TranXenoGen

Bringing New Transgenic Technologies To Life

2003

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Bringing New Transgenic Technologies To Life

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TranXenoGen, Inc. (symbol TXN.L) is a publicly traded development stage, biotechnology company. Its shares are quoted on the Alternative Investment Market of the London Stock Exchange. The securities of the Company have not been registered under the Securities Act of 1933 and therefore, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements under such Act.

The Company is focused on developing new therapeutic production technologies and products. 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

2003 was a year of transition and positioning for TranXenoGen. While progress continues on the development of the Company's avian transgenic platform, as described below, the Company has increased its focus on several short-term revenue generating efforts. The first of these is development of a novel protein, Anti-Neoplastic Urinary Protein ("ANUP") for the treatment of several types of cancer. The Company in-licensed ANUP in 2001 as a 16 kD protein originally isolated from human urine. Over the last two years, the Company has isolated the protein in human blood and developed two synthetic peptides, which were used in animal model studies. The studies showed tumor burden reduction of up to 70% in nude mouse models. The Company is currently seeking a partner to accelerate product development and clinical development including:

- Completion of additional animal model studies to select clinical disease target, formulation and dosing;
- Preclinical studies of ANUP peptide to support IND filing;
- Initiation of Phase I trials; and
- Research to identify mechanism of action and establish a recombinant production system.

The second short-term revenue focus is the marketing of the Company's patent portfolio through license agreements. In 2003, the Company was issued a patent covering the Gene-Testes Technology and in early 2004, the Company received, through its license agreement, a notice of allowance on a cloning patent. The cloning patent covers techniques for the reprogramming of somatic cell nuclei (often referred to as cloning by nuclear transplantation) for the generation of cloned and/or transgenic animals. Because the patent has a filing date of February 3, 1993, the Company believes it has priority over numerous activities currently being undertaken in the industry. The Company has begun to notify potential licensees of its patent position.

The third short-term revenue focus is in the area of biodefense. The Company believes its avian transgenic platform technology has significant application in the areas of biodefense and vaccine production. The Company has submitted several grant proposals in the area and has begun discussion with several potential collaborators who are active in this space.

The Company's primary focus continues to be on developing its avian transgenic platform. While progress has been slower than anticipated, significant progress has been made on both the direct-egg and Gene-Testes Technology. Specifically:

- The achievement of expression levels of 6 ng/ml of Human Serum Albumin (HSA) in chimeric eggs as announced in May 2003.
- Developing germline transgenic chickens for HSA, Insulin and one partner's monoclonal antibody. These transgenic chickens are currently being bred with the objective of producing founder birds for each product. If successfully bred, these founder birds could be used initially to generate material for clinical trials and then for commercial production.
- Developing second-generation transgenic technology with the objective of reducing development time by 50% and improving the percentage of transgenic birds produced.

The Company's focus in 2004 is on:

- Seeking an ANUP strategic funded partnership to accelerate development and support entry into clinical trials as described above.

- Commercialization of the HSA and Insulin products, through geographic and product specific licensing, upon achievement of commercial levels of expression.

- Establishment of collaborations and partnerships for its vaccine projects, including application in the biodefense area.

To achieve the Company's research and commercialization efforts, TranXenoGen needs to obtain additional funding. The Company is seeking funding from three sources:

- The Company, on its own behalf and in collaboration with third parties, is seeking funding through biodefense and other government grant programs;

- Funding from potential partners for the commercialization efforts as outlined above; and

- Capital markets.

FINANCIAL REVIEW

TranXenoGen finished 2003 with an unrestricted cash position of $2.2 million. For the year ended December 31, 2003, TranXenoGen reported a net loss of $4.4 million, or $0.14 per share, compared to a net loss of $4.4 million, or $0.14 per share for 2002. 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 $3.4 million in 2003 as compared to $3.3 million in 2002.

While the cash loss was basically unchanged in 2003 vs. 2002, the components did vary. Research and Development ("R&D") expense declined $224,000 reflecting a reduction in the Company's animal care cost resulting from the 2002 consolidation of the animal care operation into the Shrewsbury facility, partially offset by higher R&D spending. Offsetting these savings was a $137,000 increase in Selling, General and Administrative ("SG&A") expense and higher net interest expense. The higher SG&A expense reflects higher professional fees and insurance cost. The higher net interest expense reflects lower interest income due to lower funds invested (as cash was used to fund operations) at lower rates.

The Company had 20 employees as of December 31, 2003 and 2002.

SCIENCE UPDATE

In 2003, the Company made steady progress in both the development of its avian transgenic technology and its cancer therapeutic known as Anti-Neoplastic Urinary Protein ("ANUP"). Research efforts were focused on demonstrating the effectiveness of ANUP as an antitumor therapeutic and on the generation of transgenic chickens for key programs to achieve commercial expression levels and the development of a more rapid and efficient transgenic process.

