TranXenoGen

Bringing New Reproductive Technologies To Life

Annual Report 2000

Table of Contents

DIRECTORS, SECRETARY AND ADVISORS

Directors:

Dr. Kim Sze Tan	*Non-Executive Chairman (46)*
Steven Parkinson	*President and Chief Executive Officer (44)*
Paul Anthony DiTullio	*Vice President, Product Development (36)*
Cary Edmund Garner	*Non-Executive Director (53)*

Company secretary: Marc A. Rubenstein

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Auditors:
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CHIEF EXECUTIVE OFFICER'S STATEMENT

OVERVIEW

The year 2000 was a watershed year for the Company. We successfully completed our initial public offering (''IPO'') on the Alternative Investment Market of the London Stock Exchange in July 2000. This was a major accomplishment for the Company and will allow us to capitalise on the biopharmaceutical industry's growing recognition of the importance of our technology.

Since the advent of genetic engineering in the 1970s, over 2,000 protein-drug discovery and development companies have been formed, many of them engaged in the development of therapeutic proteins, including large numbers of monoclonal antibodies (''MAbs''). There are now 9 MAbs on the market, 30 more in clinical trials, and it is believed there are somewhere between 200 and 300 more MAbs in development. In addition, a large number of protein drugs are in clinical trials. With a significant number of these expected to attain market approval, we believe the biotechnology industry will face the significant challenge of how to produce large volumes of protein products. Many companies have assumed that they will turn to contract manufacturers, only to discover that the limited amount of contract manufacturing space is committed, often as far as five years ahead. Therefore, demand for alternative manufacturing technologies that can meet the necessary time lines and eliminate high capital costs has never been greater. If, in addition, the alternative technology can meet the additional needs of the industry for scalability, low cost of goods, containment and regulatory acceptance, the Company believes demand will be significant.

TranXenoGen believes it is well positioned to capitalise on this demand. Industry experts and leading companies are now recognising the virtues of avian transgenic technology. TranXenoGen, due to the high quality of its science and technology, aggressive marketing, and precise positioning in the industry, believes it is a market leader in this field. TranXenoGen is seeking to establish partnerships with other innovative drug discovery and development companies throughout the world.

FINANCIAL REVIEW

For the year 2000, TranXenoGen reported a pro forma net loss, excluding a non-cash compensation charge, of US$1,973,283, or US$0.10 per share. The non-cash charge was related to the issuance of stock options granted to directors and employees prior to the initial public offering. TranXenoGen's total net loss for the year 2000, including the non-cash charge, was US$2,459,333, or US$0.12 per share, compared to a net loss of US$1,206,515, or US$0.06 per share, in 1999.

The Company's total cash and cash equivalents as of December 31, 2000 was US$16,870,564, which included the net proceeds of the initial public offering of US$17,195,609, versus US$95,698 as of December 31, 1999.

Salaries and wages increased to US$737,234 for 2000 compared to US$456,692 for 1999, due to an increase primarily in scientific personnel to support research and development activities. Research and development expenses for 2000 were US$676,245 as compared to US$232,563 in 1999. Research and development activities increased to support the Company's development of its generic biological protein products and its partners' monoclonal antibody products. During 2000, the Company's general and administrative expenses were US$731,229, versus US$392,254 in 1999. This increase is largely due to greater advertising and marketing efforts to promote TranXenoGen's manufacturing technology to potential industry partners.

The Company had nine employees at the time of the IPO, grew to 16 employees by the end of the year and will continue to recruit key employees during the year 2001. It is anticipated that the Company's staff will number approximately 28 by the end of this year.

PRODUCT DEVELOPMENT

The Company currently has eight products in development: four generic biologicals: insulin, human serum albumin (''HSA''), calcitonin and human growth hormone (''HGH''); a research monoclonal antibody, sourced by the Company as a proof-of-principle MAb to test the avian transgenic system for efficiency in MAb expression; and three MAbs under development for partners.

To date, the Company's scientists have developed first-generation chimeric birds for three of the four generic biologicals and germline birds for insulin. The Company expects to transfect eggs with the gene constructs for the fourth protein, HGH, in the near future. The Company has also transfected the research antibody into eggs to launch its MAb evaluation program and strengthen its patent portfolio in this key area. In addition, significant progress has been made on the Company's partnerships: egg transfections have been completed for the first MAb genes with the KS Biomedix and Abbott Laboratories MAbs following closely behind. The Company has generated chimeric birds for the first two MAbs and the Abbott Laboratories MAb is underway.

The Company has licensed a novel anti-cancer product, human anti-neoplastic urinary protein (''ANUP'') from Antitumor Research Products, Inc. This product has been shown to be effective against cancer in certain animal models and has demonstrated efficacy in in-vitro human tumour cell lines. The Company has begun development work on ANUP. Initially the Company will source the protein from human donors in order to conduct further preclinical evaluation, before initiating the development of chickens expressing the protein, with the longer-term goal of commencing clinical trials.

In addition to the development of generic and novel partners' proteins, TranXenoGen will continue to evaluate opportunities to in-license a limited number of novel proteins, such as ANUP, for proprietary development. TranXenoGen seeks to enhance stockholder value by acquiring such products that are well suited to the Company's avian transgenic technology and will only acquire products where very stringent criteria are met in order to optimise the chances of success.

OPERATIONS

During May 2000, TranXenoGen recruited Tom Ransohoff as Vice President of Operations with responsibility for manufacturing. With a strong protein chemistry background, Mr. Ransohoff has initiated purification and analytical development activities within the Company. As the products progress through development and larger quantities are required, the Company will simultaneously scale-up protein purification and manufacturing capabilities.

