

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

GENESIS TECHNOLOGY GROUP INC  
Form 10-K  
January 13, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

Commission file number 333-86347

GENESIS TECHNOLOGY GROUP, INC.

-----  
(Name of Small Business Issuer in Its Charter)

FLORIDA

65-1130026

-----  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

777 Yamato Rd. Suite 130, Boca Raton, FL 33431

-----  
(Address of Principal Executive Offices) (Zip Code)

(561) 988-9880

-----  
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the  
Securities Exchange Act of 1934:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---------------------|---|
| -----<br>None       | -----<br>None                             |

Securities registered under Section 12(g) of the Securities Exchange Act of 1934: None; report is filed pursuant to section 15D

COMMON STOCK, PAR VALUE \$.001 PER SHARE  
(Title of Class)

Check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Check if there are no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

State registrant's revenues for the year ended September 30, 2003: \$23,596,878

State the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on December 26, 2003 computed by reference to the closing bid price of its Common Stock as reported by the OTC Bulletin Board on that date (\$0.29 per share): \$10 million.

The number of shares outstanding of the registrant's Common Stock, par value \$.001 per share (the "Common Stock") as of December 26, 2003 was 40,079,325.

### TABLE OF CONTENTS

|   | Page |
|---|------|
| PART I.....   | 1    |
| Item 1. Description of Business.....  | 1    |
| Item 2. Description of Property.....  | 12   |
| Item 3. Legal Proceedings.....  | 12   |
| Item 4. Submission of Matters to a Vote of Security Holders.....  | 13   |
| PART II.....  | 13   |
| Item 5. Market for Common Equity and Related Stockholder Matters.....   | 13   |
| Item 6. Management's Discussion and Analysis or Plan of Operation.....  | 15   |
| Item 7. Financial Statements.....   | 20   |
| Item 8. Changes In and Disagreements with Accountants on Accounting<br>and Financial Disclosure .....                           | 20   |
| Item 8A. Controls and Procedures .....  | 20   |
| PART III.....   | 21   |
| Item 9. Directors, Executive Officers, Promoters and Control Persons;<br>Compliance with Section 16(1) of the Exchange Act..... | 21   |
| Item 10. Executive Compensation.....  | 23   |
| Item 11. Security Ownership of Certain Beneficial Owners and Management<br>and Related Stockholder Matters.....                 | 25   |
| Item 12. Certain Relationships and Related Transactions.....  | 26   |
| Item 13. Exhibits and Reports on Form 8-K.....  | 26   |
| Item 14. Principal Accountant Fees and Services.....  | 27   |

# Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

## PART 1

### ITEM 1. DESCRIPTION OF BUSINESS

#### OVERVIEW

Genesis Technology Group Inc. ("Genesis" or the "Company") is an international business development firm that specializes in leading and assisting companies in penetrating the Chinese market for business development and commerce, as well as assisting Chinese companies in penetrating the US market or going public in the US public market. Companies utilize Genesis because of the company's expertise in marketing, distribution, manufacturing, forming joint ventures, or establishing a base in China. As a part of that strategy, the company is a member of the Shanghai Technology Stock (Property Rights) Exchange, an organization that promotes the influx of technology into China.

A key area of competency and focus is the Life and Health Science arena in China. Life and Health Science is comprised of different but related industries such as pharmaceuticals, environmental science, biotechnology, and healthcare development. These industries range from water, soil, and air testing and remediation to hospital facility development and management. These are new and robust areas in China that desperately need attention and expertise. Genesis' goal is to assist companies that are active in these areas in entering the Chinese market.

In addition to its consulting services, we have also acquired companies in the U.S. and China for the purposes of further developing these companies, with managerial, operational, and financial support. Our model envisions and promotes opportunities for synergistic business relationships among all of the companies that Genesis works with, both clients and subsidiaries.

As we continue to grow, acquisitions and mergers are a significant piece of our growth model. We are concentrating on merger and acquisition activity with firms in both the U.S. and China that mirror our strategy. These relationships will be built around consolidating key resources, financial and physical assets, brand names, and human resources. We pay attention to integration strategies as well as pay attention to core competencies, including best practices, skills, knowledge bases, and routines.

Company management and partners have been responsible for successfully negotiating contracts in China for 11 years. The Company is able to bring talent in the areas of marketing, finance and business development to its clients and subsidiaries, to help guide those companies to success. Profit Centers are diversified: Product Development, Manufacturing, Distribution Partnerships and Joint ventures as well as Operational Services. Company business model includes offering businesses development services to companies that seek to capitalize on their products and solutions in China or the U.S. GTEC also makes investment in the development and operation of some companies directly, and through a variety of capital arrangements.

Our merger and acquisition strategy can achieve long-term success in the China industry. Factors contributing to our success include:

- o Emergence of economies of scale related to purchasing, training, risk management, financing, advertising, equipment acquisitions, etc.,
- o Increased outsourcing of maintenance services by many

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

commercial and governmental enterprises,

- o Future acquisitions of similarly aligned China based and focused businesses which will lead to improved economies, operating efficiencies and overall profitability, and

- o Cross-marketing opportunities for ancillary services by and between their operating divisions in both horizontally and vertically grown entities.

Companies that we seek for mergers and acquisition, will meet the following criteria:

- o Strong cash flow and growing revenue,
- o Position as market sector leader,
- o Customers in a growth market,
- o Weak competition,
- o Strong management, and
- o Strong niche position.

By building on the success of already successful businesses, Genesis intends to become an important player in the expanding Cross-Pacific marketplace -increasing its revenues, profitability and market value by accelerating the success of its subsidiaries and partner companies. Many companies loose hope when looking at the current economic situation. Young IT and high tech enterprises especially suffer from the disaster in the .com community. Initiatives are needed now, which will improve market position, innovations and customer contacts. Because of economic conditions have changed, small and medium sized companies must concentrate their efforts on globalization. Concepts are needed which improve globalization and support company growth permanently.

-1-

Genesis will open the possibility for IT and high tech companies to Real Estate and Environmental Science companies, to establish international business contracts in China, which will lead to growth oriented projects from our professional support. Genesis is the perfect tool for the internationalization of business that has been created for small and medium sized companies, in particular:

Genesis offers companies the opportunity to prepare themselves for the international process, to investigate markets, to collect ideas and to develop strategies for sustainable positioning in the China markets. Genesis is a continuous institution that connects Economies in the United States and China. Genesis acts as catalyst, coordinator and consultant to create and conduct direct business initiatives.

The strategy to capture market share is as follows:

Target marketing towards companies with intellectual property and patents. Build Genesis' brand awareness across markets for small and mid size companies.

Develop strategic partner programs and marketing network.

Utilize experienced staff and strategic partners to recruit companies.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

Increase company awareness with strong media advertising and public relations.

Foster industry research to maximize market planning and companies visibility.

Leverage Co-Op marketing and partner program to share costs  
Gain market share, then drive the development of family companies to increase company value.

Genesis recognizes that there are several keys to success that require extensive focus. The Company will:

- o Position itself as a progressive market leader by establishing a predictable, long-term revenue base through acquisition and development.
- o Identify leading technology organizations then approaching them on an international joint venture or an out-right acquisition basis. The Company is looking for those organizations that already have a solid revenue growth.

Since recognized leaders have yet to emerge in the US China development trade market, the Company has a unique opportunity to gain market share. The essential elements for success are in place: a robust and emerging market, a talented and proven management team, aggressive strategic partners and a innovated trade forum.

### Strategy Implementation

Potential US candidates and clients are established through contact research, trade forums, consortiums and symposiums, and referrals. Business Opportunities in Asia are sourced in conjunction with the Genesis' Shanghai office and the STSE using similar methods. However, Genesis China has identified increasing demand for Western know-how and management. With its steadily expanding economy in an environment seemingly more secure and stable than other countries, China now offers more than cheap labor and underutilized production facilities. China has wealth. With its trade balance reaching US\$ 30 billion and individual wealth a commonality, many US businesses find a funding source or financially capable joint venture partner coming from the Chinese side.

Genesis completes industry and market analysis procedures to determine if a prospective company is ready for international activities in China. If this is not the case, Genesis arranges measures with the company to reach the necessary maturity and the company is put on the " watch list" for a further cultivation. Once the company reaches maturity, the Genesis team enters an agreement and embarks with the STSE or other sources to find a suitable match partner in the desired category. This can be a location, a potential partner or an investor. Once matching partners are found, the Genesis team prepares the discussions and brings the partners together.

Genesis has minimal operating expenditures and benefits from a diversified sales channel base. While we expect a significant growth strategy, we actively seek strategic acquisitions, partnerships and joint ventures to compliment our internal growth by giving us access to key technology, know-how, or markets.

-2-

Genesis has established and maintained effective work relations and contacts with various governmental agencies, public institutes, and private industries in

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

China at both national and provincial levels, such as the Ministry of Foreign Trade and Economic Cooperation, State Development Planning Commission, Ministry of Construction, Ministry of Agriculture, Ministry of Science and Technology, Chinese Academy of Agricultural Sciences, State Drug Administration, China National Federation of Textile Industries; China National Center for Biotechnology Development.

Genesis' management has experienced success in many other economically booming places in China like Beijing, Dalian, Shandong, Hunan, Heilongjian, and Jilin provinces. Genesis has also established business alliances with research institutes, universities, and private industries.

### SHANGHAI TECHNOLOGY STOCK EXCHANGE

The Shanghai Trust Stock Exchange (STSE) is a specialized equity capital market to serve all of China. It provides services in property rights and equity financing for companies looking to enter China markets. The STSE provides flexible and convenient financing and investment services for various enterprises by means of technology rights and ownership. STSE supports the advancement of technological innovation, and brings optimal allocation of hi-tech and social resources, as well as the combination of talented people and tremendous networks.

#### The Shanghai Trust Exchange Mission

- o Bridge the combination of technology and industrial, financial markets
- o Promote the commercialization of hi-tech achievement through strategic investment
- o Provide the channel for adjustment of state-owned assets
- o Introduce strategic partners for hi-tech achievements
- o Provide entry and exit mechanisms for venture investment

In addition, Genesis will enjoy preferential policies issued by the Shanghai and Chinese national governments for introducing new and high technologies into China. Under the landmark agreement, Genesis and STSE are planning to form a joint venture to launch a similar physical property rights exchange in the U.S.

### GOVERNANCE PRINCIPLES

The following principles have been approved by the board of directors and, along with the charters and key practices of the board committees, provide the framework for the governance of Genesis. The board recognizes that there is an on-going and energetic debate about corporate governance, and it will review these principles and other aspects of Genesis governance annually or more often if deemed necessary.

#### 1.Role of Board and Management.

Genesis's business is conducted by its employees, managers and officers, under the direction of the chief executive officer (CEO) and the oversight of the board, to enhance the long-term value of the company for its shareowners. The board of directors is elected by the shareowners to oversee management and to assure that the long-term interests of the shareowners are being served. Both the board of directors and management recognize that the long-term interests of shareowners are advanced by responsibly addressing the concerns of other stakeholders and interested parties including employees, recruits, customers, suppliers, Genesis communities, government officials and the public at large.

2. Functions of Board.

The board of directors has 4 scheduled meetings a year at which it reviews and discusses reports by management on the performance of the company, its plans and prospects, as well as immediate issues facing the company. Directors are expected to attend all scheduled board and committee meetings. Because of the international makeup of the board, directors may attend telephonically, although, at least once annually, it is intended that the entire board conduct a centrally-located meeting, with all directors being present. In addition to its general oversight of management, the board also performs a number of specific functions, including: selecting, evaluating and compensating the CEO and overseeing CEO succession planning; providing counsel and oversight on the selection, evaluation, development and compensation of senior management; reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions; assessing major risks facing the company---and reviewing options for their mitigation; and ensuring processes are in place for maintaining the integrity of the company---the integrity of the financial statements, the integrity of compliance with law and ethics, the integrity of relationships with customers and suppliers, and the integrity of relationships with other stakeholders.

3. Qualifications.

Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareowners. They must also have an inquisitive and objective perspective, practical wisdom and mature judgment. We endeavor to have a board representing diverse experience at policy-making levels in business, government, education and technology, and in areas that are relevant to the company's global activities.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the board for an extended period of time. Directors should offer their resignation in the event of any significant change in their personal circumstances.

The board does not believe that arbitrary term limits on directors' service are appropriate, nor does it believe that directors should expect to be renominated biennially until they reach the mandatory retirement age. The board self-evaluation process described below will be an important determinant for board tenure. Directors will not be nominated for election to the board after their 73rd birthday, although the full board may nominate candidates over age 73 for special circumstances.

4. Composition of the Board and Related Matters.

The board shall be comprised of no fewer than five (5) and no more than nine (9) directors. The directors serve for a period of two (2) years, with the termination date 24 months following his/her election. Directors may run for additional 2-year terms in succession. In the event that any director fails to attend two successive board meetings, then the board may ask for the resignation of that director and immediately conduct a search and selection of a replacement. Genesis does not provide directors and officers insurance, at present.

5. Setting Board Agenda.

The CEO shall be responsible for its agenda. Before the purposed board meeting,

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

the CEO will propose for the board's approval key issues of strategy, risk and integrity to be scheduled and discussed during the course the next meeting. Before that meeting, the board will be invited to offer its suggestions. As a result of this process, a schedule of major discussion items for the meeting will be established. Prior to each board meeting, the CEO will discuss the other specific agenda items for the meeting with the presiding director. The CEO and the presiding director, or committee chair as appropriate, shall determine the nature and extent of information that shall be provided regularly to the directors before each scheduled board or committee meeting. Directors are urged to make suggestions for agenda items, or additional pre-meeting materials, to the CEO, the presiding director, or appropriate committee chair at any time.

### 6. Ethics and Conflicts of Interest.

The board expects Genesis directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising Genesis's code of conduct set forth in the company's handbook. The board will not permit any waiver of any ethics policy for any director or executive officer. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the CEO and the presiding director. If a significant conflict exists and cannot be resolved, the director should resign. All directors will reclude themselves from any discussion or decision affecting their personal, business or professional interests. The board shall resolve any conflict of interest question involving the CEO, a vice chairman or a senior vice president, and the CEO shall resolve any conflict of interest issue involving any other officer of the company. The current membership of the board includes residents of both the United States of America and the People's Republic of China. Genesis is firmly dedicated to upholding a high standard of ethical conduct and pronounces that it operates in the sunshine in every area of its business endeavors. Genesis adheres to all equal opportunity and non-discriminatory practices.

-4-

### 7. Reporting of Concerns to Non-Employee Directors or the Audit Committee.

Anyone who has a concern about Genesis's conduct, or about the company's accounting, internal accounting controls or auditing matters, may communicate that concern directly to the presiding director, to the non-employee directors, or to the audit committee. Such communications may be confidential or anonymous, and may be e-mailed, submitted in writing, or reported by phone to special addresses and a toll-free phone number that are published on the company's website. Concerns relating to accounting, internal controls, auditing or officer conduct shall be sent immediately to the presiding director and to the chair of the audit committee and will be simultaneously reviewed and addressed.

### 8. Ethics and Steering Committee.

All contracts, agreements, prospects of mergers and acquisitions, granting of options, and publication of information pertaining to the Company shall have the approval of the Ethics and Steering Committee. The Committee includes the Chief Financial Officer, Legal Counsel, an Independent Director, the Chief Executive Officer, and the Chairman of the Board. In each case, the final document must have the majority approval to be acted upon. Because of existing agreements and those already in negotiation, the effective date of this provision shall be August 1, 2003. As the Company grows and has the wherewithal, this Committee also shall have the responsibility of establishing a formal Audit Committee, complying with guidelines furnished by the Securities & Exchange Committee.



## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### 9. Compensation of Board.

The nominating and corporate governance committee shall have the responsibility for recommending to the board compensation and benefits for non-employee directors. In discharging this duty, the committee shall be guided by three goals: compensation should fairly pay directors for work required in a company of Genesis's size and scope; compensation should align directors' interests with the long-term interests of shareowners; and the structure of the compensation should be simple, transparent and easy for shareowners to understand. As discussed more fully in the key practices of the nominating and corporate governance committee, the committee believes these goals will be served by providing 50% of director compensation in options and 50% in restricted stock units starting in 2003-2004. At the end of each year, the nominating and corporate governance committee shall review non-employee director compensation and benefits.

For each term of one year, board member shall be entitled to 75,000 options. The compensation committee will determine the strike price. The board member shall also be entitled to 75,000 shares in Restricted (144) stock. Also, for each meeting that Board Member participates, that person will receive 10,000 options at the price of day of meeting.

The Company will be responsible for any expenses incurred for the purpose of meeting on behalf of the Genesis shareholders.

### 10. Succession Plan.

The board shall approve and maintain a succession plan for the CEO and senior executives, based upon recommendations from the management development and compensation committee. The Chairman of the Board of Directors shall be elected by the directors and serve for a period of two (2) years. This election shall be conducted in odd numbered years, commencing in 2005, with the selection of a new chairman. In the event that the presiding chairman should resign or become unable to serve, a special election among current directors shall be conducted.

### 11. Annual Compensation Review of Senior Management.

The management development and compensation committee shall annually approve the goals and objectives for compensating the CEO. That committee shall evaluate the CEO's performance in light of these goals before setting the CEO's salary, bonus and other incentive and equity compensation. The committee shall also annually approve the compensation structure for the company's officers, and shall evaluate the performance of the company's senior executive officers before approving their salary, bonus and other incentive and equity compensation.

-5-

### 12. Access to Senior Management.

Non-employee directors are encouraged to contact senior managers of the company without senior corporate management present.

### 13. Access to Independent Advisors.

The board and its committees shall have the right at any time to retain independent outside financial, legal or other advisors.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### 14. Director Orientation.

The general counsel and the Executive Vice President shall be responsible for providing an orientation for new directors, and for periodically providing materials or briefing sessions for all directors on subjects that would assist them in discharging their duties. Each new director shall, be receive personal briefing by senior management on the company's strategic plans, its financial statements, and its key policies and practices.

Governance Principles for the Board of Directors of Genesis Technology Group, Inc., are hereby approved and placed in the permanent Company records as of the date of the 2003 Annual Shareholders. Meeting: May 30, 2003.

-6-

We currently have three active subsidiary companies. We own 80% of one computer hardware and software manufacturer/distributor located in Shanghai China. We own 100% of two consulting companies, one in the U.S. and one in China. We own 85% of an inactive biotechnology-marketing firm that is located in the United States.