The process for the production of germline transgenic chickens was improved through:

- Improvements made to the direct egg-transfection technology including the pre-selection of eggs and efficiency improvements in the method of gene delivery;

- Streamlining the breeding of chimeric chickens by more stringent transgene analysis of the chimeric chickens; and

- Semen analysis of the roosters.

Germline transgenic chickens have been generated for Insulin, HSA and one monoclonal antibody. As these transgenic chickens mature, the hens will be screened for expression of the protein in their eggs while the roosters will be bred with the objective of producing second-generation transgenic hens.

In an effort to reduce the timeframe of the transgenic process and increase the efficiency of generating transgenic chickens, the Company has continued experimentation on both the Primordial Germ Cell ("PGC") and Gene-Testes Transfection technologies. Research on PGC technology has focused mainly on the development of new conditions for maintaining the cells in culture for extended periods of time. The identification of long-term culture conditions would allow for precise genetic manipulation of the cells and more efficient production of transgenic chickens. In the case of the Gene-Testes Technology, the objective has been to shorten the transgenic process timeline by incorporation of the transgene into the sperm of a rooster. Initial experiments have successfully demonstrated the ability to deliver the transgene to the testes of the rooster and identify roosters producing transgenic sperm. The objective of the Gene-Testes Technology research is to demonstrate the production of a transgenic chicken from the breeding of a gene-testes rooster. The Gene-Testes Technology, if successful, has the potential to reduce development times up to 50% since one whole breeding cycle is removed from the process.

Significant progress has been made on the ANUP program with the in vivo and in vitro testing of two ANUP derived synthetic peptides. Animal model studies, using human cervical cancer, demonstrated the ability of the peptides to reduce tumor burden by up to 70% as compared to control animals. The data confirms previously published results for the ANUP protein in a similar mouse model study and its potential as a cancer therapeutic. Further testing indicated that the ANUP peptides appear to act on blood vessel formation inhibiting both angiogenesis and infiltration. Angiogenesis, the formation of new blood vessels, is a key therapeutic target for the treatment of several diseases such as cancer, diabetic retinopathy and age-related macular degeneration. Additional experimentation in the ANUP program will involve testing of the ANUP peptides against various tumor cell types to identify the best clinical target and identification of the gene for recombinant production of the ANUP protein. One objective of the program is to develop the ability to produce the ANUP product using our transgenic avian platform.

In addition, the Company initiated research to evaluate the potential production of protein-based vaccine candidates using its avian technology for biodefense and infectious diseases, such as influenza. Initial experiments used a yeast-based expression system to determine if difficult to express viral proteins could be genetically engineered for production and to generate small quantities for collaborators interested in funding the further development. Using three vaccinia viral proteins, which could potentially be candidates for a smallpox vaccine, TranXenoGen researchers were able to successfully produce the recombinant viral proteins in yeast system. This was the first step in a process to demonstrate to potential collaborators the capabilities of producing theses vaccine candidates in the Company's avian transgenic system. Presently, experiments are targeting expression of potentially more serious infectious disease influenza and the production of the viral protein known as hemagglutinin. If successful, the research could lead to a more stable supply of vaccine for administration to at risk populations and the control of infectious disease outbreaks.

SUMMARY

The fund raising and revenue generation efforts are progressing. In order to provide additional time to execute on these initiatives, the Company implemented the following actions in March 2004 to reduce its cash burn rate:

- The Non-Executive Directors agreed to defer payment of their director fees for twelve months.
- The Chief Executive Officer's salary was reduced to $60,000 per year reflecting a reduced level of activity.
- Salaries were reduced for the three senior management personnel.

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S STATEMENT

- The workforce was reduced by 30%.
- Spending in other areas was reduced correspondingly.

Based on these reductions, our cash burn rate as of April 2004 was decreased to approximately $650,000 per quarter. We believe our current cash position should fund operations through August 2004 at this reduced burn rate. The achievement of the outlined revenue programs should further reduce the cash burn rate and extend the period of operation supported by our current cash balance. As a result of these reductions, the Company will reduce its efforts in non-science areas and activities related to unfunded research.

The Company has made significant progress over the last several years as it has developed its product candidate pipeline. The Company's well-balanced strategy of developing generic products and proprietary novel therapeutic products, licensing of its intellectual property and contract manufacturing provides a variety of commercialization opportunities. We look forward to updating our shareholders on our fundraising and revenue efforts at the Company's annual general meeting in June.

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, 2003.

PRINCIPAL ACTIVITIES

TranXenoGen is a development stage, biotechnology company focused on developing new therapeutic production technologies and products. The Company's product pipeline includes Anti-Neoplastic Urinary Protein ("ANUP") for the treatment of several types of cancer, Insulin and Human Serum Albumin ("HSA"). The Company's technology platform projects include an avian transgenic platform for the production of high volume therapeutic proteins and multi-species transgenic technologies including cloning and gene testes transfection. The platform technologies are being developed to manufacture proprietary products (e.g., Insulin and HSA), as well as for licensing to third parties. In addition, the Company's business strategy includes utilizing the technology to manufacture products for third parties as a contract manufacturer. The Company believes that the technology has application in the biodefense area and is pursuing potential biodefense opportunities.