In January 2001, in order to facilitate large-scale product development for multiple proteins, the Company purchased an 80,000 square foot shell building in Shrewsbury, Massachusetts, United States. The Company has begun work to custom fit 30,000 square feet of space to house its laboratories, offices and product development facilities including significant animal housing. The remaining 50,000 square feet will be developed in phases over time to accommodate the Company's expanding operations. TranXenoGen may sublease portions of the building before it is occupied by the Company. We look forward to occupying our new headquarters during the second half of 2001.

Additionally, TranXenoGen expects to purchase a parcel of land in 2002 in order to establish its first full-scale avian protein-manufacturing site. Although the Company has initially targeted central Massachusetts for this first manufacturing operation and has a number of sites under consideration, the Company has decided to extend the search to other states that may provide incentives and opportunities for large-scale manufacturing. The Company expects that the operations team will see a modest increase in staff this year with potentially significant expansion next year as the Company expects to initiate pilot-scale manufacturing.

RESEARCH

The Company continued its research activities during the year with the principal focus on additional and improved avian transgenic technologies, sperm-mediated transgenesis technology and cloning technologies. The research team's priority is to develop ways to further improve the transfection technologies used to make transgenic chickens and to try to find a way to eliminate the chimeric stage of chicken transgenesis to directly produce germline birds, thus saving months in the development cycles.

CHIEF EXECUTIVE OFFICER'S STATEMENT

BUSINESS DEVELOPMENT/INDUSTRY PARTNERS

The Company maintains an active marketing and business development campaign designed to give TranXenoGen's avian transgenic technology high profile in the industry. This campaign resulted in two proof-of-principle projects at the end of 2000 and one so far this year to develop monoclonal antibodies for corporate partners. TranXenoGen is seeking to secure more partnerships with other MAb and protein production development companies in order to add more products to its development pipeline.

SUMMARY

TranXenoGen has experienced the most significant year in its existence. The Company began the year by closing an additional round of private financing to add to the solid support it has received from its original private investors. This in turn enabled the Company to engage in an initial public offering mid-year. The Company's technology and science continued to develop well with a number of important milestones being achieved. TranXenoGen continued to build its management team by making key appointments in finance, operations and regulatory affairs. The Company has firmly established the three key areas of its business:

- *Generic biologicals* – Development of proven products for established and growing markets, including insulin, HSA, calcitonin and HGH;
- *Contract/Partnerships* – Three deals established with more in negotiations: Abbott Laboratories, KS Biomedix Holdings plc and an unnamed US antibody development company; and
- *Proprietary novel products* – First proprietary product in-licensed, ANUP.

The Company expects to achieve modest revenues in 2001 from its partnership contracts.

TranXenoGen's lead product is insulin, with the market launch anticipated in the year 2005. The Company may decide to collaborate with a partner prior to market launch or even at the clinical trial stage. TranXenoGen will begin to explore such potential partnerships as soon as the product is available from eggs at commercially viable levels.

In summary, TranXenoGen has achieved significant milestones in 2000 and early 2001, including the completion of its initial public offering, which raised net proceeds of US$17.2 million. The July 2000 IPO provided the Company with greater visibility in the industry and the financial resources to take its generic biological products through the early stages of development towards clinical trials. The Company succeeded in achieving its key scientific goal for the year – the development of germline transgenic chickens using its non-viral transgenic technology, and later this year, as these birds mature, it will be looking for expression of insulin in their eggs. TranXenoGen has also taken an important step towards developing a proprietary product portfolio with the worldwide exclusive license to a potentially important anti-cancer protein that will be developed as a TranXenoGen product. With the three arms of the business, TranXenoGen has a well-balanced strategy that will lay the groundwork for the ultimate commercial success of the Company.

The Company owes a great debt of gratitude to its loyal investors, employees and its Board of Directors and would like to thank them all.

Steve Parkinson
President and Chief Executive Officer

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended December 31, 2000.

PRINCIPAL ACTIVITIES

TranXenoGen has three principal areas of business focus: the development and manufacture of well-characterized biological products; the low-cost, high volume production of novel therapeutic proteins for multiple corporate partners and the development and manufacture of proprietary novel therapeutic protein products for life-saving indications, that could not easily be brought to market using conventional technologies.

BUSINESS REVIEW

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

RESULTS AND DIVIDENDS

The audited financial statements for the year ended December 31, 2000 are set out on pages 14 to 27. 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 who served during the year were as follows:

Dr. Kim Sze Tan BSc, PhD *Non-Executive Chairman (46)*

Dr. Tan is the founder of KS Biomedix Holdings plc and the inventor of the sheep monoclonal antibody technology. He is the author of more than 40 scientific publications and is a Fellow of the Royal Society of Medicine. Dr. Tan holds directorships in the following companies: GeneMedix plc, KS Biomedix Limited, KS Biomedix Holdings plc, 3PC Investment Trust plc and Asiaprise Sdn Bhd. Dr. Tan was appointed to the Board of Directors in March 2000 and is a member of the Compensation and Audit Committees.

Steven Parkinson BSc, DipM, MCIM *President and Chief Executive Officer (44)*

Mr. Parkinson has 17 years experience in the biotechnology industry, ten of these in transgenic companies, including business development roles in PPL Therapeutics and Genzyme Transgenics Corporation, and as President of Advanced Cell Technology. Mr. Parkinson has secured multiple partnership contracts with major pharmaceutical and biotechnology companies for the development of transgenic animals. Mr. Parkinson was appointed to the Board of Directors in August 1998.

Paul Anthony DiTullio BSc, MSc *Vice President, Product Development (36)*

Mr. DiTullio has over 12 years experience in the transgenics industry as a research scientist for Integrated Genetics and Genzyme Transgenics Corporation, and has developed more than 40 different transgenic constructs for protein expression. Mr. DiTullio's expertise includes not only the cloning and engineering of specific genes for the expression of proteins in eggs and milk, but also the cloning and engineering of human genes for other proprietary expression systems. Mr. DiTullio also has extensive experience with large and small animal biology and husbandry, and many aspects of small business management. Mr. DiTullio was appointed to the Board of Directors in February 2000.