### ACQUISITIONS AND DISPOSITIONS

On November 15, 2001, we acquired 80% of Shanghai Zhaoli Technology Development Company, Limited. Zhaoli (Horry Technology) is an Information Technology enterprise that integrates sales and technology with services. Currently, its sales cover printer, copier, scanner and network products, as well as network integration. In addition to hardware sales and service, the company focuses much of its resources on the development of proprietary software systems, such as its e-learning software for K-12 education in China. Zhaoli has approximately 65 employees at seven branches and exclusive stores in Shanghai and a strong and growing presence throughout eastern areas of China. The increase in sales mainly resulted from increasing demand from the market, as the Chinese government will require all companies to issue all transaction receipts and invoices by using a printer and a computer in order to smooth its tax collections by July 1, 2003. Zhaoli expects its sales will be increased significantly in the near future due to this new regulation. Zhaoli is planning to increase its sales, as well as increase its profit margin. Hardware has been low profit margin business historically. Zhaoli is working with its parent company, Genesis, to bring more software development and sales in order to increase its profit margin.

On December 1, 2001, we acquired 80% of Yastock Investment Consulting Company, Limited ("Yastock"), an investment consulting firm located in Shanghai, China that specializes in consulting for Chinese and American companies in a number of areas, including financial, public relations, corporate management, corporate strategic evaluations and human resources. In addition to its ongoing business, Yastock's management oversees all of Genesis' operations in China and is an important source of financial and operational support for our Chinese subsidiaries. On January 1, 2002, we acquired the remaining 20% of Yastock, making it a wholly owned subsidiary. Yastock has 12 part and full-time employees.

Yastock is also managing the seat that Genesis Technology Group, Inc. has with the Shanghai Technology Stock Exchange. Shanghai Technology Stock (Property Rights) Exchange (STSE) was founded in December 1999 and is sponsored by the Shanghai Municipal Government with independent corporate qualifications. STSE

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

was established to promote the commercialization of technological innovations, to solve bottleneck problems in combining technological, industrial, and financial capitals, and to actively construct operational and exit mechanisms for venture investments. STSE has both a physical exchange located in Shanghai and data mining techniques that target licensees' interests using its two-way delivery system. In 2003, over 3,000 transactions were completed with over \$12 billion in transaction volume through its 363 members that control over \$24 billion in capital. The STSE is a specialized equity capital market to serve all of China. It provides services in property rights and equity financing for companies looking to enter China markets.

The STSE provides flexible and convenient financing and investment services for various enterprises by means of technology rights and ownership. STSE supports the advancement of technological innovation, and brings optimal allocation of hi-tech and social resources, as well as the combination of talented people and tremendous networks. Genesis is the first member of the exchange in the U.S. As a trust member on the exchange, Genesis can directly introduce technology companies and owners to the exchange and generate earnings via success fees on completed transactions with those companies. Genesis will focus its initial efforts on working with companies in the U.S that want to expand their business via China. In addition, Genesis will enjoy preferential policies issued by the Shanghai and Chinese national governments for introducing new and high technologies into China. Under the landmark agreement, Genesis and STSE are planning to form a joint venture to launch a similar physical property rights exchange in the U.S. This joint venture will be the exclusive authorized representative for STSE in the US.

In addition, Yastock serves Chinese companies that wish to enter both the general market and the public market in the United States. In addition, Yastock has developed its own joint ventures and projects in the areas of Internet wireless messaging for sports, gaming, and lottery information (<http://www.zc8888.com>), gasoline replacement fuel, software development and so on. It is expected that such projects or joint ventures will generate significant cash flow in the near future.

-7-

### CONSULTING ACTIVITIES

In addition to overseeing the operation of its subsidiaries, we have been growing our cross-pacific consulting business. Management believes that China's entrance into the WTO offers a unique opportunity for Genesis to secure itself a position as a leader in the growing market for cross-pacific products, technology, capital, and property exchange. To that end, we market our self to other U.S. firms interested in Chinese partnerships for manufacturing and distribution of a variety of products in China, with a strong focus on the Life and Health Science arena

In the last 12 months, we have grown our client base from 8 to 31 clients. Company management has met with over 400 firms that have shown significant interest in introducing their product or service to China or the U.S. We are assisting these clients in penetrating the Chinese market for the purposes of product and solutions sales, distribution, manufacturing, and/or research and development.

To aid in achieving these goals, in 2002 we were granted a seat as a U.S. representative of the Shanghai Technology Stock (Property Rights) Exchange (STSE). STSE is a technology transfer exchange sponsored by the Shanghai Municipal Government with independent corporate qualifications. STSE is essentially a vehicle for the transfer of technology and property rights into China. As a representative of the STSE, we can directly introduce American

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

companies and individuals who would like to sell or license intellectual property to a Chinese partner, or use technology to form a joint venture in China, to the STSE for purposes of listing their technologies or intellectual properties. Our clients pay a monthly retainer and a success fee based on any completed transactions, a portion of which goes to the STSE. In addition, the standard Genesis contract calls for the company to receive ongoing compensation by clients via a percentage of any licensing fees or an equity position in any joint ventures/partnerships formed with Chinese entities.

The company has also formed a new joint venture with CIIC Investment Corporation Limited, a wholly owned subsidiary of China International Intellecotech Corporation (CIIC), a leading state-owned enterprise that has been funded solely by the State Council. Two private US capital firms have joined the joint venture as partners. The joint venture will be named CIIC Investment Banking Consulting Company, Limited. It will be operated by staff from both CIIC and GTEC offices in Shanghai. GTEC will own 10% of this joint venture. This new venture will provide investment banking services, asset management, capital raising via private placement or public market, and help Chinese companies penetrate the US markets, as well as help state-owned companies undergo management buyout program. Genesis will oversee operations in North America and work with CIIC from the firm's new Shanghai facility.

Management has utilized a successful means of developing Western clients for purposes of technology transfer and investment in China. We abide by an "RCD" development formula and an "RSE" fee formula. The former enables the Company to recruit prospective clients (R), close on those that are deemed good candidates for business in China (C), and delivering enforceable, profitable contracts (D). The secondary function, as it rewards Genesis, manifests in client contracts, which require a retainer (R), success fee (S), and often an equity position (E) in any resultant Sino-Western entity.

Among those Genesis contract clients who have benefited from this time-tested business model are: Agronix, Inc., Alternate Energy Corporation, Dynegy Energy, Edulink, Inc., Enviro Voraxial Technology, Inc., Equifax Inc, Mark Capital Management, Inc., Flowers Chemical Laboratories, Sarlo Power Mowers, Custom Biologicals Inc., Sense Holding, Inc., Powerbetter (UK), Kane, Laduzinsky, & Mendoza, LTD., Ayiko (Europe), eProtea (Malaysia), Sarlo Power Mowers, Inc., Shanghai Dongda Insurance Brokerage Company, Ltd., Raltron Electronics International, and others.

Historically, such contracts should generate revenue to the Company, not including accumulated equity positions in private and public entities in China. The latter holdings are designed to gain a ground-floor position in dozens of companies, some of which could reach substantial value in the Asian and Western capital markets.

As of the date of this filing, we have three active subsidiaries that we have either acquired or formed. For acquired subsidiaries, the goal is to assist the current management in growing the company by providing a broad range of financial, operational and managerial support services. Each of our subsidiaries are listed below.

Genesis Systems, Inc.

Genesis Systems, Inc., located in Boca Raton, Florida, provides a wide range of business and financial services for public and private companies with an emphasis on early-stage technology companies. Services include:

- Organizing and synchronizing business milestones and funding
- Anticipating organizational needs (e.g. staffing and facility acquisition)
- Assisting in the implementation of the client's

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

technology

- Designing partnerships and strategies necessary for the success of the business model
- Devising a business path that checkmates competitive players
- Identifying and qualifying potential merger and/or acquisition candidates

Genesis Systems also assists in investor and public relations issues with services such as; editorial and distribution assistance for press releases, media tracking, consulting on the formulation of cost-effective advertising campaigns, direct contact with the client's investors via phone, email or visits and development/improvement of client's web site to maximize investor information. Genesis Systems has established a network of strategic partners to assist in performing these services. Genesis Systems is a wholly owned subsidiary, which was incorporated in the state of Minnesota in August 2000 and was acquired by Genesis Technology Group (at the time newagecities.com) on August 1, 2001 for a total of 10,312,500 shares of stock.

-8-

### Yastock Investment Consulting Company, Limited

Yastock Investment Consulting Company, Limited is an investment consulting firm located in Shanghai, China that specializes in raising capital and consulting in a number of areas, including trading information, public relations, corporate management, corporate strategic evaluations and human resources. The company is dedicated to supporting the development of the Chinese capital market and providing medium and small enterprises with consulting services for marketing management, human resource management, stock investment, fund raising, financing, and going public in the US. Genesis acquired 80% of Yastock on December 1, 2001 in exchange for 92,000 shares of Genesis common stock. Genesis' wholly-owned subsidiary, Genesis Systems, Inc., previously acquired 20% of the issued and outstanding capital stock of Yastock on May 2001, making Yastock a 100% owned subsidiary. In addition to its ongoing business, Yastock's management oversees all of Genesis' operations in China, including client relationships, liaison with the STSE, and is an important source of financial and operational support for Genesis' Chinese subsidiaries. Yastock's services include:

- Providing small and medium private technology enterprises with consulting services for obtaining a listing on the US stock market.
- Consulting services for the US enterprises wishing to invest in China and introducing advanced U.S. techniques to Chinese enterprises.
- Offering consulting services for client's management of investments in the Shenzhen and Shanghai stock markets.
- Offering investment banking and investor relations.
- Providing agency services for business applying for regulatory approval in China
- Offering consulting for human resources managers.
- Providing consulting for corporate asset evaluation.
- Offering consulting for corporate legal affairs.
- Providing consulting for mergers and acquisitions.

### Shanghai Zhaoli Technology Development Company, Limited

Shanghai Zhaoli Technology Development Company, Limited is an Information Technology enterprise that integrates sales and technology with services. Currently, its sales cover printer, copier, scanner and network products, as well as network integration. The company is a general agent and/or distributor for a wide array of manufacturers, including Epson, Canon, Hewlett-Packard, Samsung and Star network products. The company has also

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

qualified as a technical service center for Epson, Canon, Hewlett-Packard and OKI products. In China, Zhaoli products are also marketed under the brand name Chorry Technology Development Co., Ltd.

In addition to hardware sales and service, the company focuses much of its resources on the development of proprietary software systems, such as its e-learning software for K-12 education in China. The program offers a full line of training and education programs delivered over the Internet. Zhaoli has also developed video streaming technology that it has integrated into the software. Video streamed delivery means that the program provides much the same experience as a live training program. However, Zhaoli students can stop and start the program at any time, review portions of the discussion now or in the future, and focus their studies where they need the most work.

The company has approximately 85 employees at seven branches and exclusive stores in Shanghai and a strong and growing presence throughout eastern areas of China. Genesis acquired 80% ownership of Zhaoli on November 15, 2001 in exchange for 400,000 shares of Genesis Common stock.

Biosystems Technologies, Inc.

Currently inactive, Genesis management incorporated Biosystems Technologies, Inc. in Florida in October 2001 for the purpose of commercialization, marketing and distribution of biomedical products and technologies used to diagnose and treat HIV/AIDS, cancer and other immune-related diseases. Biosystems seeks to harness the latest scientific discoveries to commercialize and market the potential of proprietary technologies that will form the basis of a range of new and potentially effective treatments for a variety of diseases. Genesis owns 85% of Biosystems, with the remaining 15% owned by Dr. Ronald Watson, a noted immunology professor and researcher. Unlike traditional biotechnology companies which can spend millions of dollars on research and development of new products, Biosystems will operate as a "virtual" company, seeking unique products that are fully developed or in the final stages of development. Biosystems then will attempt to commercialize and market these products via licensing agreements, with particular emphasis on introducing these products to China and the Pacific Rim. There can be no assurances that products will be acquired or developed or that Biosystems will have sufficient financial resources to bring these products to market. The company has no current plans to market or distribute products in the U.S. that require FDA approval. Biosystems has no revenues and is inactive.

-9-

On August 14, 2001, Genesis acquired 100% of PropaMedia, Inc., a provider of media rich Web hosting and distribution services, located in Los Angeles, CA. Propamedia offers end-to-end streaming and hosting services, including content capture, encoding and production, storage, live and on-demand video and audio streaming, and managed services. PropaMedia's services can be used for video and audio distribution services to transmit entertainment, sports, news, advertising, business communications, and distance learning content. PropaMedia's technologies support all major Internet audio and video formats. PropaMedia has developed proprietary streaming technologies that increase the number of end-users able to view video content at once, improve end-users' video viewing experience, and provide clients with real-time monitoring and reporting. On December 16, 2003, the Genesis Board voted to discontinue the operations of PropaMedia as it does not complement the company's continuing focus on the China market. The Company is in negotiations to sell Propamedia to an unrelated party in the near future.

On August 22, 2001, we acquired a majority interest (80%) of Shanghai G-Choice Science Development Company, Limited (G-Choice). G-Choice's business

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

services include computer product sales, network services, software development, and systems integration. G-Choice has extensive experience in computer system engineering, and software research and development, including its popular Point of Sale software, currently sold via a network of over 4,000 distributors throughout China. G-Choice was founded in 1999 and is located in Shanghai, China; has approximately 86 employees and has recently expanded its sales network to include other areas of China. On June 30, 2003, the Company sold G-Choice to theNetdigest.com, Inc.

In October 2001, we formed Espectus Systems, Inc. Espectus was an interactive, direct marketing company, specializing in permission-based e-mail marketing, media buying, customer relationship management and online surveys. Genesis owned 80% of Espectus. The company has discontinued the operations of Espectus as it was not generating significant cash-flow and did not complement Genesis' continuing focus on China.

### COMPETITION

We potentially face competition from a variety of sources. Each of our subsidiaries faces competition from other companies sharing their market niche. In addition, Genesis Technology Group faces competition for its services from other consulting firms specializing in the Chinese markets and other entities, many that may possess substantially greater resources than Genesis. Almost all of the companies with which Genesis and its subsidiaries will compete are substantially larger, have more substantial histories, backgrounds, experience and records of successful operations, greater financial, technical, marketing and other resources, more employees and more extensive facilities than Genesis now has, or will have in the foreseeable future. In addition to competing with other computer and electronics equipment companies, the Company could have to compete with larger US companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel if access is allowed into the PRC market. If US companies do gain access to the PRC markets, it may be able to offer products at a lower price. There can be no assurance that the Company will remain competitive should this occur. With China's recent entrance into the World Trade Organization, it is also likely that other competitors will emerge in the near future. There is no assurance that Genesis will compete successfully with other competing companies. Inability to compete successfully might result in increased costs, reduced yields and additional risks to the investors herein.

### RISK FACTORS AFFECTING OUR FUTURE RESULTS OF OPERATIONS

Our future results of operations involve a number of risks and uncertainties. With any business undertaking, their inherent unforeseeable risk in conducting business. The following paragraphs discuss a number of risks that could impact the company's financial condition and results of operations.

#### (a) Country risk

Currently, the Company's revenues are primarily derived from sale of computer equipment and accessories to customers in the Peoples Republic of China (PRC). The Company hopes to expand its operations to countries outside the PRC, however, such expansion has not been commenced and there are no assurances that the Company will be able to achieve such an expansion successfully. Therefore, a downturn or stagnation in the economic environment of the PRC could have a material adverse effect on the Company's financial condition.

#### (b) Products risk

Our commenced revenue-producing operations are limited and the information available about us makes an evaluation of us difficult. We have conducted limited operations and we have little operating history that permits you to evaluate our business and our prospects based on prior performance. You must consider your investment in light of the risks, uncertainties, expenses and

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

difficulties that are usually encountered by companies in their early stages of development, particularly those engaged in international commerce. In addition to competing with other computer and electronics equipment companies, the Company could have to compete with larger US companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel if access is allowed into the PRC market. If US companies do gain access to the PRC markets, it may be able to offer products at a lower price. There can be no assurance that the Company will remain competitive should this occur.

-10-

(c) Exchange risk

The Company generates revenue and incurs expenses and liabilities in Chinese renminbi and U.S. dollars. As a result, the Company is subject to the effects of exchange rate fluctuations with respect to any of these currencies. Since 1994, the official exchange rate for the conversion of renminbi to U.S. dollars has generally been stable and the renminbi has appreciated slightly against the U.S. dollar. However, given recent economic instability and currency fluctuations in the world, the Company can offer no assurance that the renminbi will continue to remain stable against the U.S. dollar or any other foreign currency. The Company's results of operations and financial condition may be affected by changes in the value of renminbi and other currencies in which its earnings and obligations are denominated. The Company has not entered into agreements or purchased instruments to hedge its exchange rate risks, although the Company may do so in the future.

(d) Additional capital which may not be available

We have begun to receive monthly retainers from a growing number of clients as well as some capital from the exercise of options. We believe these funds will only partially cover the costs of our operations. Therefore, depending upon the timing and rate at which we are able to produce revenues from operations, we may require additional capital in order to fund our operations. We cannot predict whether additional financing, if required, will be available to us on acceptable terms.

(e) Our future performance is dependent on its ability to retain key personnel

Our future success depends on the continued services of executive management in the United States and China. The loss of any of their services would be detrimental to us and could have an adverse effect on our business development. We do not currently maintain key-man insurance on their lives. Our future success is also dependent on our ability to identify, hire, train and retain other qualified managerial and other employees. Competition for these individuals is intense and increasing.

(f) Our business depends significantly upon the performance of our subsidiaries, which is uncertain.

Currently, a majority of our revenues are derived via the operations of our subsidiaries. Economic, governmental, political, industry and internal company factors outside our control affect each of our subsidiaries. If our subsidiaries do not succeed, the value of our assets and the price of our common stock could decline. Some of the material risks relating to our partner companies include:

- Two of our subsidiaries are located in China and have specific risks associated with that;
- Intensifying competition for our products and services and those of our subsidiaries, which could lead to the failure of some of our subsidiaries;



## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

- Our Biotechnology subsidiary, Biosystems, may be subject to changing governmental regulations and laws as they relate to the biomedical industry.

(g) A visible trading market for our common stock may not develop

Our common stock is currently traded on the Over-the-Counter Bulletin Board under the symbol "GTEC". The quotation of our common stock on the OTCBB does not assure that a meaningful, consistent and liquid trading market currently exists. We cannot predict whether a more active market for our common stock will develop in the future. In the absence of an active trading market:

- investors may have difficulty buying and selling or obtaining market quotations;
- market visibility for our common stock may be limited; and
- a lack of visibility for our common stock may have a depressive effect on the market price for our common stock.

### Other Risk Factors

There are several risks and uncertainties, including those relating to the Company's ability to raise money and grow its business and potential difficulties in integrating new acquisitions, especially as they pertain to foreign markets and market conditions. These risks and uncertainties can materially affect the results predicted. Other risks include the Company's limited operating history, the limited financial resources, domestic or global economic conditions, activities of competitors and the presence of new or additional competition, and changes in Federal or State laws and conditions of equity markets.