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 and in the Corporate Governance Going Concern statement on pages 1 through 4 and 12, respectively.

RESULTS AND DIVIDENDS

The audited financial statements as of and for the year ended December 31, 2003 are set out on pages 14 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, 2003 were, and currently are, as follows:

Cary Edmund Garner BSc *Non-Executive Chairman (56) (Term expires 2006)*

Mr. Garner is the Vice President and General Manager, Client Research Services for Parexel International. Parexel International conducts worldwide clinical trials (Phase I though Phase IV) for selected large pharmaceutical companies. Mr. Garner has over 29 years of experience in rapid-growth, technology-driven businesses. Prior to joining Parexel International, Mr. Garner was the Senior Vice President of Oread Biosafety, Inc., a contract development and manufacturing company servicing the pharmaceutical and biotechnology industries, a Principal at Cambridge Consulting Group and had various sales and marketing positions with Abbott laboratories and IBM Corporation. Mr. Garner was appointed to TranXenoGen's Board of Directors in March 2000, and he was re-elected to the Board in 2003. Mr. Garner is a member of TranXenoGen's Audit Committee, Chairman of the Company's Compensation Committee and became the Non-Executive Chairman of TranXenoGen on January 1, 2003.

Dr. Kim Sze Tan BS, PhD *Non-Executive Director (49) (Term expires 2004 and is standing for re-election)*

Dr. Tan is Chairman of SpringHill Management Ltd., a biotech venture capital management company. Dr. Tan is a director of a number of biotech companies in the U.S.A., U.K. and Asia and acts as an advisor to a number of government agencies on biotechnology. Dr. Tan is the inventor of sheep monoclonal antibody technology. He is an experienced biotech entrepreneur and a Fellow of the Royal Society of Medicine. Dr. Tan was appointed to TranXenoGen's Board of Directors in March 2000 and was re-elected to the Board in 2001.

DIRECTORS' REPORT

George Uveges *President and CEO (56) (Term expires 2004 and is standing for re-election)*

Mr. Uveges joined the Company as President and Chief Executive Officer in October 2001 and was appointed to the Board of Directors 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 Vice President of Administration of GI Plastek and Corporate Controller,Treasurer and Chief Accounting Officer of Invacare Corporation.

Paul Anthony DiTullio BSc, MSc *Vice President, Product Development (39) (Term expires 2005)*

Mr. DiTullio is a founder of TranXenoGen and has over 15 years of experience in the transgenic industry. He was previously employed as a research scientist at GTC Biotherapeutics Inc., where he developed transgenic constructs for the expression of proteins in the milk of transgenic mice, rabbits and goats. Mr. DiTullio's expertise includes cloning and engineering of specific genes for the expression of proteins in eggs and milk as well as human genes for other proprietary expression systems. He 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 was 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 10.

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 March 26, 2004 were as follows:

Stockholder	*Number of shares held*	*Percentage of issued capital*
Vidacos Nominees Limited(1)	4,645,000	14.4%
Karl Ebert	2,920,000	9.1%
Pershing Keen Nominees Limited	2,578,450	8.0%
Nortrust Nominees Limited	2,201,552	6.8%
Numis Nominees Limited	1,966,712	6.1%
PKF Trustees Limited(2)	1,800,000	5.6%
Cosign Nominees Limited	1,800,000	5.6%
Nigel Wray	1,580,000	4.9%

(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.

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 June 10, 2004 is set out on page 31.

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

April 16, 2004

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;

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

(d) the funding position of the Company.

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 2003 or 2002. The decision by the Compensation Committee not to pay any discretionary bonuses was based upon TranXenoGen being a development-stage company and is not a reflection of performance.

DIRECTORS' COMPENSATION

Details of Directors' compensation and other benefits for the years ended December 31, 2003 and 2002 are as follows:

Name of director	*2003 Basic salary/fees US$*	*2003 Taxable benefit US$*	*2003 Non-taxable benefits US$*	*2003 Annual bonus US$*	*2003 Total US$*	*2002 Total US$*
Executive						
George Uveges	160,000	—	12,928	—	172,928	169,555
Paul A DiTullio	110,000	—	3,298	—	113,298	102,717
Non-Executive						
Cary E Garner	23,000	—	—	—	23,000	10,000
Dr. Kim S Tan	23,000	—	—	—	23,000	36,000

DIRECTORS' CONTRACTS

Mr. DiTullio has an Employment Agreement, which was amended as of March 21, 2004 as part of the Company's cost reduction program, that provides for a reduced base salary of $75,000, expires on July 3, 2004 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, as in effect prior to the March 21, 2004 reduction, of $113,900 and six months of certain fringe benefits. Mr. Uveges has an Employment Agreement, which was also amended as of March 21, 2004, that provides for a reduced annual salary of $60,000, a severance period of twelve months for termination other than for cause at his annual base salary, as in effect prior to the March 21, 2004 reduction, of $160,000 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 annual letters of appointment. Mr. Garner and Dr. Tan will each receive $23,000 for their contracted services in 2004. In March 2004, the Board agreed to defer the payment of Directors fees for a period of twelve months.