DIRECTORS' REPORT

Cary Edmund Garner BSc *Non-Executive Director (53)*

Mr. Garner has over 25 years experience in rapid-growth, technology-driven businesses. Mr. Garner currently serves as Vice President and General Manager Global for Parexel International, a contract research organization. Prior to joining Parexel International, Mr. Garner was employed as Senior Vice President of Oread, Inc., a contract pharmaceutical company that provides comprehensive product development and manufacturing services to the pharmaceutical and biotechnology industries. Mr. Garner was a principal at Cambridge Consulting Group (CCG). CCG specialized in establishing operating companies based on proprietary, innovative technologies. Mr. Garner participated in the formation of seven companies. Prior to joining CCG, he held sales and marketing positions with Abbott Laboratories and IBM Corporation. Mr. Garner served as a Director of Oread Biosafety, Inc., and formerly served as a Director for Angenics, Inc., Brain Delivery Systems and RSP Amino Acid Analog. Mr. Garner was appointed to the Board of Directors in March 2000 and is a member of the Compensation and Audit Committees.

DIRECTORS' INTERESTS

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

SUBSTANTIAL SHAREHOLDINGS

To the Company's knowledge, the only persons who, directly or indirectly, were interested in three percent or more of the Company's common stock at May 25, 2001 were as follows:

Stockholder	*Number of shares held*	*Percentage of issued capital*
CDT Riflemen's Partnership	3,850,000	12.16
Karl Ebert	3,220,000	10.17
Nigel Wray	1,905,000	6.01
Pannell Kerr Forster Trustee Company Limited	1,800,000	5.68
Cosign Nominees Limited	1,800,000	5.68
HSBC Global Custody Nominee (UK)	1,653,172	5.22
Chase Nominees Limited	1,422,221	4.49
Pershing Keen Nominees	1,305,364	4.12
Nortrust Nominees Limited	1,161,000	3.67
Cheapside Nominees Limited	1,120,000	3.54

SHARE CAPITAL

Details of the shares issued during the year and outstanding options are presented in Note 7 and Note 12 to the financial statements.

ACQUISITION OF THE COMPANY'S OWN SHARES

Further to the Board of Directors' resolution of March 3, 2000, the Company repurchased 1,407,200 shares of common stock of US$0.001 each for a total repurchase price of US$141.

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 financial statements.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year, the Company made charitable contributions of US$195. There were 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 July 10, 2001 is set out on page 28.

CORPORATE GOVERNANCE

In our IPO prospectus, which we published in July last year, it was stated that 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 our shares are quoted in London, the Board believes that it is appropriate to generally 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 (formerly the City Group for Smaller Companies) (''QCA'') 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

June 8, 2001

By order of the Board,

Marc A. Rubenstein
Company Secretary

COMPENSATION REPORT

COMPOSITION OF THE COMPENSATION COMMITTEE

The Compensation Committee is comprised exclusively of Non-Executive Directors: Dr. Kim Tan, Chairman, and Cary Garner. The Committee meets as required and at least once a year.

COMPLIANCE

The Company, since its initial public offering, has 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. 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 calibre; and

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

COMPENSATION OF DIRECTORS

The Chairman and Mr. Garner 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 operates an annual discretionary bonus program, however, no bonuses were paid in 2000. The Compensation Committee determines bonus awards. The decision by the Compensation Committee not to pay bonuses was based upon TranXenoGen being an early stage company and is not a reflection of the performance of management.

DIRECTORS' COMPENSATION

Details of Directors' compensation and other benefits for the year ended December 31, 2000 are as follows:

Name of director	*Basic salary/fees US$*	*Taxable benefits US$*	*Non-taxable benefits US$*	*Annual bonus US$*	*2000 Total US$*	*1999 Total US$*
Executive						
S Parkinson	127,030	–	7,519	–	134,549	120,050
P A DiTullio	68,335	–	2,460	–	70,795	60,025
Non-Executive						
Dr K S Tan	18,000	–	–	–	18,000	–
C E Garner	5,000	–	–	–	5,000	–

DIRECTORS' CONTRACTS

Mr. DiTullio and Mr. Parkinson, who is proposed for re-election at the 2001 annual stockholders' meeting, have Employment Agreements that expire on July 3, 2001 and are automatically renewed for one year if not cancelled by the Company. In the event of early termination without cause, Mr. Parkinson will receive 50% of his base salary and Mr. Parkinson will receive 75% of his base salary. Dr. Tan, who is also proposed for re-election, and Mr. Garner do not have service contracts but letters of appointment.

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 share options granted to Directors are as follows:

Name of director	*Number granted in 2000*	*Exercise price US$*	*Period of exercise From*	*To*
Executive				
S Parkinson	1,000,000	0.04	March 3, 2001	March 3, 2010
P A DiTullio	500,000	0.04	March 3, 2001	March 3, 2010
Non-Executive				
Dr K S Tan	2,000,000	0.04	March 25, 2000	March 25, 2010
C E Garner	200,000	0.04	March 3, 2010	March 3, 2010
	3,700,000			

The market price of the Company's shares at the end of the fiscal year was £4.50 and the range of market prices from July 18, 2000 to December 31, 2000 was between £2.00 and £4.52.

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors in the shares of the Company at December 31, 2000 were as follows:

Name of director	*Beneficial ownership*
Executive	
S Parkinson	3,220,000[(1)]
P A DiTullio	7,070,000[(2)]
Non-Executive	
Dr K S Tan	1,500,000[(3)]
C E Garner	–

(1) Includes 2,220,000 shares held by Mr. Parkinson, 600,000 shares held by the Parkinson Irrevocable Trust and 400,000 shares held by Mr. Parkinson's spouse.