Genesis' future operating results over both the short and long term will be subject to annual and quarterly fluctuations due to several factors, some of which are outside the control of Genesis. These factors include but are not limited to fluctuating market demand for our services, and general economic conditions.

-11-

### GOVERNMENTAL REGULATION

#### Effect of Probable Governmental Regulation on the Business

As we expand our efforts to develop new products and services, we will have to remain attentive to relevant federal and state regulations. We intend to comply fully with all laws and regulations, and the constraints of federal and state restrictions could impact the success of our efforts.

As our services are available in multiple states and foreign countries, these jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each such state and foreign country. New legislation or the application of laws and regulations from jurisdictions in this area could have a detrimental effect upon our business. We cannot predict the impact, if any, that future regulatory changes or developments may have on our business, financial condition, or results of operation.

#### COST AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS

Our business is not subject to regulation under the state and federal laws regarding environmental protection and hazardous substances control. We are unaware of any bills currently pending in Congress which could change the application of such laws so that they would affect us.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### EMPLOYEES

Genesis and its subsidiaries currently have approximately 114 full-time and part-time employees. No employee of Genesis is covered by a collective bargaining agreement nor is represented by a labor union. Genesis considers its employee relations to be good.

Genesis and its US subsidiaries have 9 full-time and part-time employees. Shanghai Zhaoli has 85 full-time and part-time employees. Shanghai Yastock has 12 full-time and part-time employees.

### ITEM 2. DESCRIPTION OF PROPERTIES

Genesis Technology Group, Inc. leases approximately 2,496 sq. feet of office space in Boca Raton, Florida, under a three year lease. Such lease commenced January 1, 2003 with monthly rental payments of \$3,328.00 for year one and \$3,536.00 and \$3,744.00 per month for years two and three, respectively. In addition, the Company pays prorated amount of the building's operating expenses equal to approximately \$1,830 per month. Zhaoli leases 18,800 square feet of office, retailing and warehouse space in Shanghai, China under a one-year operating lease with monthly rental payment of \$6,876. Yastock leases 2,200 square feet of office space in Shanghai, China under a one-year operating lease with monthly rental payments of \$500. The company opened a Beijing office in 2003 without extra expenses to the Company.

All of the foregoing facilities are in good condition and are adequate for currently anticipated needs. We believe that in the event that the leases with respect to any of the aforementioned facilities should not be renewed, alternative space will be available at comparable rates.

### ITEM 3. LEGAL PROCEEDINGS

Master Financial Group, Inc. v Genesis Systems, Inc. (Court File No. 62-C7-01-000832) was filed on February 14, 2000, against Genesis Systems, Inc., a subsidiary of Genesis Technology Group, in the County of Ramsey, Minnesota, seeking to rescind a stock subscription agreement made with Genesis Systems, Inc. This lawsuit was dismissed without prejudice. We are not a party to any other material legal proceeding, nor are any of our officers, directors or affiliates a party adverse to us in any legal or regulatory proceeding.

Genesis Technology Group, Inc. reached a resolution of its litigation against "HYTT parties" on December 31, 2003. On behalf of the company, Becker & Poliakoff Law Firm had filed a lawsuit on June 6, 2003, which has been pending in the federal court in the Southern District of Florida, seeking contractual compensation due from transactions among Altos Bancorp, HYTT and other responsible parties.

-12-

The Settlement Agreement resulted in the company accepting 3,750,000 common shares of restricted Hy-Tech Technology Group, Inc. stock (OTCBB: HYTT). In a related matter, Genesis is conveying 300,000 of those shares to Elite Financial Communications Group, which had initially introduced the company to key principals among the HYTT parties.

On June 13, 2003, Genesis Technology Group, Inc. had announced that it won a judgment in the County Court of Palm Beach County in a separate lawsuit against

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

HYTT. The Court issued a default and final judgment decree on Monday, June 9, 2003. Within the required period, HYTT paid Genesis the full amount awarded plus court costs.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock is traded over-the-counter and quoted on the OTC Electronic Bulletin Board under the symbol "GTEC". The reported high and low sale prices for the common stock are shown below for the periods indicated. The prices reflect inter-dealer prices, without retail mark-up, markdown or commissions, and may not always represent actual transactions. As of September 30, 2003, we had approximately 2,500 stockholders of record.

|                                  | High    | Low     |
|----------------------------------|---------|---------|
| Fiscal 2002                      |         |         |
| Quarter ended December 31, 2001  | \$ 0.19 | \$ 0.04 |
| Quarter ended March 31, 2002     | \$ 0.56 | \$ 0.27 |
| Quarter ended June 30, 2002      | \$ 0.34 | \$ 0.15 |
| Quarter ended September 30, 2002 | \$ 0.19 | \$ 0.08 |
| Fiscal 2003                      |         |         |
| Quarter ended December 31, 2002  | \$ 0.19 | \$ 0.07 |
| Quarter ended March 31, 2003     | \$ 0.25 | \$ 0.08 |
| Quarter ended June 30, 2003      | \$ 0.17 | \$ 0.08 |
| Quarter ended September 30, 2003 | \$ 0.17 | \$ 0.12 |

On December 24, 2003, the closing bid price of our common stock was \$0.30

We have never paid cash dividends on our common stock. We intend to keep future earnings, if any, to finance the expansion of our business. We do not anticipate that any cash dividends will be paid in the foreseeable future.

#### THE APPLICATION OF THE "PENNY STOCK REGULATION" COULD HARM THE MARKET PRICE OF OUR COMMON STOCK

Our common stock currently trades on the OTC Bulletin Board. Since our common stock continues to trade below \$5.00 per share, our common stock is considered a "penny stock" and is subject to SEC rules and regulations, which impose limitations upon the manner in which our shares can be publicly traded.

These regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser's written agreement to a transaction prior to sale. These regulations have the effect of limiting the trading activity of our common stock and reducing the liquidity of an investment in our common stock.

-13-

Stockholders should be aware that, according to the Securities and Exchange Commission Release No. 34- 29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These patterns

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- "Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Furthermore, the "penny stock" designation may adversely affect the development of any public market for the Company's shares of common stock or, if such a market develops, its continuation. Broker-dealers are required to personally determine whether an investment in "penny stock" is suitable for customers.

Penny stocks are securities (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) of an issuer with net tangible assets less than \$2,000,000 (if the issuer has been in continuous operation for at least three years) or \$5,000,000 (if in continuous operation for less than three years), or with average annual revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Rule 15g-9 of the Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for the Company's stockholders to resell their shares to third parties or to otherwise dispose of them.

FUTURE SALES OF LARGE AMOUNTS OF COMMON STOCK COULD ADVERSELY EFFECT THE MARKET PRICE OF OUR COMMON STOCK AND OUR ABILITY TO RAISE CAPITAL.

Future sales of our common stock by existing stockholders pursuant to Rule 144 under the Securities Act of 1933, or following the exercise of future option grants, could adversely affect the market price of our common stock. Our directors and executive officers and their family members are not under lockup letters or other forms of restriction on the sale of their common stock. The issuance of any or all of these additional shares upon exercise of options will

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

dilute the voting power of our current stockholders on corporate matters and, as a result, may cause the market price of our common stock to decrease. Further, sales of a large number of shares of common stock in the public market could adversely affect the market price of the common stock and could materially impair our future ability to generate funds through sales of common stock or other equity securities.

-14-

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the financial statements of Genesis Technology Group, Inc. for the year ended September 30, 2003 and notes thereto contained in this Report on Form 10-KSB of Genesis Technology Group, Inc.

This report on Form 10-KSB contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements and from historical results of operations. Among the risks and uncertainties which could cause such a difference are those relating to our dependence upon certain key personnel, our ability to manage our growth, our success in implementing the business strategy, our success in arranging financing where required, and the risk of economic and market factors affecting us or our customers. Many of such risk factors are beyond the control of the Company and its management.

#### OVERVIEW

Genesis Technology Group Inc. ("Genesis", the "Company" or "we") is an international business development firm that specializes in leading and assisting companies in penetrating the Chinese market for business development and commerce, as well as assisting Chinese companies in penetrating the US market or listing in the US public market. We have a seat as a member of the Shanghai Technology Stock (Property Rights) Exchange, an organization that promotes the influx of technology into China.

Our key area of competency and focus is the Life and Health Science arena in China. Life and Health Science is comprised of different but related industries such as pharmaceuticals, environmental science, biotechnology, and healthcare development. These industries range from water, soil, and air testing and remediation to hospital facility development and management. These are new and robust areas in China that desperately need attention and expertise. Genesis' goal is to assist companies that are active in these areas in entering the Chinese market.

In addition to our business development services, we have also acquired companies in the U.S. and China for the purposes of further developing these companies, with managerial, operational, and financial support. Our model envisions and promotes opportunities for synergistic business relationships among all of the companies that we work with, both clients and subsidiaries.

As we continue to grow, acquisitions and mergers is a significant piece of our growth model. We are concentrating on mergers and acquisitions activity with firms in both the U.S. and China that mirror our strategy. These relationships will be built around consolidating key resources, financial and physical assets, brand names, and human resources.

We currently have three active subsidiary companies. We own 80% of one computer hardware and software manufacturer/distributor located in Shanghai China. We own 100% of two consulting companies, one in the U.S. and one in

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

China. We own 85% of an inactive biotechnology-marketing firm that is located in the United States.

### ACQUISITIONS AND DISPOSITIONS

On November 15, 2001, we acquired 80% of Shanghai Zhaoli Technology Development Company, Limited ("Zhaoli"), an Information Technology enterprise that integrates sales and technology with services. Currently, its sales cover printer, copier, scanner and network products, as well as network integration. In addition to hardware sales and service, Zhaoli focuses much of its resources on the development of proprietary software systems, such as its e-learning software for K-12 education in China. Zhaoli has approximately 65 employees at seven branches and exclusive stores in Shanghai and a strong and growing presence throughout eastern areas of China. The increase in sales mainly resulted from increasing demand from the market, as the Chinese government required all companies by July 1, 2003 to issue all transaction receipts and invoices by using a printer and a computer in order to smooth its tax collections. Zhaoli expects its sales will be increased significantly in the near future due to this new regulation. Zhaoli is planning to increase its sales, as well as increase its profit margin. Hardware has been low profit margin business historically.

On December 1, 2001, we acquired 80% of Yastock Investment Consulting Company, Limited ("Yastock"), an investment consulting firm located in Shanghai, China that specializes in consulting for Chinese and American companies in a number of areas, including financial, public relations, corporate management, corporate strategic evaluations and human resources. In addition to its ongoing business, Yastock's management oversees all of Genesis' operations in China and is an important source of financial and operational support for our Chinese subsidiaries. On January 1, 2002, we acquired the remaining 20% of Yastock, making it a wholly owned subsidiary. Yastock has 15 part and full-time employees.

-15-

### BUSINESS DEVELOPMENT

In addition to overseeing the operation of its subsidiaries, we have been growing our cross-pacific business development/consulting business. Management believes that China's entrance into the WTO offers a unique opportunity for Genesis to secure itself a position as a leader in the growing market for cross-pacific products, technology, capital, and property exchange. To that end, we market our self to other U.S. firms interested in Chinese partnerships for manufacturing and distribution of a variety of products in China, with a strong focus on the Life and Health Science arena

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (continued)

We currently have 24 clients under contract. In the last 12 months, we have grown our client base from 2 to 24 clients. Company management has met with over 400 firms that have shown significant interest in introducing their product or service to China or the U.S. We are assisting these clients in penetrating the Chinese market for the purposes of product and solutions sales, distribution, manufacturing, and/or research and development.

### RESULTS OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 2003 COMPARED THE YEAR ENDED SEPTEMBER 30, 2002

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### CONSOLIDATED RESULTS:

#### Revenues

For the year ended September 30, 2003, we had consolidated revenues of \$23,596,878 as compared to \$14,325,651 for the year ended September 30, 2002. This increase resulted substantially from increased revenues from our computer hardware and accessories segment and is discussed below.

#### Cost of Sales

For the year ended September 30, 2003, cost of sales directly related to our computer equipment and accessories segment and amounted to \$22,770,207 as compared to \$13,153,326 for the year ended September 30, 2002. This increase resulted substantially from increased revenue from our computer segment and is outlined below.

#### Operating Expenses

For the year ended September 30, 2003, operating expenses which include consulting fees, rent, salaries and non-cash compensation, depreciation expense and other selling, general and administrative, were \$2,316,644 as compared to \$1,451,721 for the year ended September 30, 2002.

#### Loss from sale/disposal of marketable securities

For the year ended September 30, 2003, we recorded a loss from the sale/disposal of marketable securities of \$1,563,525 as compared to \$16,352 for the year ended September 30, 2002. In Fiscal 2003, we wrote off the value of our common stock holdings in NetDigest.com, Inc. ("NET") of \$1,325,872 due the impairment in the value of these our common shares they are currently deemed to have little or no value. Additionally, we wrote off an investment on our Yastock subsidiary of \$191,052 due to the impairment in the value of this investment.

#### Interest Expense

Interest expense was \$30,000 for the year ended September 30, 2003 as compared to \$16,241 for the year ended September 30, 2002, an increase of \$13,759.

#### Discontinued Operations

During the year ended September 30, 2002, we concluded the sale of one of our Chinese subsidiaries. As a result of this sale, we recorded a \$475,304 gain from the sale of our G-Choice subsidiary for the year ended September 30, 2002. For the year ended September 30, 2003 we had a loss from discontinued operations of \$(3,890) and compared to income from discontinued operations of \$10,170 for the year ended September 30, 2002.

#### OVERALL

We reported a net loss for the year ended September 30, 2003 of \$(3,089,370) compared to a net loss for the year ended September 30, 2002 of \$(193,645). This translates to an overall per-share loss of (\$.09) for the year ended September 30, 2003 compared to per-share loss of (\$.01) for the year ended September 30, 2002.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### RESULTS OF OPERATIONS BY SEGMENT:

#### Consulting Services Segment

Revenue for the year ended September 30, 2003 was \$ 399,049 as compared to \$952,405 for the year ended September 30, 2002. This revenue was generated from business development services. The decrease in revenues was attributable to the fact that during fiscal 2002, we entered into an agreement to provide operational and managerial assistance to the theNETdigest.com for a total of 526,316 shares of the theNETdigest.com, Inc common stock (post a 1 for 19 reverse split, effective May 31, 2002). In connection with this consulting agreement, we recognized consulting revenues of \$0 and \$521,053 for the year ended September 30, 2003 and 2002, respectively.

For the year ended September 30, 2003, we incurred operating expenses of \$1,898,934 as compared to \$1,238,681 for the year ended September 30, 2002. For the year ended September 30, 2003, operating expenses consisted of rent of \$69,018, consulting fees of \$652,566, salaries and non-cash compensation of \$728,250 and other selling, general and administrative expenses of \$434,712. For the year ended September 30, 2002, operating expenses consisted of rent of \$41,207, consulting fees of \$504,223, salaries and non-cash compensation of \$333,121 and other selling, general and administrative expenses of \$348,223. The increase in operating expenses was primarily attributable to the following:

- (1) During fiscal 2002, we relocated our administrative offices into larger leased space. Accordingly, our rent expense increased in fiscal 2003 compared to fiscal 2002.
- (2) Our consulting expense increased to \$652,566 in fiscal 2003 from \$504,223 in fiscal 2002. The increase was due to increased non-cash consulting expenses recorded in fiscal 2003 in connection with the grant of stock options to consultants for services rendered.
- (3) Salaries and non-cash compensation expense increased to \$728,250 for fiscal 2003 from \$333,121 for fiscal 2002. In fiscal 2003, we increased our marketing and administrative staff by two persons. The remaining increase in salaries and non-cash compensation expense was attributable to the recording of non-cash compensation in connection with the granting of stock options to officers and employees.
- (4) Other selling, general and administrative expenses increased to \$434,712 for fiscal 2003 from \$348,223 for fiscal 2002, an increase of \$86,489. In fiscal 2003, we incurred additional insurance expense of approximately \$27,000 attributable to increased health insurance premiums paid for our employees. Additionally, we acquired our Chinese subsidiary, Yastock, on December 1, 2002. Accordingly, our other selling, general and administrative expense only includes ten months of expenses in fiscal 2002 as compared to twelve months in fiscal 2003.

For the year ended September 30, 2003, we incurred interest expense of \$ 30,018 as compared to \$ 16,467 for the year ended September 30, 2002.

#### Computer Equipment and Accessories Segment

Revenues for the year ended September 30, 2003 were \$23,197,829 as compared to \$13,373,246 to September 30, 2002 from our subsidiary Zhaoli, a Chinese company. This revenue was generated from sales of printers, copiers, network equipment and software licensing fees. The increase in sales mainly



## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

resulted from increasing demand from the market, as the Chinese government required all companies by July 1, 2003 to issue all transaction receipts and invoices by using a printer and a computer in order to smooth its tax collections.

Cost of sales for Zhaoli for the year ended September 30, 2003 amounted to \$22,770,207 or 98.2% of net sales as compared to \$13,153,326 or 98.4% of net sales for the year ended September 30, 2002. We continue to experience low gross profit margins on our products sales.

For the year ended September 30, 2003, operating expenses consisted of salaries and non-cash compensation of \$75,704, rent expense of \$144,968, and other selling, general and administrative expenses amounted to \$197,038 as compared to salaries expense of \$28,933, rent expense of \$81,003, and other selling, general and administrative expenses of \$103,104 for the year ended September 30, 2002. In fiscal 2003, we incurred additional rent due our growing need for warehouse space. Additionally, due to increased net revenues, we increased our workforce.

-17-

### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2003, we had a cash balance of \$ 184,798. As of September 30, 2003, our cash position by geographic area is as follows:

|               |            |
|---------------|------------|
| Cash          |            |
| United States | \$ 145,244 |
| China         | 39,554     |
|               | -----      |
| Total         | \$ 184,798 |
|               | =====      |

We are currently in negotiation with investors to raise up to \$2,000,000 in cash from the sale of securities. We anticipate finalizing this funding in the near future.

Management has invested substantial time evaluating and considering numerous proposals for possible acquisition or combination developed by management or presented by investment professionals, the Company's advisors and others. We continue to consider acquisitions, business combinations, or start up proposals, which could be advantageous to shareholders. No assurance can be given that any such project; acquisition or combination will be concluded.

We intend to continue our trading activities and as a consequence the future financial results of the Company may be subject to substantial fluctuations. As part of our investment activities, we may sell a variety of equity or debt securities obtained as revenues for business development services. Such investments often involve a high degree of risk and must be considered extremely speculative.