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 for the twelve-months ended December 31, 2003 are as follows:

Name of director	*Held on January 1, 2003*	*Granted during 2003*	*Exercised during 2003*	*Held on December 31, 2003*	*Exercise price US$*	*Expiration Date*
Executive						
George Uveges	700,000[1]	—	—	700,000	$2.54	October 22, 2011
		250,000[2]	—	250,000	$0.20	November 21, 2013
Paul A DiTullio	500,000[3]	—	—	500,000	$0.04	March 3, 2010
Non-Executive						
Cary E Garner	200,000[3]	—	—	200,000	$0.04	March 3, 2010
	25,000[4]	—	—	25,000	$0.20	December 12, 2012
Dr. Kim S Tan	2,000,000[3]	—	—	2,000,000	$0.04	March 25, 2010
	3,425,000	250,000	—	3,675,000		

(1) 350,000 shares are currently exercisable and an additional 175,000 shares become exercisable on each of October 22, 2004 and 2005.
(2) 62,500 shares become exercisable on each of November 21, 2004, 2005, 2006 and 2007.
(3) Shares are currently exercisable.
(4) 6,250 shares are currently exercisable and an additional 6,250 shares become exercisable on each of November 12, 2004, 2005 and 2006.

The market price of the Company's shares as of December 31, 2003 was £0.11 (December 31, 2002 £0.13) and the range of market prices during 2003 was £0.01 to £0.17 (during 2002 the market price range was £0.13 and £1.69).

COMPENSATION REPORT

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors in the shares of the Company at December 31, 2003 and 2002 were as follows:

Name of director	*Beneficial ownership as of December 31, 2003*	*December 31, 2002*
Executive		
George Uveges	950,000	443,000
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 52% 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 2003, the Company has sought to comply fully with the Combined Code and has, in the Directors' opinion done so, except as noted below. For the purpose of this Report, references are to the Combined Code in force as of January 1, 2003. The following statement, together with the Report of the Compensation Committee on pages 8 through 10, 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 in the Directors' Report on pages 5 and 6.

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 10 and as disclosed in Note 5 to the Company's 2003 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 ensures that all Directors receive appropriate training on appointment and where necessary to assist them in the performance of their responsibilities.

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.

CORPORATE GOVERNANCE

Since there are only four Directors, and as permitted by the Combined Code, the Board has not established a nomination committee. 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 8 through 10 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 periodically.

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 June 10, 2004 at 1:00 p.m. Eastern Daylight Time.

GOING CONCERN

The Company is subject to a number of risks common to emerging companies in the life sciences industry. Among those risks are the successful development of its transgenic technology, technological innovations, dependence on key individuals, dependence on collaborative arrangements, development of the same or similar technological innovations by the Company's competitors, protection of proprietary technology, compliance with government regulations and approval requirements, including those of the U.S. Food and Drug Administration, uncertainty of market acceptance of products, product liability and the ability to obtain additional financing necessary to fund product development and operations.

The Company's financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, at December 31, 2003, the Company had an unrestricted cash balance of $2.2 million and liabilities of $4.1 million. The Company's cash expenses currently exceed its cash receipts, and management expects this trend to continue for the foreseeable future. These factors give rise to substantial doubt about the Company's ability to continue as a going concern without additional funding.

The Company's continuation as a going concern is dependent upon its ability to continue its development activities, obtain government approvals, including that of the U.S. Food and Drug Administration, to market and/or manufacture its products, generate sales, meet its obligations, raise additional capital financing and,

ultimately, attain profitable operations. Management is actively pursuing financing alternatives and potential collaborative agreements and government sponsored grants so that the Company can meet its obligations and sustain operations. The financial statements do not include any adjustments that might be necessary should the Company be unable to succeed in these efforts.

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. Budgets and long-term forecasts are prepared annually and approved by the Board prior to adoption by the Company. Financial results and key operational and financial performance indicators are reported monthly by management to the Board, and variances from plan and budgets are thoroughly investigated by the Board and reviewed with senior management. The Board is 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.

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.