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

(3) These shares are held by Pannell Kerr Forster Trustee Company Limited.

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

GeneMedix plc 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. TranXenoGen's Chairman of the Board also serves as the Non-Executive Chairman 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.

CORPORATE GOVERNANCE

Since its initial public offering, the Company has sought to comply fully with the Combined Code and has, in the Directors' opinion done so, except as noted below. The following statement, together with the Report of the Compensation Committee on pages 8 and 9, sets out the manner in which the Company has applied the principles contained in section 1 of the Combined Code.

BOARD OF DIRECTORS

The Board consists of two Executive Directors (Mr. S. Parkinson and Mr. P. DiTullio) and two Non-Executive Directors (Dr. K. Tan and Mr. C. Garner), who bring considerable knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct. Their biographical details are shown on pages 5 and 6.

The Board considers that all 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 judgement, except for Dr. Tan's association with GeneMedix plc as disclosed on page 9 of the Compensation Committee Report. 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 endeavours to meet at least 9 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 a meeting agenda and up to date reports on key areas of the business and information to support decisions in advance of meetings. At each meeting, the Board reviews the progress of the Company towards its objectives, particularly projects in development, major capital expenditure projects and financial performance against budget. Senior management endeavour to meet bi-weekly to monitor and discuss all major issues affecting the Company, which do not require Board discussion or approval by Board Committees.

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

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

Prior to the initial public offering in July 2000, the board established an Audit and a Compensation Committee, which are comprised solely of the Non-Executive Directors. The Combined Code requires that the Audit Committee should be comprised of at least three Non-Executive Directors, whereas the Board and Committee are comprised of only two, as recommended by the QCA. The Board considers that, as the two Non-Executives who comprise the Audit Committee are independent, the functioning of the Committee is not compromised by this departure from the Combined Code.

Since there are only four Directors, and as permitted by the Combined Code, the Board has not established a nomination committee. There have been no additions to the Board since floatation and any future appointments, which can be proposed by any Director, will be discussed 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 Certificate of Incorporation provides for a classified board of three classes. Pursuant to the Company's Certificate of Incorporation, all Directors are subject to re-election every three years as required by the Combined Code.

The Board plans to appoint an additional independent Non-Executive Director in the near future.

BOARD COMPENSATION

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

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

The Compensation Report on pages 8 and 9 contains a detailed description of compensation and applicable policies.

RELATIONS WITH SHAREHOLDERS

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 Chairman and the Chief Executive Officer are the principal spokesmen for the Company with both institutional and private investors. Collective and individual presentations to institutional investors are held regularly.

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

All stockholders are sent an Annual Report and are given notice to enable them to attend the Company's Annual Meeting of Stockholders. This year's Annual Meeting of Stockholders will be held at the offices of Ropes & Gray, One International Place, 36th Floor, Boston, Massachusetts 02110, United States, on July 10, 2001 at 10:00 a.m. Eastern Daylight Time.

GOING CONCERN

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

INTERNAL CONTROL

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

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

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

CORPORATE GOVERNANCE

In compliance with Provision D.2.1 of the Combined Code, the Board continuously reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and 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.

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.

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

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

The 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 Audit Committee is responsible for ensuring that the accounting policies and internal controls adopted by the Company are appropriate and prudent and that the Company's auditors perform an effective audit and half year review. The Audit Committee meets at least twice per year, and the external auditors, Chief Executive and members of management may attend meetings. 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.

TRANXENOGEN, INC.

(A Development Stage Company)

Financial Statements as of December 31, 2000, 1999 and 1998 together with Auditors' Report

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, 2000 and 1999, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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, 2000 totals of the statements of operations and cash flows and reflect total revenues and net loss of 9% and 1%, 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, 2000 and 1999, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Boston, Massachusetts **Arthur Andersen LLP**

January 22, 2001

BALANCE SHEETS

December 31, 2000 and 1999

	2000 $	*1999* $
ASSETS		
Current Assets:		
Cash and cash equivalents	$16,870,564	$ 95,698
Accounts receivable	–	10,192
Prepaid expenses	216,294	5,551
Other current assets	4,570	–
Total current assets	17,091,428	111,441
Property and equipment	271,207	160,650
Accumulated depreciation	(70,446)	(28,437)
Property and equipment, net	200,761	132,213
Other Assets:		
Intangible assets	131,486	251,709
Deposits	12,676	16,522
Other assets	84,480	–
Total other assets	228,642	268,231
Total assets	$17,520,831	$ 511,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 223,997	$ 98,605
Accrued expenses	159,923	95,284
Capital leases – Current	26,298	42,590
Note payable – Related party	–	130,345
Total current liabilities	410,218	366,824
Capital leases, less current portion	749	28,711
Commitments and Contingencies (Note 10)		
Stockholders' Equity:		
Series A Convertible Preferred Stock, $0.01 par value per share – Authorised, issued and outstanding – none and 345,000 shares in 2000 and 1999, respectively	–	250,000
Series B Convertible Preferred Stock, $0.01 par value per share – Authorised-none and 640,000 shares in 2000 and 1999, respectively		
Issued and outstanding-none and 540,000 in 2000 and 1999, respectively	–	1,229,470
Series C Convertible Preferred Stock, $0.01 par value per share – Authorised-150,000 shares		
Issued and outstanding – none in 2000 and 1999, respectively	–	–
Series D Convertible Preferred Stock, $0.01 par value per share – Authorised, issued and outstanding – none in 2000 and 1999, respectively	–	–
Common stock, $0.001 par value per share – Authorised – 50,000,000 shares		
Issued and outstanding – 39,950,000 and 19,550,000 in 2000 and 1999, respectively	39,950	19,550
Treasury stock, at cost – 8,390,000 and 6,982,800 shares of common stock in 2000 and 1999, respectively	(195,659)	(195,518)
Additional paid-in capital	23,593,378	361,370
Deferred compensation	(2,319,950)	–
Accumulated deficit	(4,007,855)	$(1,548,522)
Total stockholders' equity	17,109,864	116,350
Total liabilities and stockholders' equity	$17,520,831	$ 511,885