At September 30, 2003, our Company had stockholders' equity of \$255,808. Our Company's future operations and growth will likely be dependent on our ability to raise capital for expansion and to implement our strategic plan.

Net cash used in operations was \$(679,348) for the year ended September 30, 2003 as compared to net cash used in operations of \$(492,666) for the year ended September 30, 2002. The difference is due to the implementation of our new business model and the acquisition of our subsidiaries.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

Net cash provided by investing activities for the year ended September 30, 2003 was \$26,503 as compared to net cash provided by investing activities for the year ended September 30, 2002 of \$90,047. For the year ended September 30, 2003, we received \$44,650 from the sale of marketable securities offset by cash used for capital expenditures of \$(12,279) and the purchase of marketable equity securities of \$(5,868). For the year ended September 30, 2002, we received cash from our acquisitions of \$106,790, \$57,088 from the sale of marketable securities offset by cash used for capital expenditures of \$(73,831).

Net cash provided by financing activities were \$ 780,069 for the year ended September 30, 2003 as compared to \$ 395,419 for the year ended September 30, 2002. For the year ended September 30, 2003, net cash provided by financing activities related primarily to proceeds from the exercise of stock warrants and related party loans of \$ 420,089 and \$359,980, respectively. For the year ended September 30, 2002, net cash provided by financing activities related primarily to proceeds from loans payable and proceeds from the exercise of stock warrants of \$270,919 and \$124,500, respectively.

We currently have no material commitments for capital expenditures. Our future growth is dependent on our ability to raise capital for expansion, and to seek additional revenue sources. If we decide to pursue any acquisition opportunities or other expansion opportunities, we may need to raise additional capital, although there can be no assurance such capital-raising activities would be successful.

-18-

### RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has recently issued several new accounting pronouncements:

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as specified and for hedging relationships designated after June 30, 2003. The adoption of this statement did not have any material impact on the balance sheet or statement of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. Otherwise it will become effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement did not have any material impact on the balance sheet or statement of operations.

### CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included herein. Management

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the company's operating results and financial condition.

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

We account for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. We adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. We account for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

Our revenues from the sale of products are recorded when the goods are shipped. Consulting income is recognized on a straight-line basis over the period of the service agreement. Deferred revenues relates to consulting revenues that is being recognized over the period of the service agreement.

Marketable equity securities consist of investments in equity of publicly traded and non-public domestic companies and are stated at market value based on the most recently traded price of these securities at September 30, 2003. All marketable securities are classified as available for sale at September 30, 2003. Unrealized gains and losses, determined by the difference between historical purchase price and the market value at each balance sheet date, are recorded as a component of Accumulated Other Comprehensive Income in Stockholders' Equity. Realized gains and losses are determined by the difference between historical purchase price and gross proceeds received when the marketable securities are sold.

### OPERATING RISK

#### (a) Country risk

Currently, the Company's revenues are primarily derived from sale of computer equipment and accessories to customers in the Peoples Republic of China (PRC). The Company hopes to expand its operations to countries outside the PRC, however, such expansion has not been commenced and there are no assurances that the Company will be able to achieve such an expansion successfully. Therefore, a downturn or stagnation in the economic environment of the PRC could have a material adverse effect on the Company's financial condition. As experienced in Spring 2003, diseases such as SARS can significantly impact the PRC economy and affect the company productivity.

#### (b) Products risk

In addition to competing with other computer and electronics equipment companies, the Company could have to compete with larger US companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel if access is allowed into the PRC market. If US companies do gain access to the PRC markets, it may be able to offer products at a lower price. There can be no assurance that the Company will remain competitive should this occur.

(c) Exchange risk

The Company generates revenue and incurs expenses and liabilities in Chinese renminbi and U.S. dollars. As a result, the Company is subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the renminbi depends to a large extent on PRC's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of renminbi to U.S. dollars has generally been stable and the renminbi has appreciated slightly against the U.S. dollar. However, given recent economic instability and currency fluctuations, the Company can offer no assurance that the renminbi will continue to remain stable against the U.S. dollar or any other foreign currency. The Company's results of operations and financial condition may be affected by changes in the value of renminbi and other currencies in which its earnings and obligations are denominated. The Company has not entered into agreements or purchased instruments to hedge its exchange rate risks, although the Company may do so in the future.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of renminbi into foreign currency for current account items, conversion of renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency. The Company cannot be sure that the Company will be able to obtain all required conversion approvals for its operations; or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of the renminbi in the future. Because a significant amount of its revenues are in the form of renminbi, its inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit its ability to utilize revenue generated in renminbi to fund its business activities outside PRC.

(d) Political risk

Currently, PRC is in a period of growth and is openly promoting business development in order to bring more business into PRC. Additionally PRC allows a Chinese corporation to be owned by the United States corporation. If the laws or regulations are changed by the PRC government, the Company's ability to operate the PRC subsidiaries could be affected.

(e) Our future performance is dependent on its ability to retain key personnel

Our performance is substantially dependent on the performance of our senior management. In particular, the Company's success depends on the continued effort of our Senior Management to maintain all contact with our Chinese subsidiaries. The Company's inability to retain Senior Management could have a material adverse effect on our prospects, businesses, Chinese operations, financial conditions

ITEM 7. FINANCIAL STATEMENTS

See "Index to Financial Statements" for the financial statements included in this Form 10-KSB.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

# Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

## ITEM 8A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

-20-

## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

#### Directors and Executive Officers

The following table includes the names, positions held and ages of our executive officers and directors.

| NAME            | AGE | POSITION                                       |
|-----------------|-----|--|
| Gary Wolfson    | 55  | CEO and Director                               |
| Dr. James Wang  | 41  | Chairman of the Board, President, and Director |
| Adam Wasserman  | 39  | Chief Financial Officer                        |
| Kenneth Clinton | 30  | COO and Director                               |
| Dr. Li Shaoqing | 41  | Director                                       |
| Robert Zhuang   | 46  | Director                                       |

#### DATES, POSITION(S) HELD AND BUSINESS OR ACTIVITY

##### Gary Wolfson:

Mr. Wolfson was appointed Chief Executive Officer in August, 2003. Mr. Wolfson previously worked in the following positions:

1992-2003 - President/Director of Pacific Rim Consultants., a private Sino-American liaison consulting firm. During his tenure, he worked for numerous public and private companies, in the U.S. and China, in various capacities.

1971-1991 - Director/Owner of a private thoroughbred horse breeding and racing enterprise. Served as elected director/treasurer of the Florida Thoroughbred Breeders' Association, two terms.

##### Dr. James Wang:

Dr. Wang has served as President and Chairman of the Board of Directors of Genesis Technology since August 1, 2001. Dr. Wang earned his Ph.D. from the

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

University of Arizona in 1994. Dr. Wang previously worked in the following positions:

2000 to 2001- President, Master Financial Group, Inc., St. Paul, MN. This company provided consulting services for small private and public companies in the area of corporate finance, investor relations and business management

1997 to 2000 - Assistant Professor, School of Medicine at the University of Minnesota, Minneapolis, MN. Dr. Wang was engaged in the research of liver diseases, Immunology and Nutrition.

Adam Wasserman

-----  
Mr. Wasserman was appointed Chief Financial Officer in October, 2001. Mr. Wasserman previously worked in the following positions.

November 1999 to Present - CEO, CFO Oncall, Inc., Weston, FL. A provider of consultant accounting services specializing in financial reporting, budgeting and planning, mergers and acquisitions, auditing, accounting, automated systems, banking relations and internal controls.

June 1991 to November 1999 - Senior Audit Manager, American Express Tax and, Business Services, Fort Lauderdale, FL. Responsibilities included supervising, training and evaluating senior staff members, work paper review, auditing, maintaining positive client relations, preparation of tax returns and preparation of financial statements and the related footnotes.

September 1986 to May 1991 - Deloitte & Touche, LLP. Significant assignments included audits of public (SEC reporting) and private companies, tax preparation and planning, management consulting, systems design, staff instruction, and recruiting.

Mr. Wasserman holds a Bachelor of Administration from the State University of New York at Albany. He is a CPA and a member of The American Institute of Certified Public Accountants and is the treasurer of Gold Coast Venture Capital Club.

-21-

Kenneth Clinton

-----  
Mr. Clinton has more than a decade of journalism, public relations, and marketing expertise. Mr. Clinton has extensive experience in investor relations with a background in finance, risk management, economic forecasting and SEC reporting. He has coordinated investor relation's campaigns for companies ranging from NASDAQ, AMEX, and the OTC. Mr. Clinton was previously Vice President Sales and Marketing for an emerging technology company concentrating on the Pacific Rim. While working with top-level executives he developed effective, comprehensive management and communications strategies for firms such as Disney, Southland Corporation, and Texas Instruments.

Dr. Li Shaoqing

-----  
Dr. Li brings competent and qualified Asian/Pacific leadership to Genesis. Dr. Li is General Manager for Shenda Kobond New Materials Co. in Shanghai, China and Chairman of Shanghai Capitalmill Business Development Co. Dr. Li formerly served as Executive Vice President and Director of the world conglomerate the Top Group, China; Dr. Li was also President for Topsoft Limited and President for Top International (USA). Dr. Li has also been a noteworthy visiting scholar/Assistant Lecturer at the University of New South Wales, Australia where he completed his PhD.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

Robert Zhuang  
-----

Mr. Zhuang is a consultant located in Shanghai, China who specializes in raising capital and consulting in a number of areas, including trading information, public relations, corporate management, corporate strategic evaluations and human resources. One of two brothers of Dr. Wang, he too is an expert on Sino-American business strategies and he is dedicated to supporting the development of the Chinese capital market and providing medium and small enterprises with consulting services for marketing management, human resource management, stock investment, fundraising, financing, and public offerings in the United States.

Our directors are elected at each annual meeting of stockholders. Our directors hold office until the next annual meeting of stockholders. Board act as Compensation and Audit committee and Two Board of Directors are independent. Executive officers are elected by and serve at the discretion of the Board of Directors.

### Employment Agreements

Currently, we have three employment agreements with our officers. All three of the agreements are for one year and expire July 31, 2004. The agreement with its Chief Executive Officer provides for an annual salary of \$126,000. The agreement with the President of the Company provides for an annual salary of \$113,400. The agreement with the Company's V.P. of Business Development calls for an annual salary of \$100,800. These contracts include a 5% salary increase per annum, if renewed, based on Board review. Upon renewal of the contracts on August 1, 2003, each officer received 1,250,000 options to purchase shares of the Company's common stock (625,000 options at \$0.10 per share and 625,000 options at \$.056 per share). Our officer's receive a monthly expense allowance of \$650 for automobile and cellular phones. The Company has accrued all unpaid salaries due to the above officers as of September 30, 2003.

### Key-man life insurance

We do not have key-man life insurance on our officers or directors.

### Compliance with Section 16(a) of the Securities Exchange Act of 1934

The Company is not subject to Section 16(a) of the Securities Exchange Act of 1934, which requires the Company's directors and executive officers, and persons who own more than ten percent of the Company's outstanding Common Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock.

-22-

## ITEM 10. EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets forth information relating to all compensation awarded to, earned by or paid by us during the past three fiscal years to: (a) our Chief Executive Officer; and (b) each of our executive officers who earned more than \$100,000 during the last three fiscal periods ended September 30, 2003, 2002 and 2001:

Long-Term

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

| Name and Principal Position                           | Annual Compensation |               |            | Compensation                   |                              |                                       |
|---|---------------------|---------------|------------|--------------------------------|------------------------------|---------------------------------------|
|   | Fiscal Year         | Salary (\$)   | Bonus (\$) | Other Annual Compensation (\$) | Restricted Stock Awards (\$) | Securities Underlying Options SAR (#) |
| Gary Wolfson<br>Chief Executive Officer               | 2003                | \$121,000 (4) | \$ -       | \$ -                           | \$ 160,000 (1)               | 1,750,000                             |
|   | 2002                | \$ 20,000     | \$ -       | \$ -                           | \$ 50,000 (2)                | 500,000                               |
|   | 2001                | \$ -          | \$ -       | \$ -                           | \$ -                         | -                                     |
| Dr, James Wang<br>Chairman of the Board and President | 2003                | \$108,900 (5) | \$ -       | \$ -                           | \$ 212,000 (3)               | 2,400,000                             |
|   | 2002                | \$ 78,000     | \$ -       | \$ -                           | \$ 50,000 (2)                | 500,000                               |
|   | 2001                | \$ 12,000     | \$ -       | \$ -                           | \$ -                         | -                                     |
| Kernneth Clinton<br>Director and employee Officer     | 2003                | \$ 96,800 (6) | \$ -       | \$ -                           | \$ 160,000 (1)               | 1,750,000                             |
|   | 2002                | \$ 16,000     | \$ -       | \$ -                           | \$ 50,000 (2)                | 500,000                               |
|   | 2001                | \$ -          | \$ -       | \$ -                           | \$ -                         | -                                     |

(1) Represents the estimated value of 1,750,000 stock options granted to each individual, respectively, at exercise prices as follows:

| # of Options | Exercise Price |
|--------------|----------------|
| 500,000      | \$.052         |
| 625,000      | \$.100         |
| 625,000      | \$.056         |
| 1,750,000    |                |

(2) Represents the estimated value of 500,000 stock options granted to each individual, respectively, at an exercise price of \$.10.

(3) Represents the estimated value of 1,750,000 stock options granted to individual at an exercise price as follows for other annual compensation of \$160,000:

| # of Options | Exercise Price |
|--------------|----------------|
| 500,000      | \$.050         |
| 625,000      | \$.100         |
| 625,000      | \$.056         |
| 1,750,000    |                |

Additionally, represents the estimated value of 650,000 stock options granted to individual at an exercise price of \$0.10 based on re-pricing for an annual compensation of \$52,000: (4) Includes the value of 582,226 stock options granted and exercised to individual.

(5) Includes the value of 438,750 stock options granted and exercised to individual.

(6) Includes the value of 435,495 stock options granted and exercised to



Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

individual.

-23-

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning individual grants of options made during Fiscal 2003 to the Named Executive Officers.

|              | Number of Shares<br>Underlying Options<br>Granted (#) | % of Total<br>Options Granted<br>to Employees in<br>Fiscal Year | Exercise or<br>Base Price<br>(\$/Sh) | FMV of<br>Shares on<br>Grant Date | Expiration<br>Date |
|--------------|---|---|--------------------------------------|-----------------------------------|--------------------|
| Gary Wolfson | 500,000   | 30.1%   | \$ 0.052                             | \$ 0.13                           | June 2008          |
| Gary Wolfson | 625,000   | 30.1%   | \$ 0.100                             | \$ 0.14                           | August 2008        |
| Gary Wolfson | 625,000   | 30.1%   | \$ 0.056                             | \$ 0.14                           | August 2008        |
| Gary Wolfson | 282,226   | 30.1%   | \$ 0.14                              | \$ 0.14                           | (1)                |
| Gary Wolfson | 300,000   | 30.1%   | \$ 0.05                              | \$ 0.14                           | (1)                |
| James Wang   | 500,000   | 28.3%   | \$ 0.052                             | \$ 0.13                           | June 2008          |
| James Wang   | 625,000   | 28.3%   | \$ 0.100                             | \$ 0.14                           | August 2008        |
| James Wang   | 625,000   | 28.3%   | \$ 0.056                             | \$ 0.14                           | August 2008        |
| James Wang   | 300,000   | 28.3%   | \$ 0.05                              | \$ 0.14                           | (1)                |
| James Wang   | 138,750   | 28.3%   | \$ 0.14                              | \$ 0.14                           | (1)                |
| James Wang   | 650,000   | 28.3%   | \$ 0.10                              | \$ 0.08                           | May 2008           |
| Ken Clinton  | 500,000   | 28.2%   | \$ 0.052                             | \$ 0.13                           | June 2008          |
| Ken Clinton  | 625,000   | 28.2%   | \$ 0.100                             | \$ 0.14                           | August 2008        |
| Ken Clinton  | 625,000   | 28.2%   | \$ 0.056                             | \$ 0.14                           | August 2008        |
| Ken Clinton  | 200,000   | 28.2%   | \$ 0.05                              | \$ 0.14                           | (1)                |
| Ken Clinton  | 235,495   | 28.2%   | \$ 0.14                              | \$ 0.14                           | (1)                |

(1) Represents stock options granted and immediately exercised at various exercise prices for salary in lieu of cash.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END  
OPTION/SAR VALUES

The following table indicates each exercise of stock options (or tandem SARs) and freestanding SRAS during the last fiscal year by each of the named executive officers and the total number and value of exercisable and unexercisable stock options held by Named Executive Officers as of September 30, 2003.

| Name         | Shares acquired<br>on Exercise (#) | Value<br>Realized(\$) | Number of Securities<br>Underlying Unexercised<br>Options at Fiscal Year-End (#) |               | Value of Unexercised<br>In-the-Money<br>Options at Fiscal |
|--------------|------------------------------------|-----------------------|--|---------------|---|
|              |                                    |                       | Exercisable  | Unexercisable |   |
| Gary Wolfson | 1,082,226                          | \$ 80,512             | 1,250,000  | -             | \$ 265,000  |

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

|             |         |           |           |   |            |    |
|-------------|---------|-----------|-----------|---|------------|----|
| James Wang  | 438,750 | \$ 34,425 | 1,250,000 | - | \$ 265,000 | \$ |
| Ken Clinton | 935,495 | \$ 68,969 | 1,250,000 | - | \$ 265,000 | \$ |

-----

(1) Based on the OTC Bulletin Board last sales price for our common stock on December 26, 2003 of \$0.29 per common share versus exercise price.

In October 2002, the board of directors approved change of option prices for Drs. James Wang and Ken Shenkman from \$0.29 per share to \$0.10 per share and \$0.21 per share to \$0.10 per share for the fiscal year of 2002, respectively. The lowered option prices are in line with the stock price at that time and compensation packages for new management members who were employed in August 2002.

-24-

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of December 26, 2003, information known to us relating to the beneficial ownership of shares of common stock by: each person who is the beneficial owner of more than five percent of the outstanding shares of common stock; each director; each executive officer; and all executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner in the table set forth below is care of Genesis Technology Group, Inc., 777 Yamato Rd, Suite 130, Boca Raton FL 33431

We believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

Under the securities laws, a person is considered to be the beneficial owner of securities that can be acquired by him within 60 days from the date of this filing upon the exercise of options, warrants or convertible securities. We determine beneficial owner's percentage ownership by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person and which are exercisable within 60 days of the date of this filing, have been exercised or converted. As of December 26, 2003, there were 40,079,325 shares of our common stock issued and outstanding. The issued and outstanding shares do not include 10,910,000 shares of our common stock issuable upon the exercise of warrants and options.

| Names and Address of<br>Beneficial Owner                       | Number of shares<br>Beneficially Owned | Percentage of shares<br>Beneficially Owned |
|--|--|--|
| Gary Wolfson   | 1,723,417                              | 4.1%                                       |
| James Wang   | 1,640,000                              | 4.1%                                       |
| Kenneth Clinton  | 1,678,500                              | 4.1%                                       |
| All executive officers and directors as a group<br>(3 persons) | 4,869,500                              | 12.3%                                      |

(1) Mr. Wolfson's holdings include Options to purchase 1,250,000 shares of Common Stock. Of his shares, 3224,052 are held in a trust for Mr. Wolfson's children for which he is one of three Trustees.