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 sheets of TranXenoGen, Inc. (the "Company") (a development-stage company) as of December 31, 2003 and 2002, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and for the period from April 16, 1996 (date of inception) to December 31, 2003. 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. The Company's financial statements for the year ended December 31, 2001, 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended and for the period from April 16, 1996 (date of inception) to December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the year ended December 31, 2003 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company's recurring losses from operations and cash used in operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

DELOITTE & TOUCHE LLP

Boston, Massachusetts
February 19, 2004

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 inclusion of its report in these financial statements. The financial statements as of December 31, 2001 and 2000 and for the years ended December 31, 2000 and 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, 2003 and 2002

	2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,186,090	$ 5,526,361
Prepaid expenses	126,654	91,618
Other current assets	2,030	3,911
Total current assets	2,314,774	5,621,890
Property and equipment	8,770,686	8,747,299
Less accumulated depreciation	(1,224,997)	(682,179)
Property and equipment – net	7,545,689	8,065,120
Other Assets:		
Restricted cash	363,785	360,130
Intangible assets – net	1,630	21,189
Deposits	9,013	9,013
Total other assets	374,428	390,332
Total assets	$10,234,891	$14,077,342
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 215,157	$ 178,484
Accrued expenses	216,928	233,284
Current portion of long-term debt	136,420	109,841
Other current liabilities	7,439	2,500
Total current liabilities	575,944	524,109
Long-term deferred lease income	190,583	
Long-term debt – less current portion	3,548,283	3,698,622
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value; authorized, 1,000,000 shares; issued and outstanding, 0 shares in 2003 and 2002 Common stock, $0.001 par value per share; authorized, 100,000,000 shares; issued, 40,570,000 and 40,560,000 shares in 2003 and 2002, respectively; outstanding, 32,180,000 and 32,170,000 shares in 2003 and 2002, respectively	40,570	40,560
Treasury stock, at cost, 8,390,000 shares of common stock in 2003 and 2002	(195,659)	(195,659)
Additional paid-in capital	22,964,558	22,962,668
Deferred compensation	(98,236)	(512,486)
Accumulated deficit	(16,791,152)	(12,440,472)
Total stockholders' equity	5,920,081	9,854,611
Total liabilities and stockholders' equity	$10,234,891	$14,077,342

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

STATEMENTS OF OPERATIONS

Years Ended December 31, 2003, 2002, and 2001 and Cumulative from Inception (April 16, 1996) to December 31, 2003

	Years Ended December 31,			*Cumulative From Inception (April 16, 1996) to December 31,*
	2003	*2002*	*2001*	*2003*
Revenue – contract revenue	$ –	$ 33,333	$ 16,667	$ 1,009,001
Expenses:				
Selling, general and administrative	1,633,473	1,496,290	1,496,932	6,454,841
Research and development	1,647,762	1,871,691	1,827,074	7,949,082
Stock-based compensation	414,250	503,875	649,089	2,053,264
Depreciation and amortization	562,377	562,579	254,937	1,773,159
Total expenses	4,257,862	4,434,435	4,228,032	18,230,346
Operating loss	(4,257,862)	(4,401,102)	(4,211,365)	(17,221,345)
Other Income (Expense):				
Interest income	39,838	132,818	476,508	1,077,619
Interest expense	(194,709)	(219,296)	(44,060)	(465,432)
Other income	61,508	73,169	35,393	170,816
Foreign currency gain (loss)	545	(5,658)	(269,024)	(345,302)
Loss before provision for income taxes	(4,350,680)	(4,420,069)	(4,012,548)	(16,783,644)
Provision for income taxes				7,508
Net loss	$(4,350,680)	$(4,420,069)	$(4,012,548)	$(16,791,152)
Net Loss Per Share – Basic and diluted	$ (0.14)	$ (0.14)	$ (0.13)	
Basic and diluted weighted-average common shares outstanding	32,172,904	32,071,329	31,681,975	

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

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31,2003, 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	—	—	—	—	—	—
Issuance of common stock in connection with milestone payment						
Amortization of deferred compensation						
Net loss						
Balance, December 31, 2003	—	$ —	—	$ —	—	$ —

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
				10,000	10	1,890			1,900
							414,250		414,250
								(4,350,680)	(4,350,680)
—	$ —	8,390,000	$(195,659)	40,570,000	$40,570	$22,964,558	$ (98,236)	$(16,791,152)	$5,920,081

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003, 2002, and 2001 and Cumulative from Inception (April 16, 1996) to December 31, 2003