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

STATEMENTS OF OPERATIONS

for the years ended December 31, 2000, 1999 and 1998 and
cumulative from inception (April 16, 1996) to December 31, 2000

	Years ended December 31,			Cumulative from inception (April 16, 1996) through December 31,
	2000 $	*1999* $	*1998* $	*2000* $
Income:				
Contract revenue	$ 37,200	$ 14,660	$ 323,250	$ 959,001
Expenses:				
Salaries and wages	737,234	456,692	335,797	1,764,425
Stock-based compensation	486,050	–	–	486,050
Selling, general and administrative	731,229	392,254	94,875	1,321,739
Research and development	676,245	232,563	184,224	1,344,537
Depreciation and amortisation	208,538	138,239	42,377	393,266
Total expenses	2,839,296	1,219,748	657,273	5,310,017
Operating loss	(2,802,096)	(1,205,088)	(334,023)	(4,351,016)
Other Income (Expense):				
Interest income	417,931	2,516	2,480	428,455
Other expense, net	(4,003)	(2,479)	–	(6,621)
Foreign currency loss	(71,165)	–	–	(71,165)
	342,763	37	2,480	350,669
Loss before provision for income taxes	(2,459,333)	(1,205,051)	(331,543)	(4,000,347)
Provision for income taxes	–	1,464	2,317	7,508
Net loss	$(2,459,333)	$(1,206,515)	$ (333,860)	$(4,007,855)
Net Loss per Share (Note 3):				
Basic and diluted net loss per share	$(0.12)	$(0.06)	$(0.03)	
Basic and diluted weighted average common shares outstanding	20,106,422	19,339,560	12,409,160	

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

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

for the years ended December 31, 2000, 1999 and 1998

	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 at December 31, 1997	345,000	$ 250,000	–	$–	–	$–
Issuance of common stock in connection with Gestation merger	–	–	–	–	–	–
Issuance of common stock	–	–	–	–	–	–
Issuance of Class B preferred stock	–	–	100,000	137,723	–	–
Issuance of options to purchase shares of Class C preferred stock	–	–	–	–	–	–
Net loss	–	–	–	–	–	–
Balance at December 31, 1998	345,000	$ 250,000	100,000	$ 137,723	–	$–
Issuance of Class B preferred stock	–	–	440,000	1,091,747	–	–
Purchase of Treasury Stock	–	–	–	–	–	–
Net loss	–	–	–	–	–	–
Balance at 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 Class A preferred shares to 3,450,000 common shares	(345,000)	(250,000)	–	–	–	–
Issuance of Class B preferred stock	–	–	100,000	249,730	–	–
Conversion of 640,000 Class B preferred shares to 6,400,000 common shares	–	–	(640,000)	(1,479,200)	–	–
Issuance of Class C preferred stock	–	–	–	–	175,000	524,030
Conversion of 175,000 Class C preferred shares to 1,750,000 common shares	–	–	–	–	(175,000)	(524,030
Issuance of Class D preferred stock	–	–	–	–	–	–
Conversion of 250,000 Class B preferred shares 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 at December 31, 2000	–	$–	–	$–	–	$–

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
–	$–	–	$–	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	–	–	–
2,500,000	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

STATEMENTS OF CASH FLOWS

for the years ended December 31, 2000, 1999 and 1998 and
for the period from inception (April 16, 1996) to December 31, 2000

	Years ended December 31,			Cumulative from inception (April 16, 1996) through December 31,
	2000 $	*1999* $	*1998* $	*2000* $
Cash Flows from Operating Activities:				
Net loss	$(2,459,333)	$(1,206,515)	$(333,860)	$(4,007,855)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities–				
Depreciation and amortisation expense	208,538	138,239	42,377	393,266
Compensation expense related to stock options issued	486,050	–	–	486,050
Changes in assets and liabilities–				
Accounts receivable	10,192	15,811	4,570	–
Prepaid expenses	(210,743)	(863)	903	(216,295)
Other assets and deposits	(85,204)	(9,569)	5,431	(100,944)
Accounts payable	125,392	(41,441)	51,951	158,824
Accrued expenses	64,639	(19,327)	111,094	159,144
Net cash used in operating activities	(1,860,469)	(1,123,665)	(117,534)	(3,127,810)
Cash Flows from Investing Activities:				
Purchase of intellectual property	(46,306)	–	(130,580)	(176,886)
Additions to property and equipment	(110,557)	(26,744)	–	(159,040)
Net cash used in investing activities	(156,863)	(26,744)	(130,580)	(335,926)
Cash Flows from Financing Activities:				
Issuance of common stock, net	17,195,609	–	500	17,198,109
Principal payments under capital lease obligations	(44,254)	(40,867)	–	(85,121)
Proceeds from issuance of preferred stock, net	1,769,329	1,091,747	239,723	3,350,799
Exercise of stock options	2,000	–	–	2,000
Repurchase of common stock	(141)	–	–	(141)
Proceeds (repayment) from notes payable	(130,345)	(50,000)	50,000	(131,346)
Net cash provided by financing activities	18,792,198	1,000,880	290,223	20,334,300
Net increase (decrease) in cash and cash equivalents	16,774,866	(149,529)	42,109	16,870,564
Cash and cash equivalents, beginning of period	95,698	245,227	203,118	–
Cash and cash equivalents, end of period	$16,870,564	$95,698	$245,227	$16,870,564
Supplemental disclosure of cash flow information:				
Cash paid for taxes	$991	$2,653	$2,432	$23,162
Cash paid for interest	$4,512	$2,479	$–	$6,991
Supplemental disclosure of noncash investing and financing transactions:				
Fair value of shares of common stock used in connection with the acquisition of Gestation	$–	$–	$277,420	$277,420
Notes issued in connection with the repurchase of common stock	$–	$195,518	$–	$195,518
Equipment acquired under capital lease obligations	$–	$112,168	$–	$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	$112,168	$–	$2,798,799