(2) Dr. Wang's holdings include Options to purchase 1,250,000 shares of Common Stock.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

(3) Mr .Clinton's holdings include Options to purchase 1,250,000 shares of Common Stock

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

James Wang, an officer of the Company, advanced funds to the Company for working capital purposes. The advances are non-interest bearing and are payable on demand. At September 30, 2003, the Company owed him \$44,627.

A minority shareholder of our Zhaoli subsidiary, advanced \$349,112 to this subsidiary for working capital purposes. These advances are non-interest bearing and are payable on demand.

On April 1, 2002, we borrowed \$80,000 from Fugen Li, an individual related to an officer of the Company. The loan bears interest at 10% per annum and is unsecured. All unpaid principal and accrued interest was payable on April 1, 2003. In the event of default of the loan agreement, the Lender is to receive common shares of the Company at a 25% discount to the average closing price of the previous 20 trading days free trading shares of the Company's common stock equal to the total amount due to the lender. As of September 30, 2003, this loan is in default and remains unpaid. In connection with this default, the Company has recorded a beneficial conversion feature of \$20,000, which was recorded as interest expense for the year ended September 30, 2003.

On July 31, 2002, the Company borrowed \$20,000 from an individual related to an officer of the Company. The loan bears interest at 10% per annum and is unsecured. All unpaid principal and accrued interest was payable on January 1, 2003. At the option of the lender, the entire obligation may be repaid with common stock calculated by dividing the amount due by the average closing common stock price for ten days prior to the repayment discounted by 40%, with a maximum price of \$0.13 per share. The beneficial conversion feature present in the issuance of this note payable as determined on the date funds were received under the loan agreement totaled \$12,500 and was recorded as interest expense and additional paid-in capital. As of September 30, 2003, no conversion had occurred and the loan remains unpaid.

-25-

### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

#### A. EXHIBITS: (a) Exhibits

- 2 Agreement and Plan of Reorganization between Virginia City Gold Mines, Inc. and Psychicnet.com, Inc. dated March 8, 1999 (1)
- 2.1 Agreement and Plan of Merger between Newagecities.com, Inc., New Leaf Distributing Company and Al-Wali Corporation, dated April 6, 2001. (4)
- 2.2 Agreement and Plan of Reorganization and Stock Purchase Agreement between Newagecities.com, Inc. and Genesis Systems, Inc. (5)
- 2.3 Stock Purchase Agreement by and Among Newagecities.com and PropaMedia (6)
- 2.4 Stock Purchase Agreement by and Among Newagecities.com and G-Choice (6)
- 2.5 Stock Purchase Agreement dated November 15, 2001 by and between Genesis Technology Group, Inc., Zhaoli Science and Technology Development Company, Limited and the Majority Shareholder of Zhaoli Science and Technology Development Company, Limited. (7)
- 2.6 Stock Purchase Agreement dated December 1, 2001 by and between Genesis Technology Group, Inc, Yastock Investment Consulting

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

- Company, Limited and the majority shareholders of Yastock Investment Consulting Company, Limited. (7)
- 2.7 Agreement and Plan of Merger And Reorganization by and among theNETdigest.Com, Inc. as Acquiror, Shanghai G-Choice Science & Technology Company Ltd as Acquiree and the Shareholders of Shanghai G-Choice Science & Technology Company Ltd. (9)
- 3.1 Articles of Incorporation (1)
- 3.2 Articles of Amendment to the Articles of Incorporation (1)
- 3.3 Articles of Amendment to the Articles of Incorporation (1)
- 3.4 Bylaws
- 5.1 Opinion of Atlas, Pearlman, Trop & Borkson, P.A.\*
- 10.1 Employment Agreement between newagecities.com, Inc. and Joseph Ardito (1)
- 10.2 Employment Agreement between newagecities.com, Inc. and Kenneth Shenkman (1)
- 10.3 Employment Agreement between newagecities.com, Inc. and Stanley Siegel (1)
- 10.4 Lease Agreement between newagecities.com, Inc. and R.A. La Pointe (1)
- 10.5 Internet Consulting/Marketing Agreement between Psychicnet.com, Inc. and Virtual Financial Corp. (1)
- 10.6 License Agreement between newagecities, Inc. and Q Sound Labs, Inc. (1)
- 10.7 Merger Agreement and Plan of Reorganization (1)
- 10.8 Lease Agreement between newagecities.com, Inc. and R.A. La Pointe (2)
- 10.9 Note, Security Agreement and Warrant between newagecities.com, Inc. and Marc Siegel (2)
- 10.10 Form of Subscription Agreement, Note and Registration Rights Agreement; Warrants and Stock Pledge Agreement (2)
- 10.11 Consulting Agreement between newagecities.com, Inc. and Phillip W. Johnston dated June 15, 2000. (3)
- 10.12 Genesis Technology Group, Inc. 2002 Stock Option Plan. (8)
- 10.13 Employment Agreement with James Wang (8)
- 10.14 Employment Agreement with Kenneth Shenkman (8)
- 10.15 Employment Agreement with Adam Wasserman (8)
- 10.16 Genesis Technology Group Amendment No.1 to 2002 Stock Option Plan. (11)
- 10.17 Genesis Technology Group 2003 Stock Option Plan. (12)
- 16 Letter of Grassi & Co. CPAs, P.C. (Formerly Feldman Sherb & Co., P.C.) (10)
- 23.1 Consent of Feldman Sherb Ehrlich & Co. Certified Public Accountants (1)
- 23.2 Consent of Atlas, Pearlman, Trop & Borkson, P.A. (contained in such firm's opinion filed as Exhibit 5.1) (1)
- 31.1 Certification of Chief Executive Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 302 of the Sarbanes-Oxley Act of 2002 (\*)
- 31.2 Certification of Principal Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 302 of the Sarbanes-Oxley Act of 2002 (\*)
- 32.1 Certification of Chief Executive Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002 (\*)
- 32.2 Certification of Chief Financial Officer in accordance with 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002 (\*)

(1) Incorporated by reference to exhibits filed with our registration statement on form SB-2 file on 9/1/99.

(2) Incorporated by reference to exhibits filed with our registration statement on form SB-2/A filed on 1/5/00.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

- (3) Incorporated by reference to exhibits filed with Form S-8 filed on 7/14/00.
- (4) Incorporated by reference to exhibits filed with Form 8-K filed on 4/23/01.
- (5) Incorporated by reference to exhibits filed with Form 8-K filed on 8/16/01.
- (6) Incorporated by reference to exhibits filed with Form 8-K filed on 9/12/01.
- (7) Incorporated by reference to exhibits filed with Form 8-K filed on 1/14/02.
- (8) Incorporated by reference to exhibits filed with Form S-8 filed on 3/26/02.
- (9) Incorporated by reference to exhibits filed with Form 8-K filed on 7/15/02.
- (10) Incorporated by reference to exhibits filed with Form 8-K filed on 10/29/02.
- (11) Incorporated by reference to exhibits filed with Form S-8 filed on 12/17/02.
- (12) Incorporated by reference to exhibits filed with Form S-8 filed on 6/5/03.
- (\* ) Filed herewith

### (b) Reports on 8-K

On June 13, 2003 the Company filed an 8-K with regard to legal suit against Hy-Tech Technology Group, Inc. (OTCBB: HYTT). The Court issued a default and final judgment decree on Monday, June 9, 2003.

-26-

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

### AUDIT FEES

The aggregate fees billed by the Company's auditors for professional services rendered in connection with the audit of the Company's annual consolidated financial statements for fiscal 2003 and 2002 and reviews of the consolidated financial statements included in the Company's Forms 10-KSB for fiscal 2003 and 2002 were approximately \$47,000 and \$63,000, respectively.

### AUDIT-RELATED FEES

The Company's auditors did not bill any additional fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees" above.

### TAX FEES

The aggregate fees billed by the Company's auditors for professional services for tax compliance, tax advice, and tax planning were \$0 and \$0 for fiscal 2003 and 2002, respectively.

### ALL OTHER FEES

The aggregate fees billed by the Company's auditors for all other non-audit services rendered to the Company, such as attending meetings and other miscellaneous financial consulting, in fiscal 2003 and 2002 were \$0 and \$0, respectively.

-27-

# Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENESIS TECHNOLOGY GROUP, INC.

By: /s/ Gary Wolfson

-----  
Gary Wolfson  
Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| SIGNATURE<br>-----                              | TITLE<br>-----                          | DATE<br>-----    |
|---|---|------------------|
| /s/ Gary Wolfson<br>-----<br>Gary Wolfson       | Chief Executive Officer<br>and Director | January 13, 2004 |
| /s/ Dr. James Wang<br>-----<br>James Wang       | Chairman of the Board and<br>President  | January 13, 2004 |
| /s/ Adam Wasserman<br>-----<br>Adam Wasserman   | Chief Financial Officer                 | January 13, 2004 |
| /s/ Ken Clinton<br>-----<br>Ken Clinton         | Director                                | January 13, 2004 |
| /s/ Dr. Li Shaoqing<br>-----<br>Dr. Li Shaoqing | Director                                | January 13, 2004 |
| /s/ Robert Zhuang<br>-----<br>Robert Zhuang     | Director                                | January 13, 2004 |

CONTENTS

|   |             |
|---|-------------|
| Report of Independent Certified Public Accountants..... | F-2         |
| Consolidated Financial Statements:                      |             |
| Consolidated Balance Sheet.....                         | F-3         |
| Consolidated Statements of Operations.....              | F-4         |
| Consolidated Statement of Stockholders' Equity.....     | F-5         |
| Consolidated Statements of Cash Flows.....              | F-6         |
| Notes to Consolidated Financial Statements.....         | F-7 to F-34 |

F-1

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
Genesis Technology Group, Inc  
Boca Raton, Florida

We have audited the accompanying consolidated balance sheet of Genesis Technology Group, Inc. and Subsidiaries as of September 30, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended September 30, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 amount and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis Technology Group, Inc. and Subsidiaries as of September 30, 2003, and the results of their operations and their cash flows for the years ended September 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/Sherb & Co., LLP  
Certified Public Accountants

New York, New York  
December 23, 2003

F-2

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET

|   | September 30,<br>2003<br>----- |
|---|--------------------------------|
| ASSETS  |                                |
| CURRENT ASSETS:   |                                |
| Cash and cash equivalents   | \$ 184,798                     |
| Marketable equity securities  | 180,851                        |
| Accounts receivable (net of allowance for<br>doubtful accounts of \$17,000) | 266,927                        |
| Inventories   | 246,914                        |
| Prepaid expenses and other  | 270,624                        |
|   | -----                          |
| Total Current Assets  | 1,150,114                      |
|   | -----                          |
| PROPERTY AND EQUIPMENT - Net  | 116,589                        |
|   | -----                          |
| OTHER ASSETS:   |                                |
| Goodwill  | 10,540                         |
| Other assets  | 46,495                         |
|   | -----                          |
| Total Other Assets  | 57,035                         |
|   | -----                          |
| Total Assets  | \$ 1,323,738                   |
|   | =====                          |



# Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

## LIABILITIES AND STOCKHOLDERS' EQUITY

|   |              |
|---|--------------|
| CURRENT LIABILITIES:  |              |
| Loans payable   | \$ 220,919   |
| Accounts payable and accrued expenses   | 302,378      |
| Deferred revenue  | 115,833      |
| Due to related parties  | 393,739      |
|   | -----        |
| Total Current Liabilities   | 1,032,869    |
|   | -----        |
| MINORITY INTEREST   | 35,061       |
|   | -----        |
| STOCKHOLDERS' EQUITY:   |              |
| Preferred stock (\$.001 Par Value; 20,000,000 Shares Authorized;<br>no shares issued and outstanding)       | -            |
| Common stock (\$.001 Par Value; 200,000,000 Shares Authorized;<br>36,323,824 shares issued and outstanding) | 36,324       |
| Additional paid-in capital  | 14,203,424   |
| Accumulated deficit   | (13,571,990) |
| Less: Deferred compensation   | (252,417)    |
| Less: Subscriptions receivable  | (120,150)    |
| Accumulated other comprehensive loss  | (39,383)     |
|   | -----        |
| Total Stockholders' Equity  | 255,808      |
|   | -----        |
| Total Liabilities and Stockholders' Equity  | \$ 1,323,738 |
|   | =====        |

See notes to consolidated financial statements

F-3

## GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

|                                    | For the Years Ended<br>September 30, |               |
|------------------------------------|--------------------------------------|---------------|
|                                    | 2003                                 | 2002          |
|                                    | -----                                | -----         |
| NET REVENUES                       | \$ 23,596,878                        | \$ 14,325,651 |
| COST OF SALES                      | 22,770,207                           | 13,153,326    |
|                                    | -----                                | -----         |
| GROSS PROFIT                       | 826,671                              | 1,172,325     |
|                                    | -----                                | -----         |
| OPERATING EXPENSES:                |                                      |               |
| Consulting                         | 652,566                              | 504,223       |
| Salaries and non-cash compensation | 803,954                              | 307,420       |

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

|  |                |              |
|--|----------------|--------------|
| Selling, general and administrative  | 860,124        | 640,078      |
|  | -----          | -----        |
| Total Operating Expenses   | 2,316,644      | 1,451,721    |
|  | -----          | -----        |
| LOSS FROM OPERATIONS   | (1,489,973)    | (279,396)    |
| OTHER INCOME (EXPENSE):  |                |              |
| Loss from sale of marketable securities  | (16,601)       | (16,352)     |
| Loss on impairment of marketable securities  | (1,546,924)    | -            |
| Interest expense, net  | (30,000)       | (16,241)     |
|  | -----          | -----        |
| Total Other Income (Expense)   | (1,593,525)    | (32,593)     |
|  | -----          | -----        |
| LOSS BEFORE DISCONTINUED OPERATIONS AND<br>MINORITY INTEREST                         | (3,083,498)    | (311,989)    |
|  | -----          | -----        |
| DISCONTINUED OPERATIONS:   |                |              |
| Gain from sale of subsidiary   | -              | 475,304      |
| (Loss) income from discontinued operations   | (3,890)        | 10,179       |
|  | -----          | -----        |
| Total (Loss) Income from<br>Discontinued Operations                                  | (3,890)        | 485,483      |
|  | -----          | -----        |
| (LOSS) INCOME BEFORE MINORITY INTEREST AND<br>CUMULATIVE EFFECT OF ACCOUNTING CHANGE | (3,087,388)    | 173,494      |
| MINORITY INTEREST IN INCOME OF SUBSIDIARY  | (1,982)        | (7,760)      |
|  | -----          | -----        |
| (LOSS) INCOME BEFORE CUMULATIVE EFFECT OF<br>ACCOUNTING CHANGE                       | (3,089,370)    | 165,734      |
| CUMULATIVE EFFECT OF CHANGE IN<br>ACCOUNTING PRINCIPLE                               | -              | (359,379)    |
|  | -----          | -----        |
| NET LOSS   | \$ (3,089,370) | \$ (193,645) |
|  | =====          | =====        |
| (LOSS) INCOME PER COMMON SHARE: - BASIC AND DILUTED                                  |                |              |
| Income (loss) from continuing operations   | \$ (0.09)      | \$ (0.02)    |
| Income (loss) from discontinued operations   | (0.00)         | 0.02         |
| Cumulative effect of accounting change   | -              | (0.01)       |
|  | -----          | -----        |
| Net loss) per common share<br>- basic and diluted                                    | \$ (0.09)      | \$ (0.01)    |
|  | =====          | =====        |
| Weighted Common Shares Outstanding<br>- Basic and Diluted                            | 32,504,629     | 24,943,991   |
|  | =====          | =====        |

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

See notes to consolidated financial statements

F-4

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 For the Years Ended September 30, 2003 and 2002

|  | Common Stock, \$.001 Par Value |          |                                  |                        |                          |                   |
|--|--------------------------------|----------|----------------------------------|------------------------|--------------------------|-------------------|
|  | Number<br>of Shares            | Amount   | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Deferred<br>Compensation | Subscrip<br>Recei |
| Balance, September 30, 2001  | 23,614,353                     | \$23,615 | \$11,234,183                     | \$(10,288,975)         | \$ -                     | \$ -              |
| Common shares issued<br>in connection with<br>acquisitions                                     | 492,000                        | 492      | 268,268                          | -                      | -                        | -                 |
| Stock options granted to<br>consultants and employees  | -                              | -        | 466,402                          | -                      | -                        | -                 |
| Common stock issued for<br>services  | 750,000                        | 750      | 87,000                           | -                      | -                        | -                 |
| Shares issued from exercise<br>of stock options  | 2,553,000                      | 2,553    | 387,447                          | -                      | -                        | (178)             |
| Common stock issued for debt   | 263,000                        | 263      | 24,722                           | -                      | -                        | -                 |
| Common stock retired in<br>connection with sale of<br>subsidiary                               | (400,000)                      | (400)    | (67,600)                         | -                      | -                        | -                 |
| Beneficial interest on<br>convertible note payable   | -                              | -        | 12,500                           | -                      | -                        | -                 |
| Other comprehensive income:  |                                |          |                                  |                        |                          |                   |
| Net loss   | -                              | -        | -                                | (193,645)              | -                        | -                 |
| Comprehensive loss - unrealized<br>loss on marketable equity<br>securities-net of taxes of \$0 | -                              | -        | -                                | -                      | -                        | -                 |
| Total comprehensive loss   | -                              | -        | -                                | -                      | -                        | -                 |
| Balance, September 30, 2002  | 27,272,353                     | 27,273   | 12,412,922                       | (10,482,620)           | -                        | (178)             |
| Stock options granted to<br>consultants and employees  | -                              | -        | 990,618                          | -                      | (529,869)                | -                 |