	Years Ended December 31,			Cumulative From Inception (April 16, 1996) to December 31,
	2003	*2002*	*2001*	*2003*
Cash Flows from Operating Activities:				
Net loss	$(4,350,680)	$(4,420,069)	$(4,012,548)	$(16,791,152)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization expense	562,377	562,579	254,937	1,773,159
Compensation expense related to stock options issued	414,250	503,875	649,089	2,053,264
Loss on disposal of equipment			4,499	4,499
Changes in assets and liabilities:				
Prepaid expenses	(35,036)	(19,944)	144,620	(126,654)
Other assets and deposits	1,881	13,377	(9,056)	(94,742)
Accounts payable	36,673	(472,216)	426,703	149,984
Accrued expenses and other liabilities	(16,534)	(313,216)	389,077	218,471
Proceeds from cell tower lease	197,600			197,600
Net cash used in operating activities	(3,189,469)	(4,145,614)	(2,152,679)	(12,615,571)
Cash Flows from Investing Activities:				
Purchase of intellectual property			(88,854)	(265,741)
Additions to property and equipment	(23,387)	(634,325)	(7,768,417)	(8,585,168)
Increase in restricted cash	(3,655)	(8,594)	(351,536)	(363,785)
Net cash used in investing activities	(27,042)	(642,919)	(8,208,807)	(9,214,694)
Cash Flows from Financing Activities:				
Issuance of common stock – net				17,198,109
Principal payments under capital lease obligations			(27,047)	(112,168)
Proceeds from issuance of convertible preferred stock – net				3,350,799
Exercise of stock options		6,000	18,400	26,400
Repurchase of common stock				(141)
Proceeds from notes payable		407,705	5,522,295	5,980,000
Repayment of notes payable	(123,760)	(91,537)	(2,030,000)	(2,426,644)
Net cash (used in) provided by financing activities	(123,760)	322,168	3,483,648	24,016,355
Net (decrease) increase in cash and cash equivalents	(3,340,271)	(4,466,365)	(6,877,838)	2,186,090
Cash and cash equivalents – Beginning of period	5,526,361	9,992,726	16,870,564	
Cash and cash equivalents – End of period	$ 2,186,090	$ 5,526,361	$ 9,992,726	$ 2,186,090
Supplemental disclosure of cash flow information:				
Cash paid for taxes	$ –	$ –	$ –	$ 23,162
Cash paid for interest	$ 196,064	$ 219,602	$ 86,324	$ 508,676
Fair value of common stock used in connection with milestone payment	$ 1,900	$ –	$ –	$ 1,900
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

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

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") and upon Midas' acquisition of Gestation, Inc. on August 8, 1998, Midas simultaneously changed its name to TranXenoGen, Inc., a corporation organized under the laws of the state of Delaware (see Note 7). 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.

2. OPERATIONS

The Company has a three-pronged business strategy to pursue the development of a practical, effective manufacturing platform to address the production requirements for high-volume, protein-based therapeutics as well as to develop novel therapeutic products. The three-pronged business strategy encompasses the following:

- production of generic biologicals;
- production of high-volume novel therapeutics such as monoclonal antibodies for strategic partners; and
- development and manufacture of novel therapeutic protein based products.

The Company is currently targeting its efforts primarily on achieving the production of protein-based 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. Among those risks are the successful development of commercially usable products, development by its competitors of technological innovations, dependence on key personnel, dependence on collaborative arrangements, protection of proprietary technology, compliance with government regulations and approval requirements, including those of the U.S. Food and Drug Administration, uncertainty of market acceptance of products, product liability 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). The Company's sole operations are in the United States.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Management's Plan

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, at December 31, 2003, the Company had an unrestricted cash balance of $2.2 million and liabilities of $4.1 million. The Company's cash expenses currently exceed its cash receipts, and management expects this trend to continue for the foreseeable future. These factors give rise to substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to continue its development activities, obtain government approvals, including that of the U.S. Food and Drug Administration, market and/or manufacture its products, generate sales, meet its obligations, raise additional capital financing and, ultimately, attain profitable operations. Management is actively pursuing financing alternatives and potential collaborative agreements and government-sponsored grants so that the Company can meet its obligations and sustain operations. The financial statements do not include any adjustments that might be necessary should the Company be unable to succeed in these efforts.

NOTES TO FINANCIAL STATEMENTS

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 U.K. 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, 5 to 20 years; and furniture and equipment, 3 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 are 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, a new fair value of the asset is required to be 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.

Deferred Lease Income

In July 2003, the Company amended the agreement for a ground lease for a cell tower on the Company's premises. Pursuant to the terms of the amended agreement, the lessee made an up-front payment of $197,600 to the Company for a term of 40 years. The up-front payment was recorded as deferred lease income and is being amortized on a straight-line basis over the term of the lease. The lease revenue to be recognized in 2004 is included within other current liabilities in the balance sheet at December 31, 2003 with the remainder classified as long-term. The Company expects to realize approximately $5,000 per year as other income.

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 ("R&D") 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. See Note 7 with respect to stock options issued prior to the Company's initial public offering.

