one year of estimated debt service until such time as it achieves the Annual Debt Service Coverage Ratio. The Debt Service Coverage Ratio was not achieved for the year ended December 31, 2002. Accordingly, the deposit of $360,130 is reflected as noncurrent restricted cash on the balance sheet.

The aggregate maturities of long-term debt for each of the years subsequent to December 31, 2002, based on the amount outstanding and assuming a 5.25% interest rate (the rate at December 31, 2002), are approximately as follows: 2003, $110,000; 2004, $126,000; 2005, $133,000; 2006, $140,000; and 2007, $3,299,000.

7. STOCKHOLDERS' EQUITY

Authorized Shares

As of December 31, 2002, the Company has authorized for issuance 51,150,000 shares of capital stock as follows: 50,000,000 shares of common stock with a par value of $0.001 per share and 1,150,000 shares of preferred stock with a par value of $0.01 per share, of which 150,000 shares are designated as Class C Convertible Preferred Stock and 1,000,000 shares are undesignated.

Recapitalization

In August 1998, the Company's Board of Directors approved a 1,000-to-1 stock split of its capital shares. On June 23, 2000, a 10-to-1 stock split of the Company's outstanding common stock was effected. All shares and per share amounts of common stock for all periods presented have been retroactively adjusted to reflect the stock split.

Common Stock

In August 1998, the Company issued 9,890,000 shares of common stock (6,550,000 restricted shares and 3,340,000 unrestricted shares) in exchange for all the outstanding shares of common stock of Gestation. The shares of Gestation were restricted pursuant to a Restriction Agreement, dated August 1998, between Gestation and its stockholders. The Restriction Agreement provided that all restrictions would lapse if the stockholders remained employed by the Company at the end of three years from the date of issuance. If the employees left the Company, the Company had the option to repurchase the restricted shares for $0.0001 per share.

In August 1998, the Company effected a stock dividend in the form of issuance of 9,016,000 shares of common stock to existing stockholders for proceeds of $500.

In December 1999, the Company repurchased 6,982,800 shares (4,792,800 restricted shares and 2,190,000 unrestricted shares) of the 9,890,000 shares issued to the stockholders of Gestation for $0.028 per share, or $195,518. In March 2000, the Company repurchased an additional 1,407,200 shares of the outstanding shares issued to the stockholders of Gestation for $0.0001 per share, or $141. The repurchased shares are accounted for as Treasury shares in the accompanying balance sheets.

In July 2000, the Company completed an initial public offering of 6,250,000 shares of common stock at a per share price of $3.00. The Company received proceeds of approximately $17.2 million, net of issuance costs of approximately $1.5 million.

The Company issued 150,000 and 460,000 shares of common stock in 2002 and 2001, respectively, in connection with the exercise of employee stock options (see Note 10).

Preferred Stock

In December 1998, the Company authorized the issuance of 400,000 shares of Class B Convertible Preferred Stock. The shares were issued in four 100,000-share increments in December 1998, March 1999, June 1999, and September 1999. The purchasers of the Class B Convertible Preferred Stock also received an option to purchase up to 150,000 shares of Class C Convertible Preferred Stock for a per share price of $3.00, the stock's estimated fair market value, and the option was exercised in December 2000. The option to purchase Class C Convertible Preferred Stock was valued using the Black-Scholes option-pricing model, generating a fair value of $0.68 per share, or $102,000, in the aggregate. For financial reporting purposes, the proceeds received for the Class B Convertible Preferred Stock and the options were allocated based on their relative fair values.

In June 1999, the Company authorized the issuance of 80,000 additional shares of Class B Convertible Preferred Stock and issued 60,000 shares in June 1999 and 20,000 shares in September 1999 for a per share price of $2.50.

In December 1999, the Company authorized the issuance of an additional 160,000 shares of Class B Convertible Preferred Stock for $2.50 per share. The shares were issued as follows: 60,000 shares in December 1999 and 100,000 shares in January 2000.

In March 2000, the Company authorized the increase in the number of Class C Convertible Preferred shares to 175,000 and authorized the issuance of 250,000 shares of Class D Convertible Preferred Stock. The Class C Convertible Preferred shares were issued as follows: 25,000 shares in March 2000 and 150,000 shares in December 2000 for a per share price of $3.00. In March 2000, the Company issued 250,000 shares of Class D Convertible Preferred Stock for a per share price of $4.00.

In connection with the Company's initial public offering in July 2000, all outstanding shares of the Company's Class A, B, C, and D Convertible Preferred Stock were converted into common stock, after adjustment for the Company's 10-for-1 stock split on June 23, 2000, in accordance with the terms of the respective convertible preferred stock.