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

|  |            |           |              |                 |              |              |
|--|------------|-----------|--------------|-----------------|--------------|--------------|
| Common stock issued for services   | 1,580,000  | 1,580     | 180,620      | -               | -            |              |
| Shares issued from exercise of stock options   | 8,176,471  | 8,176     | 713,821      | -               | -            | (84)         |
| Common stock returned for cancellation of subscription receivable                                  | (705,000)  | (705)     | (114,557)    | -               | -            | 142          |
| Amortization of deferred consulting fees   | -          | -         | -            | -               | 277,452      |              |
| Beneficial conversion feature - default on note  | -          | -         | 20,000       | -               | -            |              |
| Other comprehensive income:  |            |           |              |                 |              |              |
| Net loss   | -          | -         | -            | (3,089,370)     | -            |              |
| Comprehensive loss - change in unrealized loss on marketable equity securities-net of taxes of \$0 | -          | -         | -            | -               | -            |              |
| Total comprehensive loss   | -          | -         | -            | -               | -            |              |
|  | -----      | -----     | -----        | -----           | -----        | -----        |
| Balance, September 30, 2003  | 36,323,824 | \$ 36,324 | \$14,203,424 | \$ (13,571,990) | \$ (252,417) | \$ (120,000) |
|  | =====      | =====     | =====        | =====           | =====        | =====        |

See notes to consolidated financial statements  
F-5

GENESIS TECHNOLOGY GROUP, INC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | For the Year Ended<br>September 30, |              |
|--|-------------------------------------|--------------|
|  | 2003                                | 2002         |
|  | -----                               | -----        |
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                                     |              |
| Loss from continuing operations  | \$ (3,085,480)                      | \$ (679,000) |
| Adjustments to reconcile loss from continuing operations to net cash used in operating activities: |                                     |              |
| Depreciation and amortization  | 21,783                              | 17,000       |
| Loss on sale of marketable securities  | 16,601                              | 16,000       |
| Loss from impairment of marketable securities  | 1,546,924                           | 553,000      |
| Grant and exercise of stock options to consultants and employees                                   | 738,375                             | 87,000       |
| Common stock issued for services   | 182,200                             | 87,000       |

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

|  |            |        |
|--|------------|--------|
| Minority interest  | 1,982      | (31,   |
| Marketable equity securities received for consulting services  | (254,000)  | (745,  |
| Loss from impairment of goodwill   | -          | 359,   |
| Beneficial interest on convertible debt  | 20,000     | 12,    |
| Write off of subscription receivable   | 26,899     |        |
| Increase in allowance for doubtful accounts  | 17,000     |        |
| Changes in assets and liabilities:   |            |        |
| Accounts receivable  | (200,606)  | 165,   |
| Inventories  | (59,868)   | 40,    |
| Prepaid and other current assets   | (120,969)  | 83,    |
| Due from related party   | -          | 18,    |
| Other assets   | (42,550)   | (4,    |
| Accrued payable and accrued expenses   | 518,146    | (343,  |
| Due to related party   | -          | 26,    |
| Deferred revenues  | (6,667)    | (61,   |
|  | -----      | -----  |
| NET CASH USED IN CONTINUING OPERATING ACTIVITIES   | (680,230)  | (485,  |
|  | -----      | -----  |
| (Loss) income from discontinued operations   | (3,890)    | 485,   |
| Adjustments to reconcile (loss) income from discontinued operations to net cash provided by (used in) discontinued operating activities: |            |        |
| Gain on sale of subsidiary   | -          | (475,  |
| Net increase (decrease) in net liabilities from discontinued operations  | 4,772      | (17,   |
|  | -----      | -----  |
| NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATING ACTIVITIES   | 882        | (7,    |
|  | -----      | -----  |
| NET CASH USED IN OPERATING ACTIVITIES  | (679,348)  | (492,  |
|  | -----      | -----  |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |            |        |
| Cash acquired in acquisition   | -          | 106,   |
| Proceeds from sale of marketable securities  | 44,650     | 57,    |
| Increase in marketable securities  | (5,868)    |        |
| Capital expenditures   | (12,279)   | (73,   |
|  | -----      | -----  |
| NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES  | 26,503     | 90,    |
|  | -----      | -----  |
| CASH FLOWS FROM FINANCING ACTIVITIES:  |            |        |
| Proceeds from loans payable  | -          | 270,   |
| Due to related party   | 359,980    |        |
| Proceeds from exercise of stock options  | 420,089    | 124,   |
|  | -----      | -----  |
| NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES  | 780,069    | 395,   |
|  | -----      | -----  |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS   | 127,224    | (7,    |
| CASH AND CASH EQUIVALENTS - beginning of year  | 57,574     | 64,    |
|  | -----      | -----  |
| CASH AND CASH EQUIVALENTS - end of year  | \$ 184,798 | \$ 57, |
|  | =====      | =====  |

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

#### Noncash investing and financing activities:

|  |            |          |
|--|------------|----------|
| Common stock issued for debt                               | \$ 217,597 | \$ 24,   |
|  | =====      | =====    |
| Common stock retired in connection with sale of subsidiary | \$ -       | \$ 68,   |
|  | =====      | =====    |
| Common stock issued for subscription receivable            | \$ 308,233 | \$ 178,  |
|  | =====      | =====    |
| Acquisition details:                                       |            |          |
| Fair value of assets acquired                              | \$ -       | \$ 813,  |
|  | =====      | =====    |
| Liabilities assumed  | \$ -       | \$ (544, |
|  | =====      | =====    |
| Common stock issued for acquisitions                       | \$ -       | \$ (268, |
|  | =====      | =====    |
| Goodwill   | \$ -       | \$ 10,   |
|  | =====      | =====    |

See notes to consolidated financial statements.

F-6

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2003

#### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### The Company

Genesis Technology Group, Inc. (the "Company" or "Genesis") is a business development firm that specializes in assisting small and mid-sized companies in entering the Chinese market. The Company's strategy includes marketing itself as a resource for these companies in marketing, distribution, manufacturing, forming joint ventures, or establishing a base in China. As a part of that strategy, the Company has become a member of the Shanghai Technology Stock (Property Rights) Exchange, an organization that promotes the influx of technology into China. The Company also has acquired companies in the U.S. and China for the purposes of further developing these companies, with operational, managerial and financial support. The strategy also envisions and promotes opportunities for synergistic business relationships among all of the companies that Genesis works with, both clients and subsidiaries.

Genesis Technology Group, Inc., formerly Psychicnet.Com, Inc. ("Psychic"), was formed on January 29, 1999 to provide "New Age" services and products on the Internet. On April 6, 1999, Psychic was acquired by Virginia City Gold Mines,

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

Inc. ("VCGM"), an Idaho corporation, for 2,200,000 shares of VCGM stock (the "Exchange"). The Exchange was completed pursuant to the Agreement and Plan of Reorganization between Psychic and VCGM. The Exchange had been accounted for as a reverse acquisition under the purchase method for business combinations. Accordingly, the combination of the two companies was recorded as a recapitalization of Psychic, pursuant to which Psychic is treated as the continuing entity. Subsequent to the Exchange, with the approval of the Board of Directors, VCGM changed its name to Newagecities.com, Inc ("Newage").

On August 1, 2001, Newage completed the Agreement and Plan of Reorganization and Stock Purchase Agreement entered into on July 23, 2001 with Genesis Systems, Inc., a Minnesota corporation and the shareholders of Genesis, Yongwen Zhuang, Fugen Li and Master Financial Group, Inc. As a result of the acquisition, the Company issued 10,312,500 shares of its common stock in exchange for all of the capital stock of Genesis Systems. In connection with the transaction, Yongwen Zhuang and Fugen Li each received 5,000,000 shares of Common Stock and Master Financial Group, Inc. received 312,500 shares of Common Stock of the Company. Genesis Systems has been in existence since August 2000 and has earned revenues by providing consulting services for small public and private companies regarding public relations, corporate financing, mergers and acquisitions, e-commerce, business operations support and marketing. Genesis' strategy includes the internal development and operation of subsidiaries within the Company family, as well as investment in other technology companies either directly by the Company, or through other venture capital arrangements. Genesis will not operate as an investment company.

F-7

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company (Continued)

On August 22, 2001, Newage entered into a Stock Purchase Agreement with Shanghai G-Choice Science and Technology Development Company Ltd. ("G-Choice") and the shareholders of G-Choice. G-Choice is a Chinese company with principal offices in Shanghai, China. Under this agreement, the shareholders of G-Choice exchanged 80% of the issued and outstanding capital stock of G-Choice in exchange for 800,000 shares of the Company's common stock. Effective June 30, 2002, the Company sold this subsidiary.

On October 12, 2001 the shareholders of Newage voted upon and approved an Agreement and Plan of Merger providing for the merger of the Company with and into Genesis Technology Group, Inc., a Florida corporation, wholly-owned by the Company. The purpose of the merger was to change the Company's domicile from Idaho to Florida. In addition, the Company's name has changed to Genesis Technology Group, Inc., which better reflects the Company's current business plan.

On November 15, 2001, the Company entered into a Stock Purchase Agreement with Shanghai Zhaoli Technology Development Company, Limited ("Zhaoli") and Zhaoli's shareholder. Zhaoli is a Chinese company with principal offices in Shanghai,

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

China. Zhaoli is an information technology company that integrates sales and technology with services. Currently, its sales cover printer, copier, scanner and network products, as well as network integration. Zhaoli also develops proprietary software systems, such as its e-learning software for K-12 education in China. Currently, approximately 98% of consolidated revenues for the year ended September 30, 2003 were derived from this subsidiary.

On December 1, 2001, the Company entered into a Stock Purchase Agreement with Yastock Investment Consulting Company, Limited ("Yastock") and the shareholders of Yastock. Yastock is an investment consulting firm located in Shanghai, China that specializes in raising capital and consulting in a number of areas, including trading information, public relations, corporate management, corporate strategic evaluations and human resources.

### Basis of presentation

The consolidated statements include the accounts of Genesis Technology Group, Inc. and its wholly and partially owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

### Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less and money market accounts to be cash equivalents.

F-8

## GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventory

Inventories, consisting of computer equipment and accessories, are stated at the lower of cost or market utilizing the first-in, first-out method.

#### Fair value of financial instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, loans and amounts due to related parties approximate their fair market value based on the short-term maturity of these instruments.

#### Income taxes

Income taxes are accounted for under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

#### Marketable equity securities

Marketable equity securities consist of investments in equity of publicly traded



## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

and non-public domestic companies and are stated at market value based on the most recently traded price of these securities at September 30, 2003. All marketable securities are classified as available for sale at September 30, 2003. Unrealized gains and losses, determined by the difference between historical purchase price and the market value at each balance sheet date, are recorded as a component of Accumulated Other Comprehensive Income in Stockholders' Equity. Realized gains and losses are determined by the difference between historical purchase price and gross proceeds received when the marketable securities are sold.

### Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of the assets, which are from five to seven years. 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.

F-9

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Foreign currency translation

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are converted into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," and are included in determining net income or loss.

For foreign operations with the local currency as the functional currency, assets and liabilities are translated from the local currencies into U.S. dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at weighted average exchange rates for the period to approximate translation at the exchange rates prevailing at the dates those elements are recognized in the financial statements. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive loss.

The functional currency of the Company's Chinese subsidiaries, Zhaoli and

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

Yastock, is the local currency. The financial statements of the subsidiaries are translated to United States dollars using year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not material during the periods presented. The cumulative translation adjustment and effect of exchange rate changes on cash at September 30, 2003 was not material.

### Comprehensive loss

The Company uses Statement of Financial Accounting Standards No. 130 (SFAS 130) "Reporting Comprehensive Income". Comprehensive income is comprised of net loss and all changes to the statements of stockholders' equity, except those due to investments by stockholders', changes in paid-in capital and distributions to stockholders. Comprehensive loss for the years ended September 30, 2003 and 2002 amounted to \$(2,036,816) and \$(1,298,602), respectively.

F-10

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its cash with high credit quality financial institutions. Almost all of the Company's sales are credit sales which are primarily to customers whose ability to pay is dependent upon the industry economics prevailing in these areas; however, concentrations of credit risk with respect to trade accounts receivables is limited due to generally short payment terms. The Company also performs ongoing credit evaluations of its customers to help further reduce credit risk.

#### Stock based compensation

The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS 148, "Accounting for Stock-Based Compensation -Transition and Disclosure", which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, "Accounting for Stock Based Compensation", the Company's net loss and loss per share would have been changed to the pro forma amounts indicated below for the years ended September 30, 2003 and 2002:

|                          | 2003           | 2002         |
|--------------------------|----------------|--------------|
|                          | -----          | -----        |
| Net earnings             |                |              |
| As reported              | \$ (3,089,370) | \$ (193,645) |
| Pro forma                | \$ (3,108,705) | \$ (504,053) |
| Basic earnings per share |                |              |
| As reported              | \$ (.09)       | \$ (.01)     |
| Pro forma                | \$ (.10)       | \$ (.02)     |

The above pro forma disclosures may not be representative of the effects on reported net earnings for future years as options vest over several years and the Company may continue to grant options to employees.

F-11

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Research and development

Research and development costs are expensed as incurred.

Revenue recognition

The Company's revenues from the sale of products are recorded when the goods are shipped. Consulting income is recognized on a straight-line basis over the period of the service agreement. Deferred revenues relates to consulting revenues that is being recognized over the period of the service agreement.

Advertising

Advertising is expensed as incurred. Advertising expenses for the years ended September 30, 2003 and 2002 totaled approximately \$21,000 and \$48,000, respectively.

Recent accounting pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as specified and for hedging relationships designated after June 30, 2003. The adoption of this statement did not have any material impact on the balance sheet or statement of operations.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. Otherwise it will become effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement did not have any material impact on the balance sheet or statement of operations.

### Reclassifications

Certain prior periods' balances have been reclassified to conform to the current period's financial statement presentation. These reclassifications had no impact on previously reported results of operations or stockholders' equity.

F-12

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 2 - PROPERTY AND EQUIPMENT

At September 30, 2003, property and equipment consisted of the following:

|                                | Estimated Life |    |          |
|--------------------------------|----------------|----|----------|
| Office Furniture               | 7 Years        | \$ | 56,600   |
| Computer Equipment             | 5 Years        |    | 18,104   |
| Office Equipment               | 5 Years        |    | 105,400  |
|                                |                |    | -----    |
|                                |                |    | 180,104  |
| Less: Accumulated Depreciation |                |    | (63,515) |
|                                |                |    | -----    |
|                                |                | \$ | 116,589  |
|                                |                |    | =====    |

For the year ended September 30, 2003 and 2002, depreciation expense amounted to \$21,783 and \$17,098, respectively.

### NOTE 3 - ACQUISITIONS AND DIVESTITURES

On August 1, 2001, the Company completed the Agreement and Plan of Reorganization and Stock Purchase Agreement entered into on July 23, 2001 with Genesis Systems, Inc., a Minnesota corporation and the shareholders of Genesis, Yongwen Zhuang, Fugen Li and Masterfinancial Group, Inc. As a result of the acquisition, the Company issued 10,312,500 shares of its common stock with a fair market value of \$701,250 in exchange for all of the capital stock of Genesis Systems. The Company accounted for this acquisition using the purchase method of accounting. The purchase price exceeded the fair value of net assets acquired by \$359,379. The excess has been applied to goodwill. The results of operations of Genesis Systems, Inc. are included in the accompanying financial statements from August 1, 2001 (effective date of acquisition) to September 30, 2001 and for the year ended September 30, 2002. As of September 30, 2002, the Company determined that the carrying value of its goodwill was impaired due to

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

continuing losses. Also, future positive cash flows could not be estimated. Upon adoption of SFAS 142, the Company recorded a one-time, non-cash charge of \$359,379 to write off the carrying value of Genesis System, Inc.'s goodwill. Such charge is non-operational in nature and is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

On August 14, 2001, the Company entered into a Stock Purchase Agreement with PropaMedia, Inc. ("PropaMedia") and the shareholders of PropaMedia. Under this agreement, the Company acquired all of the issued and outstanding capital stock of PropaMedia in exchange for all of the shares of Member Net, Inc., a wholly-owned subsidiary of the Company. Upon effectiveness of the Stock Purchase Agreement, PropaMedia became a wholly-owned subsidiary of the Company and the former shareholders of PropaMedia acquired a wholly-owned interest in Member Net, Inc. from the Company. The Company accounted for this acquisition using the purchase method of accounting. Propamedia began operations in July 2001. In September 2002, the Company decided to discontinue the operations of Propamedia. Propamedia is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

F-13

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 3 - ACQUISITIONS AND DIVESTITURES (Continued)

On November 15, 2001, the Company entered into a Stock Purchase Agreement with Shanghai Zhaoli Technology Development Company, Limited ("Zhaoli") and Zhaoli's shareholder. Zhaoli is a Chinese company with principal offices in Shanghai, China. Zhaoli is an information technology company that integrates sales and technology with services. Currently, its sales cover printer, copier, scanner and network products, as well as network integration. Zhaoli also develops proprietary software systems, such as its e-learning software for K-12 education in China. As a result of the acquisition, the Company issued 400,000 shares of its common stock with a fair market value of \$220,000 in exchange for 80% of the capital stock of Zhaoli. The Company accounted for this acquisition using the purchase method of accounting. The purchase price exceeded the fair value of net assets acquired by \$5,651. The excess has been applied to goodwill. The results of operations of Zhaoli are included in the accompanying financial statements from November 15, 2001 (effective date of acquisition) to September 30, 2002 and for the year ended September 30, 2003.

On December 1, 2001, the Company entered into a Stock Purchase Agreement with Yastock Investment Consulting Company, Limited ("Yastock") and the shareholders of Yastock. Yastock is an investment consulting firm located in Shanghai, China that specializes in raising capital and consulting in a number of areas, including trading information, public relations, corporate management, corporate strategic evaluations and human resources. As a result of the acquisition, the Company issued 92,000 shares of its common stock with a fair market value of \$48,760 in exchange for 80% of the capital stock of Yastock. The Company accounted for this acquisition using the purchase method of accounting. The purchase price exceeded the fair value of net assets acquired by \$4,889. The excess has been applied to goodwill. Subsequently, the Company acquired the remaining 20% of Yastock for \$18,000. The results of operations of Yastock are included in the accompanying financial statements from December 1, 2001 (effective date of acquisition) to September 30, 2002 and for the year ended September 30, 2003.

# Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

## Acquisition and Sale of Subsidiary

Effective June 30, 2002, the Company sold its 80% interest in its subsidiary Shanghai G-Choice Science and Technology Development Company Ltd. ("G-Choice") for 1,549,791 common shares of the NETdigest.com, Inc. ("NET"). As a part of this transaction, G-Choice executive management, which is unaffiliated with Genesis received a total of 8,155,474 shares of NET stock and received from G-Choice an additional 210,526 shares of NET stock in exchange for 400,000 shares of the Company's stock. G-Choice is a Chinese company with principal offices in Shanghai, China. The Company concluded the sale of G-Choice as of June 30, 2002. As a result of the sale of G-Choice, the Company recorded a \$475,304 gain from the sale of G-Choice in the quarter ended June 30, 2002. G-Choice is reported separately as a discontinued operation, and prior periods have been restated in the Company's financial statements, related footnotes and the management's discussion and analysis to conform to this presentation.