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:

	2003	*2002*	*2001*
Net loss – as reported	$(4,350,680)	$(4,420,069)	$(4,012,548)
Effect of stock options	(231,934)	(263,339)	(42,782)
Net loss – pro forma	(4,582,614)	(4,683,408)	(4,055,330)
Basic and diluted net loss per share – as reported	$(0.14)	$(0.14)	$(0.13)
Basic and diluted net loss per share – pro forma	$(0.14)	$(0.15)	$(0.13)

The weighted-average fair value of options granted in 2003, 2002 and 2001 was $0.20, $0.53 and $1.13, 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:

	2003	2002	2001
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	717.43%	844.64%	41.34%
Risk-free interest rate	2.77%	4.38%	4.63%
Expected life of the option	5 years	5 years	5 years

Stock or other equity-based compensation for non-employees 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 that are excluded from reported 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 number of dilutive potential common shares outstanding during the period. As a result of the losses incurred by the Company for fiscal 2003, 2002 and 2001, all potential common shares from stock options, which were 4,578,700, 4,337,600 and 4,750,000 at December 31, 2003, 2002 and 2001, 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 to reduce deferred tax assets to the amount that is more likely than not to be realized.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of ARB No. 51 ("FIN 46"), which was amended by FIN 46R issued in December 2003. This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation of variable interest entities ("VIEs"). This Interpretation applies immediately to VIEs created after January 31, 2003. It also applies in the first fiscal year or

interim period ending after March 15, 2004 to VIEs created before February 1, 2003 in which an enterprise holds a variable interest. FIN 46 requires disclosure of VIEs in financial statements issued after January 31, 2003 if it is reasonably possible that as of the transition date: (1) the company will be the primary beneficiary of an existing VIE that will require consolidation or, (2) the company will hold a significant variable interest in, or have significant involvement with, an existing VIE. The Company does not have any investments or arrangements which would be considered variable interests and believes that the adoption of FIN 46 will not have any effect on the Company's financial statements or results of operations.

4. PROPERTY AND EQUIPMENT

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

	2003	*2002*
Land	$ 672,000	$ 672,000
Building and improvements	7,149,022	7,140,389
Furniture and equipment	949,664	934,910
	8,770,686	8,747,299
Less accumulated depreciation	(1,224,997)	(682,179)
Property and equipment – net	$7,545,689	$8,065,120

Depreciation expense was $542,818, $517,298, $101,066 and $1,231,629 in 2003, 2002 and 2001 and for the period from inception (April 16, 1996) to December 31, 2003, 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 patents were stated at cost and amortized over three years, the estimated useful life of the asset, and were fully amortized as of December 31, 2002. The Company is also 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 payment and licensing fees due to Brandeis 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 also has to pay one-time license fees to GeneMedix plc

based upon successful approval by the appropriate regulatory authorities for sales of products in certain countries. The fees 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 plc, 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. Dr. Kim Tan, a Non-Executive Director of the Company, also serves as the Chairman and Non-Executive Director of GeneMedix plc. No payments have been made to date under the GeneMedix plc 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 payment 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. 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. During 2003, the Company completed a milestone related to successful completion of animal model studies. As a result, the Company paid $50,000 and issued 10,000 shares of the Company's common stock, at a fair market value of $1,900 on the date of issuance, to Antitumor Research Products. The cost related to these payments was included in 2003 R&D expense.

Total amortization expense on patents and licensing agreements was $19,559, $45,281, $89,753 and $236,416 in 2003, 2002 and 2001 and from inception (April 16, 1996) to December 31, 2003, respectively.

6. LONG-TERM DEBT

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 loan converted to a mortgage loan in the first quarter of 2002, and monthly payments of principal and interest began in March 2002. The mortgage loan bears interest at 1% above the prime rate (as published in the *Wall Street Journal*; 4.0% at December 31, 2003), requires equal monthly payments based on a 20-year amortization schedule, and is due in full on January 31, 2007. At December 31, 2003, $3,684,703 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 Annual Debt Service Coverage Ratio was not achieved for the year ended December 31, 2003. Accordingly, the deposit of $363,785 is reflected as non-current restricted cash on the balance sheet.

The aggregate maturities of long-term debt for each of the years subsequent to December 31, 2003, based on the amount outstanding and assuming a 5.0% interest rate (the rate at December 31, 2003), are approximately as follows: 2004, $136,420; 2005, $143,179; 2006, $150,505; and 2007, $3,254,599.

7. STOCKHOLDERS' EQUITY

Authorized Shares

As of December 31, 2003, the Company has authorized for issuance 101,000,000 shares of capital stock as follows: 100,000,000 shares of common stock with a par value of $0.001 per share and 1,000,000 shares of undesignated preferred stock with a par value of $0.01 per share.

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) at a fair value of $277,420 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 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).

At the Company's 2003 Annual General Meeting, the stockholders approved the amendment and restatement of the Company's charter to, among other things, increase the number of authorized shares of common stock from 50 million to 100 million shares.

In November 2003, the Company issued 10,000 shares to Antitumor Research Products upon achievement of a milestone on its anti-neoplastic urinary protein project (see Note 5).

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 were, by their terms, not available for reissuance.

At the Company's 2003 Annual General Meeting, the stockholders approved the amendment and restatement of the Company's charter to, among other things, eliminate provisions providing for the Class C Convertible Preferred Stock and to decrease the number of authorized preferred shares from 1,150,000 to 1,000,000, with such preferred shares to have such terms as may be designated by the Board of Directors from time to time.