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

NOTES TO FINANCIAL STATEMENTS

(1) Organisation and Acquisition

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

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

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

The Company purchased Gestation to gain access to certain research and patents. The Merger was accounted for as an acquisition using the purchase method of accounting. Prior to its acquisition by the Company, Gestation was also in the development stage and had insignificant operations and no tangible assets. As such, the entire purchase price, which consisted of approximately $277,420 in consideration for Gestation stock acquired and $28,194 in liabilities assumed, was allocated to intangible assets in the accompanying balance sheets. The intangible asset is being amortised over three years, the estimated useful life of the asset. Amortisation expense related to this intangible asset was $101,852, $101,851 and $37,292 in 2000, 1999 and 1998, respectively.

(2) Operations

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

- the development and manufacture of well-characterized biological products;
- the low-cost, high-volume production of novel therapeutic proteins for multiple corporate partners; and
- the development and manufacture of proprietary novel therapeutic protein products for life-saving indications that could not easily be brought to market using conventional technologies.

The Company is currently targeting its efforts primarily on achieving the production of protein drugs in the egg whites of transgenic chickens. The Company is developing transgenic processes to manufacture insulin, human growth hormone, human serum albumin and calcitonin.

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

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

(3) Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States 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 during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents represent cash held in the bank and short-term investments with original maturity of 90 days or less. Cash equivalents are carried at cost, which approximates their fair market value.

As of December 31, 2000, the Company maintained approximately £10.0 million (or approximately $14.9 million) in a bank in the United Kingdom. This cash is subject to foreign currency fluctuations between the United States Dollar and the British Pounds Sterling.

Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, accounts payable and capital leases. The carrying amounts of the Company's financial instruments approximate their fair values.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets (generally one to 10 years). Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalised. Expenditures for maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets represent intellectual property, including patents and licenses to use certain third-party patents. Intangible assets also includes the excess of purchase price over the net tangible assets acquired from Gestation. Intangible assets are being amortised on the straight-line basis over their estimated remaining useful lives of three years. Internal patent costs are expensed as incurred and included in research and development costs.

Revenue Recognition and Contract Accounting

The Company recognises revenue as services are performed over the life of the contracts. For cost-reimbursable contracts, revenue is recognised 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 realised 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 immediately recognised.

Research and Development Costs

Research and development costs are expensed as incurred.

Segment Information

The Company complies with the provisions of Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company identifies its operating segments based on business activities and management responsibility. The Company currently operates as a single business segment, conducting research for the development of the Company's products.

Comprehensive Income (Loss)

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, *Reporting Comprehensive Income*. Under SFAS No. 130, companies are required to report comprehensive income as a measure of overall performance. Comprehensive income includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners. For all periods presented, comprehensive loss is the same as reported net loss.

Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (''SFAS No. 133''), as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities and is effective for all fiscal years beginning after June 15, 2000, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities*. The Company will adopt SFAS No. 133 prospectively beginning January 1, 2001 and it is not expected to have a material impact on the Company's financial statements.

In March 2000, the FASB issued Interpretation (FIN) No. 44, *Accounting for Certain Transactions Involving Stock Compensation – An Interpretation of APB Opinion No. 25*. FIN 44 clarifies the definition of employees, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequences of various modifications to the terms of a previously fixed stock option or award and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain conclusions in the Interpretation cover specific events that occurred after either December 15, 1998 or January 12, 2000. The Company does not expect that the adoption of FIN 44 will have a material effect on the results of operations or financial position.

Net Loss per Share

Net loss per share is computed based on the guidance of 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 dilutive potential common shares outstanding. As a result of the losses incurred by the Company for fiscal 2000, 1999 and 1998, all potential common shares were antidilutive and were excluded from the diluted net loss per share calculations.

The following table summarises securities outstanding as of each year-end that were not included in the calculation of diluted net loss per share, since their inclusion would be antidilutive.

	December 31,		
	2000	*1999*	*1998*
Convertible preferred stock	–	885,000	445,000
Preferred stock options (Note 7)	–	150,000	150,000
Common stock options outstanding	5,320,000	–	–

Foreign Currency Translation

The Company maintains a cash account in the United Kingdom denominated in British Pounds Sterling. Monetary assets denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date and are included in the results of operations.

Impairment of Long-lived Assets

The Company applies SFAS No. 121, *Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of*. SFAS No. 121 requires the Company to continually evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life 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 gross cash flows for the estimated remaining useful life of the assets are compared to the carrying value. To the extent that the gross cash flows are less than the carrying value, the assets are written down to the estimated fair value of the asset. The Company does not believe that its long-lived assets have been impaired.

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 basis of assets and liabilities.

Reclassifications

Certain reclassifications have been made to prior-year balances in order to conform to the current-year presentation.

(4) Property and Equipment

Property and equipment is stated at cost at December 31, 2000 and 1999 and consist of the following:

	2000	*1999*
Computers and other office equipment	$ 55,872	$ 26,399
Scientific equipment	215,335	134,251
	271,207	160,650
Less-Accumulated depreciation	(70,446)	(28,437)
Property and equipment, net	$200,761	$132,213

Depreciation expense was $42,009, $19,240 and $5,085 in 2000, 1999 and 1998, respectively.

