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.