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 on December 31, 2001. Rent expense was $107,363 and $340,806 in 2001 and from inception (April 16, 1996) to December 31, 2003, 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 net deferred tax assets as of December 31 are as follows:

	2003	*2002*
Net operating loss carryforward	$3,925,000	$3,191,000
Temporary differences and tax credits – net	2,758,000	1,875,000
Deferred tax asset	6,683,000	5,066,000
Valuation allowance for deferred tax asset	(6,683,000)	(5,066,000)
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. The deferred tax asset balance and the related valuation reserve were $3,407,000 at December 31, 2001. At December 31, 2003, the Company has a net operating loss carryforward ("NOL") for federal tax purposes of approximately $9,813,000, which expires starting in 2016 and ending in 2023. 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, 2003, tax-effected, primarily are composed of approximately $1,998,000 of capitalized research and development cost and approximately $541,000 of tax credits, which are available to offset future federal and state income taxes, subject to limitations for alternative minimum tax.

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

	2003	*2002*	*2001*
Income tax benefit at statutory rate	(34)%	(34)%	(34)%
State tax benefit	(6)	(6)	(6)
Increase in valuation allowance	40	40	41
Nondeductible goodwill amortization			1
Other			(2)
	–%	–%	–%

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.

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, 2003, 2002 and 2001 is as follows:

	Options Available for Grant	*Options Outstanding*	*Weighted Average Exercise Price*
Balance – January 1, 2001	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
Granted	(251,500)	251,500	0.20
Exercised			
Cancelled	10,400	(10,400)	5.22
Balance – December 31, 2003	1,761,300	4,578,700	$0.50

The following table summarizes additional information for options outstanding and exercisable at December 31, 2003:

	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 – 0.21	3,811,000	6.5	$0.05	2,610,694	$ 0.04
1.49 – 1.65	4,200	8.5	1.51	1,050	1.51
2.10 – 2.54	721,000	7.8	2.53	360,250	2.53
5.13	20,000	7.7	5.13	10,000	5.13
6.72 – 6.89	22,500	7.1	6.76	15,625	6.75
$0.04 – 6.89	4,578,700	6.7	0.50	2,997,619	$ 0.39
Exercisable at December 31, 2002				1,875,410	$ 0.34
Exercisable at December 31, 2001				831,250	$ 0.09

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 $414,250 (of which $200,000 relates to selling, general and administrative expense and $214,250 relates to research and development expense), $503,875 (of which $186,667 relates to selling, general and administrative expense and $317,208 relates to research and development expense), $649,089 and $2,053,264 in 2003, 2002, 2001 and from inception (April 16, 1996) to December 31, 2003, 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 $0, $382,500 and $272,000 was reclassified to additional paid-in capital related to employee terminations in 2003, 2002 and 2001, respectively.

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 $24,532, $23,006, $17,788 and $72,026 in 2003, 2002, 2001 and from inception (April 16, 1996) to December 31, 2003, respectively. No profit-sharing contributions have been made under the 401(k) Plan.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2004 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 June 10, 2004 at 1:00 p.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, 2003.	1
2.	To re-elect Dr. Kim Tan as a Director of the Company.	2
3.	To re-elect Mr. George Uveges as a Director of the Company.	3

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

April 16, 2004

BY ORDER OF THE BOARD

Marc A. 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 April 15, 2004 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 and properly cast 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 (56)
	Dr. Kim Sze Tan	Non-Executive Director (49)
	Paul Anthony DiTullio	Vice President, Product Development (39)
	George Uveges	President and Chief Executive Officer (56)

Company secretary:
Marc A. Rubenstein

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

Principal executive office:
800 Boston Turnpike
Shrewsbury, MA 01545
United States

UK legal counsel to the Company:
CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London EC1A 4DD
United Kingdom

US legal counsel to the Company:
Ropes & Gray
One International Place
Boston, MA 02110-2624
United States

Patent attorneys:
Mintz, Levin, Cohen,
Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, MA 02111
United States

Auditors:
Deloitte & Touche, LLP
200 Berkeley Street
Boston, MA 02116
United States

Principal bankers:
Fleet Bank NA
100 Federal Street
Boston, MA 02211
United States

Registrars:
Capita IRG (Offshore) Limited
Victoria Chambers Liberation Square
1/3 The Esplanade
St Helier
Jersey
JE23QA

Transfer agent:
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Your source for the production of high-volume recombinant therapeutic proteins in the white of transgenic chicken eggs.

Developing an effectively priced alternative that:

- Increases your flexibility,
- Is truly scalable,
- Improves your time to market,
- Lowers your capital requirements, and thus
- Improves your bottom line.

TranXenoGen

Bringing New Transgenic Technologies To Life

TranXenoGen, Inc.
800 Boston Turnpike
Shrewsbury, MA 01545
Telephone: 508.936.4200
Facsimile: 508.842.2786

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