(5) Investment in Interval, LLC

On June 1, 1998, the Company entered into a Research Agreement (the ''Agreement'') with Interval, LLC (''Interval''), a Maine limited liability company with a principal place of business in Bridgton, Maine. Interval is engaged in the development of proprietary technology in the birth control field. In addition to cash payments totalling $26,540 that the Company received during 1998 for conducting certain research for Interval, as provided for in the Agreement, the Company received one unit of membership interest in Interval at completion of research on October 1, 1998. However, as Interval is in the development phase, the Company determined that the fair value of the unit of membership interest could not be reasonably estimated. As such, the investment has been recorded at no value in the accompanying financial statements.

(6) Patents and Licensing Agreements

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 costs to license the patents was approximately $102,000 and has been recorded as intangible assets in the accompanying balance sheets. The patent license is stated at cost and will be amortised using the straight-line method over its remaining useful life, which has been estimated at three years. The Company is required to pay between 1% and 3.5% of the total net sales of any commercially available products that use the licensed technology. The Company is also required to pay 10% of any license fees and milestone payments from any affiliates, sub licensee or corporate or research partner. Minimum annual royalty payments and licensing fees due to the licensor under the agreement are $25,000 beginning January 1, 2000. Total amortisation expense on patents and licensing agreements was $64,677, $17,148 and $0 in 2000, 1999 and 1998, respectively.

On February 25, 2000, the Company entered into an exclusive worldwide royalty-bearing license agreement with GeneMedix plc, a U.K. public corporation, to license the rights to a proprietary technology for an insulin precursor gene and a process to purify, cleanse, and convert said gene to human identical insulin. In consideration of the rights granted to the Company, the Company will pay license fees and royalties based on net sales of licensed products, on a country-by-country basis. Based on the agreement, the Company will pay base royalties of 10% of net sales of licensed products, as defined. The Company will also pay a royalty of 25% on all

sublicensed products, as defined. Percentage rates can be adjusted to account for third-party royalties and competing products, as defined. The Company has to pay one-time license fees to GeneMedix based upon successful approval by the appropriate regulatory authorities for sales of products in certain countries. The fee for sales in United States, Europe and Asia are $2.0 million, $2.0 million and $1.0 million, respectively. The Company also has to pay one-time fees to GeneMedix upon the successful completion of certain production milestones ranging from $50,000 to $750,000. The agreement is in effect until the statutory expiration of the patents; however, the Company has the right to terminate the agreement for any reason, after February 25, 2003. TranXenoGen's Chairman of the Board of Directors also serves as the Non-Executive Chairman of GeneMedix plc.

(7) Stockholders' Equity

Authorised Shares

As of December 31, 2000, the Company has authorised for issuance 51,150,000 shares of capital stock, as follows: 50,000,000 shares of common stock with a par value of $0.001 per share and 1,150,000 of preferred stock with a par value of $0.01 per share, of which 150,000 shares are designated as Class C Convertible Preferred Stock and 1,000,000 shares are undesignated.

Recapitalisation

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

Common Stock

In August 1998, the Company issued 9,890,000 shares of common stock (6,550,000 restricted shares and 3,340,000 unrestricted shares) in exchange for all the outstanding shares of common stock of Gestation (6,550,000 restricted shares and 3,340,000 unrestricted shares). 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. The restricted shares issued by the Company have the same terms of those of Gestation.

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

In December 1999, the Company repurchased 6,982,800 shares (4,792,800 restricted shares and 2,190,000 unrestricted shares) of the 9,890,000 shares issued to the stockholders of Gestation for $0.028 per share via $130,345 of notes payable (see Note 8) and another $65,173 that has been classified in accounts payable in the accompanying balance sheets. 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. These 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.

In August 2000, the Company issued 50,000 shares of common stock in connection with the exercise of employee stock options (see Note 12).

Preferred Stock

In December 1998, the Company authorised the issuance of 400,000 shares of Class B Convertible Preferred stock. The shares were issued in 100,000 share increments, as follows: 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. 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 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 authorised 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 authorised 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 authorised the increase in the number of Class C Convertible Preferred shares to 175,000 and authorised 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 June 2000, the Company authorised amendments to its amended and restated certificate of incorporation to eliminate all classes of Convertible Preferred Stock from the authorised capital stock of the Company, except for the Class C Convertible Preferred Stock, and to authorise 1,000,000 shares of Preferred Stock to have such terms as may be designated by the Board of Directors from time to time. In addition, all outstanding shares of Class A, B, C and D Convertible Preferred Stock of the Company converted into common stock, at 10 for 1, upon the Company's initial public offering.

(8) Related Party Transactions-Note Payable

On December 7, 1998, the Company received a $50,000 short-term loan from a significant stockholder, secured by a $50,000 term note payable with interest accruing at the rate of 4.52% per annum. During 1999, the note payable plus interest accrued to date was paid in full.

As of December 31, 1999, $130,345 was classified as short-term notes payable related to the December 1999 treasury stock transaction (see Note 7). In March 2000, the notes payable plus interest accrued to date were paid in full.

(9) Capital Leases

In 1999, the Company entered into four capital leases with equipment vendors and commercial institutions to purchase certain fixed assets. As of December 31, 2000, principal payments pursuant to the capital lease obligations are as follows:

2001	$26,298
2002	749
Thereafter	–
	27,047
Less-Current portion	(26,298)
Long-term portion	$ 749

(10) Operating Lease

During 1997 and 1998, the Company leased office space from Tufts University on the campus of Tufts University School of Veterinary Medicine in Grafton, Massachusetts. In 1999 and 2000, the Company entered into a one-year agreement to lease office and laboratory space on the campus of the University of Massachusetts Medical School. The one-year lease was extended through December 31, 2001. Estimated future payments in 2001 are $105,991. Rent expense was $80,765, $69,824 and $28,790 in 2000, 1999 and 1998, respectively.