Effective upon the Company's initial public offering, TranXenoGen's Amended and Restated Certificate of Incorporation was amended to (i) eliminate all classes of convertible preferred stock, except for Class C Convertible Preferred shares, and (ii) to authorize one million shares of preferred stock to have such terms as may be designated by the Board of Directors from time to time.

The 150,000 shares of Class C Convertible Preferred Stock were issued in December 2000 and, under its terms, were then automatically converted into 1,500,000 shares of common stock. The shares of Class C Convertible Preferred Stock are, by their terms, not available for reissuance.

8. OPERATING LEASE

The Company leased office and laboratory space on the campus of the University of Massachusetts Medical School during 2000 and 2001. The lease terminated in December 31, 2001. Rent expense was $107,363, $80,765, and $340,806 in 2001 and 2000 and from inception (April 16, 1996) to December 31, 2002, respectively.

9. INCOME TAXES

The Company is taxable as a corporation, and therefore, its income is subject to tax at the federal and state levels.

The Company's deferred tax assets and liabilities as of December 31 are as follows:

	2002	*2001*
Net operating loss carryforward	$3,191,000	$2,092,084
Temporary differences, net	1,875,000	1,314,873
Deferred tax asset	5,066,000	3,406,957
Valuation allowance for deferred tax asset	(5,066,000)	(3,406,957)
Net deferred tax asset	$ –	$ –

The Company has provided a valuation allowance against these deferred tax assets as it could not be determined that it was more likely than not that these deferred tax assets would be realized. At December 31, 2002, the Company has a net operating loss carry forward (NOL) for federal tax purposes of approximately $7,924,000, which expires starting in 2016 and ending in 2022. The NOL began expiring in 2001 for state purposes. The NOL may be limited under the Internal Revenue Code if certain changes of ownership of the Company occur. The temporary differences at December 31, 2002, tax-effected, primarily are composed of approximately $1,278,000 of capitalized research and development credits and approximately $497,000 of tax credits, which are available to offset future federal income tax, subject to limitations for alternative minimum tax.

A reconciliation of the federal statutory rate to the Company's effective tax rate is as follows:

	2002	*2001*	*2000*
Income tax benefit at statutory rate	(34)%	(34)%	(34)%
State tax benefit	(6)	(6)	(6)
Increase in valuation allowance	40	41	41
Nondeductible goodwill amortization	–	1	2
Other	–	(2)	(3)

NOTES TO FINANCIAL STATEMENTS

10. STOCK PLANS

2000 Employee Stock Purchase Plan

On June 16, 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the ESPP) under which 500,000 shares of common stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at certain plan-defined dates. The ESPP terminates on June 16, 2010. No shares have been issued under the ESPP. At December 31, 2002, 500,000 shares were available for issuance under the ESPP.

1998 Equity Incentive Plan

In December 1998, the Company adopted the 1998 Equity Incentive Plan (the Plan). Under the Plan, 7,000,000 shares of common stock have been reserved for issuance. The Company may grant stock options, stock appreciation rights, and restricted stock to employees, directors, and consultants of the Company, as well as to employees and consultants of its subsidiaries, who are capable of contributing significantly to the success of the Company. Issuances under the Plan generally expire ten years from issue date. The exercise price of all incentive stock options and nonstatutory stock options granted under the Plan must be at least equal to 100% of the fair market value of the Company's common stock on the date of grant, provided that a nonstatutory stock option granted to a new employee or consultant within 90 days of the date of employment may have a lower exercise price as long as it is not less than 100% of the fair market value on the date of employment. The Board of Directors determines all option grants, prices and vesting. All options generally vest over four years; however, the yearly proportions are at the discretion of the Board of Directors.

A summary of the Company's stock option activity and related information for the years ended December 31, 2002, 2001, and 2000 is as follows:

	Options Available for Grant	*Options Outstanding*	*Weighted Average Exercise Price*
Balance, January 1, 2000	7,000,000	–	$ –
Granted	(5,370,000)	5,370,000	0.08
Exercised	–	(50,000)	0.04
Balance, December 31, 2000	1,630,000	5,320,000	0.08
Granted	(745,500)	745,500	2.63
Exercised	–	(460,000)	0.04
Cancelled	855,000	(855,000)	0.08
Balance, December 31, 2001	1,739,500	4,750,500	0.48
Granted	(39,200)	39,200	0.53
Exercised	–	(150,000)	0.04
Cancelled	302,100	(302,100)	0.05
Balance, December 31, 2002	2,002,400	4,337,600	$ 0.53

The following table summarizes additional information for options outstanding and exercisable at December 31, 2002:

	Options Outstanding			*Options Exercisable*	
Exercise Price	*Number*	*Weighted-Average Remaining Contractual Life in Years*	*Weighted-Average Exercise Price*	*Number*	*Weighted-Average Exercise Price*
$0.04 – 0.20	3,560,100	7.3	$0.04	1,676,660	$ 0.04
1.49 – 1.64	6,500	9.5	1.56	–	–
2.10 – 2.54	721,000	8.8	2.53	180,000	2.53
5.13	20,000	8.7	5.13	5,000	5.13
6.72 – 6.89	30,000	8.0	6.75	13,750	6.74
$0.04 – 6.89	4,337,600	7.5	0.53	1,875,410	$ 0.34
Exercisable at December 31, 2001				831,250	$ 0.09
Exercisable at December 31, 2000				500,000	$ 0.04

During the year ended December 31, 2000, the Company recorded noncash, deferred compensation of $2,806,000. This amount represents the aggregate difference between the deemed fair value of the Company's common stock and the exercise price of stock options granted to employees and directors prior to the Company's initial public offering. The deferred compensation is being recognized as an expense over the vesting period of the stock options, typically four years. The Company recorded non-cash compensation expense of $503,875 (of which $186,667 relates to selling, general and administrative expense and $317,208 relates to research and development expense), $649,089, $486,050, and $1,639,014 in 2002, 2001 and 2000 and from inception (April 16, 1996) to December 31, 2002, respectively. Unamortized deferred compensation is charged to additional paid-in capital in the event employment of the respective employee or director is terminated. Deferred compensation of $382,500 and $272,000 was charged to additional paid-in capital related to employee terminations in 2002 and 2001, respectively.

NOTES TO FINANCIAL STATEMENTS

11. EMPLOYEE BENEFIT PLAN

Employee 401(k) Plan

On May 1, 2000, the Company adopted the TranXenoGen, Inc. 401(k) Plan (the 401(k) Plan) to provide retirement benefits for its employees. The 401(k) Plan provides tax-deferred salary deductions for substantially all employees as allowed under Section 401(k) of the Internal Revenue Code.

Employees may contribute from 1% to 15% of their annual compensation to the 401(k) Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company is required to match 50% of the employees' first 6% of contributions and may make additional profit-sharing contributions to the 401(k) Plan to the extent authorized by the Board of Directors. All matching contributions vest immediately. The Company's matching contributions to the 401(k) Plan were $23,006, $17,788, $6,700, and $47,494 in 2002, 2001 and 2000 and from inception (April 16, 2002) to December 31, 2002, respectively. No profit-sharing contributions have been made under the 401(k) Plan.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2003 Annual General Meeting of the Company (the "Meeting") will be held at the offices of the Company, 800 Boston Turnpike, Shrewsbury, Massachusetts 01545, United States, on May 2, 2003 at 10:00 a.m. Eastern Daylight Time, for the following purposes:

		Resolution on Proxy Form
1.	To receive the report of the Directors and the audited accounts of the Company for the year ended December 31, 2002.	1
2.	To re-elect Mr. Cary E. Garner as a Director of the Company.	2
3.	To amend the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 shares to 100,000,000 shares.	3
4.	To amend the Company's Amended and Restated Certificate of Incorporation to eliminate provisions providing for the Class C Preferred Stock and to decrease the number of authorized preferred shares from 1,150,000 shares to 1,000,000 shares.	4

Registered Office:
1209 Orange Street
Wilmington, Delaware 19801
United States

March 24, 2003

BY ORDER OF THE BOARD

Marc Rubenstein
Company Secretary

Notes:

1. The votes on all resolutions will be by way of a poll.
2. A stockholder entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, to vote, instead of him. A proxy need not be a stockholder. Completion and return of the enclosed form of proxy will not preclude stockholders from attending and voting at the Meeting.
3. To be valid, the form of proxy, together with the power of attorney, if any, under which it is signed, or a notarially certified copy thereof, must be received at the office of the Company's Transfer Agent, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom, not less than 48 hours before the time fixed for the Meeting or any adjourned Extraordinary General Meeting at which the proxy is to vote.
4. The Company specifies that only the stockholders registered in the register of members of the Company as of March 14, 2003 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their respective names at that date. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the Meeting.
5. The holders of a majority in interest of all stock issued and outstanding and entitled to vote upon matters to be considered at the Meeting, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Meeting.
6. A majority of the Company's stock entitled to vote thereon will decide any matter at the Meeting; provided, however, that any election to the board of directors will be determined by a plurality of the vote cast at the Meeting.

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DIRECTORS AND SECRETARY

Directors:

Cary Edmund Garner	Non-Executive Chairman (55)
Dr. Kim Sze Tan	Non-Executive Director (48)
Paul Anthony DiTullio	Vice President, Product Development (38)
George Uveges	President and Chief Executive Officer (55)

Company secretary:
Marc A. Rubenstein

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