F-14

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 3 - ACQUISITIONS AND DIVESTITURES (Continued)

Additionally, on March 26, 2002, Genesis entered into an agreement to provide operational and managerial assistance to the theNETdigest.com for a total of 526,316 shares of the theNETdigest.com, Inc common stock (post a 1 for 19 reverse split, effective May 31, 2002). Prior to completing this transaction, theNETdigest.com, Inc., whose stock trades on the Pink Sheets, had limited business operations and activities. In connection with this consulting agreement, which was entered into by the Company prior to the sale of G-Choice, for the year ended September 30, 2002, the Company recognized consulting revenue of \$521,053.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisitions of Genesis Systems, Inc., Zhaoli and Yastock had occurred as of the following periods:

|   | Year Ended<br>September 30, 2002<br>----- |
|---|---|
| Net Revenues                                  | \$ 15,946,000                             |
| Net Loss from continuing operations           | \$ (257,000)                              |
| Net Loss per Share from continuing operations | \$ (.01)                                  |

Pro forma data does not purport to be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented and is not intended to be a projection of future results.

#### NOTE 4 - LOANS PAYABLE

On April 1, 2002, the Company borrowed \$80,000 from an individual related to an officer of the Company. The loan bears interest at 10% per annum and is unsecured. All unpaid principal and accrued interest was payable on April 1, 2003. In the event of default of the loan agreement, the Lender is to receive common shares of the Company at a 25% discount to the average closing price of the previous 20 trading days free trading shares of the Company's common stock

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

equal to the total amount due to the lender. As of September 30, 2003, this loan is in default and remains unpaid. In connection with this default, the Company has recorded a beneficial conversion feature of \$20,000, which was recorded as interest expense for the year ended September 30, 2003.

On May 29, 2002, the Company borrowed \$50,000 from an individual. The loan bears interest at 10% per annum and was secured by certain marketable securities held by the Company and 200,000 shares of the Company's common stock. All unpaid principal and accrued interest was payable on September 30, 2002. . In the event of default of the loan agreement, the Lender is to receive 200,000 common shares. In fiscal 2003, the Company repaid this loan by giving 100,000 shares of Sense Holdings, Inc. common stock owned by the Company and 200,000 shares of the Company's common stock.

F-15

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

NOTE 4 - LOANS PAYABLE (Continued)

On July 31, 2002, the Company borrowed \$20,000 from an individual related to an officer of the Company. The loan bears interest at 10% per annum and is unsecured. All unpaid principal and accrued interest was payable on January 1, 2003. At the option of the lender, the entire obligation may be repaid with common stock calculated by dividing the amount due by the average closing common stock price for ten days prior to the repayment discounted by 40%, with a maximum price of \$0.13 per share. The beneficial conversion feature present in the issuance of this note payable as determined on the date funds were received under the loan agreement totaled \$12,500 and was recorded as interest expense and additional paid-in capital. As of September 30, 2003, no conversion had occurred and the loan remains unpaid.

The Company's Chinese subsidiary, Zhaoli, entered into a loan agreement with a Chinese bank to borrow \$120,919. The loan bears interest at a rate of 5.85% per annum and is payable prior to March 25, 2004.

NOTE 5 - DISCONTINUED OPERATIONS

Effective June 30, 2002, the Company sold its 80% interest in its subsidiary Shanghai G-Choice Science and Technology Development Company Ltd. ("G-Choice") and in September 2002, the Company decided to discontinue the operations of Propamedia. The following financial data reflects a summary of operating results for the Company's discontinued operations for the year ended September 30, 2003 and 2002.

Summary of Operating Results of Discontinued Operations (approximate):

|                    | Year Ended<br>-----<br>September 30,<br>2003<br>----- | Year Ended<br>-----<br>September 30,<br>2002<br>----- |
|--------------------|---|---|
| Revenues .....     | \$ 2,404,200  | \$ 14,021,000   |
| Cost of sales..... | 2,333,800   | 13,668,000  |
|                    | -----   | -----   |

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

|  |         |           |
|--|---------|-----------|
| Gross profit .....                             | 70,400  | 353,000   |
| Selling, general and administrative expenses . | 74,300  | 343,000   |
|  | -----   | -----     |
| Income (loss) from discontinued operations..   | (3,900) | \$ 10,000 |
|  | =====   | =====     |

At September 30, 2003, net assets from discontinued operations consisted of cash of \$428,000, accounts receivable of \$211,000, other assets of \$3,000 and accounts payable of \$641,000.

F-16

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2003

NOTE 6 - INCOME TAXES

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" "SFAS 109". SFAS 109 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards. SFAS 109 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The Company has a net operating loss carryforward for tax purposes totaling approximately \$3,116,000 and a capital loss carryforward of approximately \$1,000,000 at September 30, 2003 expiring through the year 2023. Internal Revenue Code Section 382 places a limitation on the amount of taxable income that can be offset by carryforwards after a change in control (generally greater than a 50% change in ownership). Temporary differences, which give rise to a net deferred tax asset, are as follows:

|   | 2003        | 2002      |
|---|-------------|-----------|
|   | -----       | -----     |
| Deferred tax benefits (liability) - current |             |           |
| Allowance for doubtful accounts             | \$ 6,400    | -         |
| Deferred tax benefits - noncurrent          |             |           |
| Net operating loss carryforward             | 1,184,000   | 742,000   |
| Capital loss carryforward                   | 380,000     | -         |
|   | -----       | -----     |
| Total deferred tax assets                   | 1,570,400   | 742,000   |
| Less: Valuation allowance                   | (1,570,400) | (742,000) |
|   | -----       | -----     |
|   | \$ -        | \$ -      |
|   | =====       | =====     |

The table below summarizes the differences between the Company's effective tax rate and the statutory federal rate as follows for fiscal 2003 and 2002:

| 2003  | 2002  |
|-------|-------|
| ----- | ----- |



Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

|   |         |          |
|---|---------|----------|
| Computed "expected" tax expense (benefit) | (34.0)% | 34.0%    |
| State income taxes                        | (4.0)%  | 4.0%     |
| Other permanent differences               | 10.0%   | 108.0%   |
| Change in valuation allowance             | 28.0%   | (146.0)% |
|   | -----   | -----    |
| Effective tax rate                        | 0.0%    | 0.0%     |
|   | =====   | =====    |

The valuation allowance at September 30, 2003 was \$1,570,400. The increase during fiscal 2003 was \$828,400.

F-17

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2003

NOTE 7 - SEGMENT INFORMATION

The following information is presented in accordance with SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. In the year ended September 30, 2003 and 2002, the Company operated in two reportable business segments - (1) sale of computer equipment and accessories and (2) consulting services for small public and private companies regarding public relations, corporate financing, mergers and acquisitions, e-commerce, business operations support and marketing. The Company's reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations.

Information with respect to these reportable business segments for the year ended September 30, 2003 and 2002 is as follows:

|                                       | For the Year Ended<br>September 30, 2003 | For the Year Ended<br>September 30, 2002 |
|---------------------------------------|--|--|
|                                       | -----                                    | -----                                    |
| Net Revenues:                         |  |  |
| Computer Equipment and Accessories    | \$ 23,197,829                            | \$ 13,373,246                            |
| Consulting Services                   | 399,049                                  | 952,405                                  |
| Consolidated Net Revenue              | 23,596,878                               | 14,325,651                               |
|                                       | -----                                    | -----                                    |
| Cost of Sales and Operating expenses: |  |  |
| Computer Equipment and Accessories    | 23,180,522                               | 13,361,175                               |
| Consulting Services                   | 1,884,546                                | 1,226,774                                |
|                                       | -----                                    | -----                                    |
| Depreciation:                         |  |  |
| Computer Equipment and Accessories    | 7,395                                    | 5,191                                    |
| Consulting Services                   | 14,388                                   | 11,907                                   |
|                                       | -----                                    | -----                                    |

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

Interest Expense:

|                                    |        |        |
|------------------------------------|--------|--------|
| Computer Equipment and Accessories | -      | -      |
| Consulting Services                | 30,018 | 16,467 |

Income (Loss):

|                                    |                |              |
|------------------------------------|----------------|--------------|
| Computer Equipment and Accessories | \$7,930        | \$4,632      |
| Consulting Services                | (3,097,300)    | (198,277)    |
| Net Loss                           | \$ (3,089,370) | \$ (193,645) |

Total Assets at September 30, 2003 and 2002:

|                                    |            |              |
|------------------------------------|------------|--------------|
| Computer Equipment and Accessories | \$ 915,196 | \$ 428,003   |
| Consulting Services                | 408,542    | 724,560      |
| Consolidated Asset Total           | 1,323,738  | \$ 1,152,563 |

F-18

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2003

NOTE 7 - SEGMENT INFORMATION (Continued)

For the year ended September 30, 2003 and 2002, the Company derived approximately 98% and 96% of its revenue from its subsidiaries located in the People's Republic of China, respectively. Sales and identifiable assets by geographic areas for the years ended September 30, 2003 and 2002, and as of September 30, 2003, respectively, were as follows:

|               | Revenues                                    |              |    | Identifiable Assets<br>at September 30,<br>2003 |
|---------------|---|--------------|----|---|
|               | For the Year Ended<br>September 30,<br>2003 | 2002         |    |   |
| United States | \$ 372,784                                  | \$ 622,803   | \$ | 300,926   |
| China         | 23,224,094                                  | 13,702,848   |    | 1,022,812                                       |
| Total         | \$23,596,878                                | \$ 4,325,651 | \$ | 1,323,738                                       |

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### NOTE 8 - RELATED PARTY TRANSACTIONS

Due from related party

An officer of the Company advanced funds to the Company for working capital purposes. The advances are non-interest bearing and are payable on demand. At September 30, 2003, the Company owed this related party \$44,627. Additionally, a minority shareholder of the Company's Zhaoli subsidiary, advanced \$349,112 to this subsidiary for working capital purposes. These advances are non-interest bearing and are payable on demand.

### NOTE 9 - STOCKHOLDERS' EQUITY

Preferred stock

The Company is authorized to issue 20,000,000 shares of Preferred Stock, par value \$.001, with such designations, rights and preferences as may be determined from time to time by the Board of Directors.

Common Stock

On October 1, 2001, the Company entered into a one year consulting agreement with a third party for business development services. In connection with this consulting agreement, the Company issued 263,000 shares of common stock for debt. The Company valued these shares at their market value on the date of issuance of \$.095 per share and reduced accrued expenses by \$24,985 related to these consulting services.

F-19

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

Common Stock (continued)

On October 12, 2001, the Company changed its capital structure to increase the authorized number of shares which the corporation shall have authority to issue to (i) 200,000,000 shares of common stock, par value \$.001 per share and (ii) 20,000,000 shares of Preferred stock, par value \$.001.

In October 2001, the Company issued 250,000 shares of common stock to a consultant for investor relations. Such shares were valued at their market value on the date of issuance of \$.095 per share. The Company recorded consulting expense of \$23,750 related to the consulting services.

On November 15, 2001 and December 1, 2001, the Company issued 400,000 and 92,000 shares of common stock in connection with the acquisition of Zhaoli and Yastock, respectively (see note 2).

In March 2002, the Company issued 300,000 and 141,000 shares of common stock to an officer and a consultant, respectively, in connection with exercise of 441,000 stock options for net proceeds of \$124,500.

In April 2002, in connection with the exercise of stock options, the Company

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

issued 592,000 shares of common stock to two former employees for promissory notes in the amount of \$133,000, which is shown in stockholders' equity as a subscription receivable. In October 2002, one of the former employees returned 200,000 shares of common stock for the cancellation of a subscription receivable related to these shares in amount of \$70,000. In connection with this transaction, the Company recorded additional consulting expense of \$21,388.

In July 2002, in connection with the exercise of stock options, the Company issued 240,000 shares of common stock to a consultant for services rendered. Since the Company did not receive any cash for the exercise of these options, the Company recorded professional fees of \$38,400 based on the exercise price of the underlying stock option granted.

On August 5, 2002, the Company entered into a five-month consulting agreement with a third party for business development services. In connection with this consulting agreement, the Company agreed to issue an aggregate of 1,000,000 shares of common stock for services rendered over the contract period unless terminated earlier. During September 2002, the Company terminated this agreement. Accordingly, in connection with this agreement, the Company issued 200,000 shares of common stock for services rendered prior to termination. The Company valued these shares at their market value on the date of issuance of \$.16 per share and recorded consulting expense of \$32,000 related to the consulting services.

F-20

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

##### Common Stock - Continued

In connection with the sale of a subsidiary, the Company received and cancelled 400,000 shares of the Company's common stock.

In August 2002, in connection with the exercise of 200,000 stock options, the Company issued 200,000 shares of common stock for a promissory note in the amount of \$45,000. In November 2002, the Company received net proceeds of \$10,000 related to these shares. The remaining balance of \$35,000 has not been collected as of September 30, 2003, and is shown in stockholders' equity as a subscription receivable. The Company has initiated legal action against this individual related to the collection of this balance.

In August and September 2002, in connection with consulting agreements, the Company issued 400,000 restricted shares of common stock for services rendered. The Company valued these shares at their market value on the date of issuance of \$.12 per share and recorded consulting expense of \$48,000, which was amortized over the service period.

On September 20, 2002, in connection with the exercise of stock options, the Company issued 980,000 shares of common stock to employees for services rendered. Since the Company did not receive any cash for the exercise of these options, the Company reduced accrued salaries by \$49,000 based on the exercise price of the underlying stock options granted.

On October 3, 2002, in connection the settlement of debt with a third party, the Company issued 200,000 shares of common stock for services rendered. The Company

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

valued these shares at their market value on the date of issuance of \$.10 per share and recorded consulting expense of \$20,000.

On October 7, 2002, in connection with a consulting agreement with a third party, the Company issued 600,000 restricted shares of common stock for services rendered. The Company valued these shares at their market value on the date of issuance of \$.095 per share and recorded consulting expense of \$57,000 related to the consulting services.

On October 31, 2002, in connection with the exercise of stock options, the Company issued 720,000 shares of common stock to a consultant for net proceeds of \$49,900.

In November 2002, in connection with a consulting agreement with a third party, the Company issued 180,000 restricted shares of common stock for services rendered. The Company valued these shares at their market value on the date of issuance of \$.14 per share and recorded consulting expense of \$25,200 related to the consulting services.

F-21

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

##### Common Stock - Continued

On December 19, 2002, in connection with the exercise of stock options, the Company issued 750,000 shares of common stock to a consultant for a subscription receivable of \$100,000. On February 6, 2003, the consultant returned 505,000 shares of the Company's common stock due to the cancellation of this agreement, thus reducing the subscription receivable balance by \$67,317. The Company collected net proceeds of \$27,839 related to these shares and wrote off the remaining subscription receivable balance of \$4,844 to consulting fees.

On December 24, 2002, in connection with the exercise of stock options, the Company issued 600,000 shares of common stock to a consultant for net proceeds of \$49,000 and a subscription receivable of \$41,000, which was paid subsequent to September 30, 2003.

On December 31, 2002, in connection with the exercise of stock options, the Company issued 1,000,000 shares of common stock to employees for services rendered. Since the Company did not receive any cash for the exercise of these options, the Company reduced accrued salaries by \$68,000 based on the exercise price of the underlying stock options granted.

On January 3, 2003, the Company entered into an agreement with a public relations company. The term of this agreement was for forty-five (45) days; the Company issued such consultant 400,000 shares of its common stock for these services. The Company valued these shares at the fair market value on the date of the agreement or \$0.14 per share and recorded consulting expense of \$56,000.

On January 7, 2003, the Company issued 800,000 shares of its common stock relating to the exercise of options held by certain employees and consultants for net proceeds of \$50,000, the reduction of debt of \$13,688, and compensation expense of \$26,312.

On February 19, 2003, the Company issued 700,000 shares of its common stock

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

relating to the exercise of stock options. The Company received proceeds of \$79,100.

On May 8, 2003, the Company issued 500,000 shares of its common stock relating to the exercise of options held by a certain executive.

On May 8, 2003, the Company issued 200,000 shares of its common stock relating to the exercise of options held by a consultant. The Company received proceeds of \$20,000 related to this share issuance.

On June 8, 2003, the Company issued 1,123,000 and 915,000 shares of its common stock relating to the exercise of options held by certain executives and consultants, respectively. The Company received proceeds of \$104,250, reduced accrued salaries by \$41,050, recorded consulting fees of \$15,990, and has a subscription receivable of \$27,350 related to these share issuances.

F-22

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

##### Common Stock - Continued

On July 21, 2003, in connection with consulting agreements, the Company issued 200,000 restricted shares of common stock for services rendered. The Company valued these shares at their market value on the date of issuance of \$.12 per share and recorded consulting expense of \$24,000 related to these consulting services.

On July 15, 2003, the Company issued 120,000 shares of its common stock relating to the exercise of stock options for a promissory note in the amount of \$16,800, which is shown in stockholders' equity as a subscription receivable.

In August and September 2003, in connection with the exercise of stock options, the Company issued 748,471 shares of common stock to employees for services rendered. Since the Company did not receive any cash for the exercise of these options, the Company reduced accrued salaries and accounts payable by \$89,725 and \$11,960, respectively, based on the exercise price of the underlying stock options granted.

##### Stock Options

On October 31, 2002, the Board of Directors adopted the Company's 2002 Stock Option Plan (the "2002 Plan"). The stated purpose of the 2002 Plan is to provide directors, officers and employees of, and consultants to the Company and its subsidiaries, if any, with additional incentives by increasing their ownership interests in the Company. Directors, officers and other employees of the Company and its subsidiaries are eligible to participate in the 2002 Plan. Options may also be granted to directors who are not employed by the Company and consultants providing valuable services to the Company and its subsidiaries. In addition, individuals who have agreed to become an employee of, director of or a consultant to the Company and its subsidiaries are eligible for option grants, conditional in each case on actual employment, directorship or consultant

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

status. Any incentive option granted under the Plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our outstanding common stock must not be less than 110% of fair market value on the date of the grant. The term of each Plan option and the manner in which it may be exercised is determined by the Board of Directors or the committee, provided that no option may be exercisable more than ten years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the common stock, no more than five years after the date of the grant.

F-23

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

##### Stock Options (Continued)

In October, 2001, 950,000 options were granted to James Wang with an exercise price of \$.29 per share, 1,000,000 options were granted to Kenneth Shenkman with an exercise price of \$.21, 240,000 options were granted to Adam Wasserman with an exercise price of \$.35 and 200,000 were granted to an employee of the Company with an exercise price of \$.16. The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Since the exercise price was greater than the current market value at the date of grant, no compensation expense has been recognized.