(11) Income Taxes

The Company is taxable as a Subchapter C corporation and, therefore, its income is subject to tax at the federal and state levels. The Company reports on a calendar year for tax purposes. Income taxes at the appropriate statutory rates have been provided for in the accompanying financial statements.

The Company's deferred tax assets and liabilities as of December 31, 2000 and 1999 are as follows:

	2000	*1999*
Temporary differences, net	$ 220,631	$ 8,751
Net operating loss carryforward	1,209,060	480,084
Deferred tax asset	1,429,691	488,835
Valuation allowance for deferred tax asset	(1,429,691)	(488,835)
Net deferred tax asset	$ –	$ –

The Company has provided a valuation allowance as it could not be determined that it was more likely than not that these deferred tax assets would be realised. At December 31, 2000, the Company has a net operating loss carryforward (NOL) for federal tax purposes of $3,002,384, which expires through 2020. The NOL may be limited if certain changes of ownership of the Company occur.

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

	2000	*1999*	*1998*
	%	%	%
Income tax benefit at statutory rate	(34)	(34)	(34)
State tax benefit	(6)	(6)	(6)
Increase in valuation allowance	41	38	38
Non-deductible goodwill amortization	2	3	4
Other	(3)	(1)	(2)
	–%	–%	–%

(12) 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. In 2000, no shares were issued under the ESPP. At December 31, 2000, 500,000 shares were available for issuance under the ESPP.

1998 Equity Incentive Plan

In December 1998, the Company adopted the 1998 Equity Incentive Plan (the ''Plan''). Under the Plan, 7,000,000 shares of common stock have been reserved for issuance. The Company may grant stock options, stock appreciation rights (SARs) 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 (ISO's) and nonstatutory stock options (NQ's) granted under the Plan must be at least equal to 100% of the fair market value of the option shares 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 so 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.

NOTES TO FINANCIAL STATEMENTS

A summary of the Company's stock option activity and related information for the year ended December 31, 2000 follows:

	Options	*Weighted – Average Exercise Price*
Options outstanding at December 31, 1999	–	–
Granted	5,370,000	$0.08
Exercised	(50,000)	$0.04
Cancelled	–	–
Options outstanding at December 31, 2000	5,320,000	$0.08

The number of shares available for grant under the Plan at December 31, 2001 was 1,630,000. The following table summarizes additional information for options outstanding and exercisable at December 31, 2000:

	Options Outstanding			*Options Exercisable*	
Exercise Prices	*Number*	*Weighted-Average Remaining Contractual Life in Years*	*Weighted-Average Exercise Price*	*Number*	*Weighted-Average Exercise Price*
$0.04	5,290,000	9.2	$0.04	500,000	$0.04
6.72	30,000	10.0	$6.72	–	–
Total	5,320,000	9.2	$0.08	500,000	$0.04

During the year ended December 31, 2000, the Company recorded a noncash deferred compensation charge of $2,806,000. This amount represents the aggregate difference between the deemed fair value of the Company's stock and the exercise price of stock options granted prior to the Company's initial public offering. The deferred compensation will be recognized as an expense over the vesting period of the stock options. During the year ended December 31, 2000, the Company recorded $486,050 of compensation expense.

The Company follows the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. The Company has elected to account for stock options issued to employees at their intrinsic value with disclosure of fair value accounting on net loss and loss per share on a pro forma basis. 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:

	2000
Net loss – As reported	$(2,459,333)
Net loss – Pro forma	$(2,588,434)
Basic and diluted net loss per share – As reported	$(0.12)
Basic and diluted net loss per share – Pro forma	$(0.13)

The weighted average fair value of options granted in 2000 was $0.55. 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:

	2000
Expected dividend yield	0.0%
Expected volatility	53.76%
Risk-free interest rate	6.5%
Expected life of the option	5 years

(13) 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 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 approximately $6,700. No profit-sharing contributions were made in 2000.

(14) Subsequent Event

In January 2001, the Company purchased an 80,000 square foot building in Shrewsbury, Massachusetts, United States, for approximately $2.8 million in cash. The Company intends to use the building to house its laboratories, offices and product development facilities.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2001 Annual General Meeting of the Company (the ''Meeting'') will be held at the offices of Ropes & Gray, One International Place, 36th Floor, Boston, Massachusetts 02110, United States, on July 10, 2001 at 10:00 a.m. Eastern Daylight Time, for the following purposes:

		Resolution on Proxy Form
1.	To receive the report of the Directors and the audited accounts of the Company for the year ended December 31, 2000.	1
2.	To re-elect Mr. Steve Parkinson as a Director of the Company.	2
3.	To re-elect Dr. Kim Tan as a Director of the Company.	3

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

June 8, 2001

BY ORDER OF THE BOARD

Marc Rubenstein
Company Secretary

Notes:

1. The votes on all resolutions will be by way of a poll.
2. A stockholder entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, to vote, instead of him. A proxy need not be a stockholder. Completion and return of the enclosed form of proxy will not preclude stockholders from attending and voting at the Meeting.
3. To be valid, the form of proxy, together with the power of attorney, if any, under which it is signed, or a notarially certified copy thereof, must be received at the office of the Company's Transfer Agent, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom, not less than 48 hours before the time fixed for the Meeting or any adjourned Extraordinary General Meeting at which the proxy is to vote.
4. The Company specifies that only the stockholders registered in the register of members of the Company as of May 25, 2001 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 represented at the Meeting 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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TranXenoGen

Bringing New Reproductive Technologies To Life

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