On October 1, 2001, the Company issued 500,000 stock options to a consultant for investor relations services. 250,000 of the options were granted with an exercise price of \$.25 per shares and 250,000 options were granted at \$.50. The options expired on October 1, 2003. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 131 percent; risk-free interest rate of 4.50 percent and an expected holding period of 6 months. In connection with these options, the company recorded non-cash compensation of \$4,000.

On January 25, 2002, the Company entered into a one year consulting agreement with a third party for business development and marketing services. In connection with this consulting agreement which commenced on February 1, 2002, the Company was granted 50,000 options per month to purchase shares of common stock for services rendered for an aggregate of 600,000 options. The options had an exercise price of \$.35 per share and expire five years from grant date. For the year ended September 30, 2003 and 2002, the Company granted 400,000 and 200,000 options under the agreement, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 77 to 108 percent; risk-free interest rate of 4.50 percent and an expected holding period of 5 years. For the years ended September 30, 2003 and 2002, in connection with these options, the Company recorded consulting expense amounting to \$67,050 and \$14,839, respectively. In September 2003, the Company re-priced these options to a new exercise price of \$.085. In connection with this re-pricing, the Company recorded additional

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

consulting fees of \$51,600 for the year ended September 30, 2003.

In March 2002, 92,000 options were granted to an employee with an exercise price of \$.35 per share. The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Since the exercise price was greater than the current market value at the date of grant, no compensation expense has been recognized.

F-24

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

##### Stock Options (Continued)

In March 2002, the Company entered into 12 month consulting agreements and granted an aggregate of 2,000,000 stock options (1,000,000 each) to two consultants for business development and marketing services. These options were granted with an exercise price of \$.33 per share and expired on September 30, 2002. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 108 percent; risk-free interest rate of 5.00 percent and an expected holding period of one-half year. In connection with these options, the company recorded consulting fees of \$176,000, which was amortized into consulting expense over the term of the option.

On April 29, 2002, the Company entered into a consulting agreement with a third party for business development and marketing services. In connection with this consulting agreement, the Company granted an aggregate of 300,000 options to purchase shares of common stock for services rendered. The options have an exercise price ranging from \$.23 to \$.36 per share and expire two years after the registration of the underlying shares. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 75 percent; risk-free interest rate of 5.00 percent and an expected holding period of 5 years. In connection with these options, the Company recorded consulting expense of \$25,500 for the year ended September 30, 2002.

On July 31, 2002, in connection with employment agreements, the Company granted 500,000 options each to four employees for an aggregate of 2,000,000 options to acquire 2,000,000 shares of the Company's common stock. The options have an exercise price of \$.10 and expire five years from date of grant. In connection with these options, the Company recorded non-cash compensation of \$60,000 for the year ended September 30, 2002 under the intrinsic value method of APB 25.

In August 2002, the Company entered into a consulting agreement and granted an aggregate of 400,000 stock options to a consultant for business development and marketing services. These options were granted with an exercise price of \$.30 (200,000 options) and \$.60 (200,000 options) per share and expire two years after the registration of the underlying shares. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0-



## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

percent; expected volatility of 77 percent; risk-free interest rate of 4.00 percent and an expected holding period of one year. In connection with these options, the company recorded consulting fees of \$29,000.

F-25

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

##### Stock Options (Continued)

On September 5, 2002, the Company entered into a consulting agreement and granted and immediately exercised 200,000 stock options to a consultant for business development and marketing services. These options were granted with an exercise price of \$.20 (100,000 options) and \$.25 (100,000 options) per share. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 89 percent; risk-free interest rate of 4.00 percent and an expected holding period of five years. In connection with these options, the company recorded consulting fees of \$16,200.

On September 20, 2002, the Company granted and immediately exercised stock options for 980,000 shares of common stock to employees for services rendered. The options had an exercise price of \$.05 and expired five years from date of grant. In connection with these options, the Company recorded non-cash compensation of \$53,900 for the year ended September 30, 2002 under the intrinsic value method of APB 25.

During October 2002, the Company entered into a consulting agreement with a third party for business development services. In connection with this consulting agreement, the Company granted 720,000 stock options to purchase 720,000 shares of the Company's common stock at \$.07 per share. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 77 percent; risk-free interest rate of 4.50 percent and an expected holding periods of 5.00 years. In connection with these options, the Company recorded consulting expense of \$80,880 during the year ended September 30, 2003.

On December 2, 2002, the Company entered into a one-year consulting agreement with a third party for business development services. In connection with this consulting agreement, the Company granted an aggregate of 1,000,000 options to purchase shares of common stock for services rendered. The options have an exercise price of \$.15. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 96 percent; risk-free interest rate of 4.50 percent and an expected holding period of 2 years. In connection with these options, the Company recorded consulting expense of \$44,333 for the year ended September 30, 2003 and deferred compensation of \$31,667 at September 30, 2003, which will be amortized over the service period.

F-26

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2003

#### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

##### Stock options (Continued)

On December 18, 2002, the Company entered into a consulting agreement with a third party for business development services. In connection with this consulting agreement, the Company granted 750,000 options to purchase shares of common stock for services rendered. The options have an exercise price of \$.15 per share and expire in 45 days. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 96 percent; risk-free interest rate of 4.50 percent and an expected holding period of 0.50 years. The Company valued these options based on the above factors at \$34,500. On December 19, 2002, these options were exercised and the Company issued 750,000 shares of its common stock. In connection with these options, on February 6, 2003, the consultant returned 505,000 shares of the Company's common stock due to the cancellation of this agreement. Through the date of cancellation the Company had expensed \$11,500 as consulting expense. The Company expensed the remaining balance of its deferred expense related to this agreement of \$23,000 to consulting expense. Additionally, the Company wrote off the remaining subscription receivable from this consultant of \$4,848 to consulting expense.

In December 2002, 1,000,000 options were granted to officers and employees of the Company with an exercise price of \$.05. The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. In connection with these options, the Company recorded non-cash compensation of \$72,000 for the year ended September 30, 2003 under the intrinsic value method of APB 25.

On December 31, 2002, the Company entered into a six-month consulting agreement with a third party for business development services. In connection with this consulting agreement, the Company granted 500,000 stock options to purchase 500,000 shares of the Company's common stock at \$.10 per share. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 96 percent; risk-free interest rate of 4.50 percent and an expected holding periods of 0.10 years. In connection with these options, the Company recorded consulting expense of \$26,000 for the year ended September 30, 2003, which was amortized over the service period. In January 2003, the consultant exercised these options for net proceeds of \$50,000.

On January 7, 2003, the Company granted 50,000 options to an employee for services rendered, these options were immediately exercised. The Company recorded \$5,000 in compensation expense relating to this issuance of these options.

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

Stock options (Continued)

On January 7, 2003, the Company granted 250,000 options to a consultant for debt and services rendered. The Company recorded compensation of \$21,312 and offset \$13,688 of debt against the exercise price of these options.

On January 23, 2003, the Company entered into a one-year agreement with a consultant. The consultant received 1,000,000 options to purchase shares of the Company's common stock at an exercise price of \$0.11 per share. The Company valued these shares at approximately \$0.09 per share and recorded consulting expense relating to this issuance of options of \$91,870. This consultant exercised 700,000 of these options on February 19, 2003 (see Common stock).

On May 8, 2003, the Company exchanged options with an officer of the Company (650,000 option) and a former officer (1,000,000) under which these individuals exchanged 1,650,000 of their existing options to purchase the Company's common stock for new options, with a new exercise price of \$.10. In accordance with FASB Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25)", this option exchange was deemed an option repricing and therefore, variable plan accounting is being applied. For each interim period, the Company will determine the change in fair value of the options that have not been exercised, cancelled or expired, and will record a charge based on the vesting schedule of the options. If there is a reduction in the market value of the options, the Company will record a reduction in the stock compensation charge, but not in excess of what had been recognized to date. For the year ended September 30, 2003, the Company recognized a non-cash compensation of \$72,000 relating to the option exchange.

In June 2003, the Company granted 243,000 options to employees for services rendered. Of these options, 123,000 were immediately exercised. The Company recorded \$15,990 in compensation expense relating to this issuance of these options.

In June 2003, in connection with employment agreements, the Company granted 1,500,000 options to employees for services rendered. Of these options, 1,000,000 were immediately exercised. The Company recorded \$117,000 in compensation expense relating to this issuance of these options.

On June 16, 2003, the Company entered into a one-year agreement with a consultant. The consultant received 750,000 options to purchase shares of the Company's common stock at an exercise price of \$0.13 per share. The Company valued these shares at approximately \$0.03 per share and recorded consulting expense relating to this issuance of options of \$21,000. This consultant exercised 750,000 of these options on February 19, 2003 (see Common stock).

F-28

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### Stock options (Continued)

On August 1, 2003, 3,750,000 options were granted to officers and employees of the Company with an exercise price of \$.10 (1,875,000 options) and \$.056 (1,875,000 options). The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. In connection with these options, the Company recorded non-cash compensation of \$38,750 for the year ended September 30, 2003 and deferred compensation of \$303,125 under the intrinsic value method of APB 25. The deferred compensation will be amortized over the service period of one year.

In August and September 2003, 748,471 options were granted to officers and employees of the Company with an exercise price of \$.14 (535,317 options) and \$.13 (213,154 options) for accrued salary. The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Since the current market price equaled the exercise price, no compensation expense was recognized in connection with these options under the intrinsic value method of APB 25.

On September 19, 2003, the Company entered into a one-year agreement with a consultant. The consultant received 1,000,000 options to purchase shares of the Company's common stock at an exercise price of \$0.22 per share. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 54 percent; risk-free interest rate of 4.50 percent and an expected holding periods of 5.00 years. In connection with these options, the Company recorded deferred consulting expense of \$2,000 for the year ended September 30, 2003 and deferred compensation of \$46,000, which will be amortized over the service period.

On September 30, 2003, the Company granted to a consultant 50,000 options to purchase shares of the Company's common stock at an exercise price of \$0.085 per share. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 55 percent; risk-free interest rate of 4.50 percent and an expected holding periods of 5.00 years. In connection with these options, the Company recorded consulting expense of \$4,300 for the year ended September 30, 2003.

F-29

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 9 - STOCKHOLDERS' EQUITY (Continued)

#### Stock options (Continued)

A summary of the options issued under the employment and consulting agreements as of September 30, 2003 and 2002 and changes during the periods is presented

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

below:

|  | Year Ended September 30, 2003        |                                       | Year Ended  |
|--|--------------------------------------|---------------------------------------|-------------|
|  | Number of<br>Options and<br>Warrants | Weighted<br>Average<br>Exercise Price |             |
| Stock Options  |                                      |                                       |             |
| Balance at beginning of period                                   | 5,645,000                            | \$ 0.33                               | 695,000     |
| Granted  | 15,661,471                           | 0.10                                  | 9,362,000   |
| Exercised  | (8,176,471)                          | 0.11                                  | (2,553,000) |
| Forfeited  | (2,220,000)                          | 0.31                                  | (1,859,000) |
| Balance at end of period   | 10,910,000                           | \$ 0.18                               | 5,645,000   |
| Options exercisable at end of period                             | 10,910,000                           | \$ 0.18                               | 5,645,000   |
| Weighted average fair value of options granted during the period |                                      | \$ 0.10                               |             |

The following table summarizes information about employee stock options and consultant warrants outstanding at September 30, 2003:

| Options and Warrants Outstanding |  |   |                                 | Options                         |
|----------------------------------|--|---|---------------------------------|---------------------------------|
| Range of Exercise Price          | Number Outstanding at September 30, 2003 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercised September 2003 |
| \$ 0.50-2.25                     | 700,000                                  | 1.80 Years                                  | \$ 1.16                         |                                 |
| 0.23-0.36                        | 925,000                                  | 2.40 Years                                  | 0.28                            |                                 |
| 0.22                             | 1,000,000                                | 4.98 Years                                  | 0.22                            |                                 |
| 0.05-0.15                        | 8,285,000                                | 4.57 Years                                  | 0.09                            |                                 |
|                                  | 10,910,000                               |   | \$ 0.18                         |                                 |

F-30

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

### NOTE 10 - CONSULTING AGREEMENT

On March 26, 2002, the Company entered into a consulting agreement with the NETdigest.com, Inc., a publicly-traded company ("Netdigest"), to provide Netdigest with financial assistance in obtaining a suitable merger candidate for Netdigest to acquire and to facilitate reorganization thereafter. As consideration, the Company was paid a consulting fee in the form of 1,052,632 restricted common shares (post split) of Netdigest's publicly traded common stock. In connection with these shares, for the year ended September 30, 2002, the Company recorded consulting income of \$521,053.

### NOTE 11 - COMMITMENTS

#### Operating Leases

The Company leases office and residential space under leases that expire through January 2006. Additionally, the Company leases space for its Chinese subsidiaries in Shanghai, China. Certain office lease agreements have certain escalation clauses and renewal options. Future minimum rental payments required under these operating leases are as follows:

|                                 |            |
|---------------------------------|------------|
| Period Ended September 30, 2004 | \$ 108,150 |
| Period Ended September 30, 2005 | \$ 44,928  |
| Period Ended September 30, 2006 | \$ 11,232  |

Rent expense for the years ended September 30, 2003 and 2002 was \$213,986 and \$122,210, respectively.

#### Employment agreements

Effective July 31, 2002, the Company entered into an employment agreement with its chairman and former president. The agreement is for a term of one year, with renewal thereafter from year to year unless either the Company or the Chairman terminates the agreement, and contains confidentiality clauses. As consideration for the Chairman's services, the Company has agreed to a base salary of \$108,000 per annum, for time actually devoted to duties on behalf of the Company. On each successive anniversary date of this agreement, the annual salary shall be adjusted upwardly by 5%. In addition, the Chairman was granted stock options to purchase 500,000 shares of the Company's common stock at a price of \$0.10 per share. After one year of service, in June 2003, the Chairman was granted an additional 500,000 options at a 60% discount to market price, defined as the average closing price for the 20 trading days prior to the exercise date. On August 1, 2003, the Company renewed its employment agreement with this officer and amended the employment agreement. The amendment to the employment agreement granted to this officer 1,250,000 options to purchase 625,000 shares of the Company's common stock at \$.10 per share and 625,000 shares of common stock at \$.056 per share. All other terms of the employment agreement remained the same.

F-31

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 11 - COMMITMENTS (Continued)

#### Employment agreements (Continued)

Effective July 31, 2002, the Company entered into an employment agreement with

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

its chief executive officer ("CEO"). The agreement is for a term of one year, with renewal thereafter from year to year unless either the Company or the CEO terminates the agreement, and contains confidentiality clauses. As consideration for the CEO's services, the Company has agreed to a base salary of \$120,000 per annum, for time actually devoted to duties on behalf of the Company. On each successive anniversary date of this agreement, the annual salary shall be adjusted upwardly by 5%. In addition, the CEO was granted stock options to purchase 500,000 shares of the Company's common stock at a price of \$0.10 per share. After one year of service, in June 2003, the CEO was granted an additional 500,000 options at a 60% discount to market price, defined as the average closing price for the 20 trading days prior to the exercise date. On August 1, 2003, the Company renewed its employment agreement with this officer and amended the employment agreement. The amendment to the employment agreement granted to this officer 1,250,000 options to purchase 625,000 shares of the Company's common stock at \$.10 per share and 625,000 shares of common stock at \$.056 per share. All other terms of the employment agreement remained the same.

Effective July 31, 2002, the Company entered into an employment agreement with a former director/officer. The agreement was for a term of one year, with renewal thereafter from year to year unless either the Company or the director terminates the agreement, and contains confidentiality clauses. As consideration for the former director/officer, the Company had agreed to a base salary of \$84,000 per annum, for time actually devoted to duties on behalf of the Company. In addition, the former director/officer was granted stock options to purchase 500,000 shares of the Company's common stock at a price of \$0.10 per share. This employment agreement was terminated in February 2003.

Effective July 31, 2002, the Company entered into an employment agreement with an employee. The agreement is for a term of one year, with renewal thereafter from year to year unless either the Company or the employee terminates the agreement, and contains confidentiality clauses. As consideration for the employees' services, the Company has agreed to a base salary of \$96,000 per annum, for time actually devoted to duties on behalf of the Company. On each successive anniversary date of this agreement, the annual salary shall be adjusted upwardly by 5%. In addition, the employee was granted stock options to purchase 500,000 shares of the Company's common stock at a price of \$0.10 per share. After one year of service, in June 2003, the employee was granted an additional 500,000 options at a 60% discount to market price, defined as the average closing price for the 20 trading days prior to the exercise date. On August 1, 2003, the Company renewed its employment agreement with this officer and amended the employment agreement. The amendment to the employment agreement granted to this officer 1,250,000 options to purchase 625,000 shares of the Company's common stock at \$.10 per share and 625,000 shares of common stock at \$.056 per share. All other terms of the employment agreement remained the same.

F-32

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 12 - LEGAL PROCEEDINGS

Master Financial Group, Inc. v Genesis Systems, Inc. (Court File No. 62-C7-01-000832) was filed on February 14, 2001, against Genesis Systems, Inc., a subsidiary of Genesis Technology Group, in the County of Ramsey, Minnesota, seeking to rescind a stock subscription agreement made with Genesis Systems, Inc. In October 2002, this lawsuit was dismissed without prejudice. The dismissal of the lawsuit did not have any material impact on the Company's business and financial performance. Other than that, the Company is not a party to any

## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

material legal proceeding, nor are any of the Company's officers, directors or affiliates, a party adverse to us in any legal or regulatory proceeding.

### NOTE 13 - OPERATING RISK

#### (a) Country risk

Currently, the Company's revenues are primarily derived from the sale of computer equipment and accessories to customers in the Peoples Republic of China (PRC). The Company hopes to expand its operations to countries outside the PRC, however, such expansion has not been commenced and there are no assurances that the Company will be able to achieve such an expansion successfully. Therefore, a downturn or stagnation in the economic environment of the PRC could have a material adverse effect on the Company's financial condition.

#### (b) Products risk

In addition to competing with other computer and electronics equipment companies, the Company could have to compete with larger US companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel if access is allowed into the PRC market. If US companies do gain access to the PRC markets, they may be able to offer products at a lower price. There can be no assurance that the Company will remain competitive should this occur.

#### (c) Exchange risk

The Company can not guarantee that the current exchange rate will remain steady, therefore there is a possibility that the Company could post the same amount of profit for two comparable periods and because of a fluctuating exchange rate actually post higher or lower profit depending on exchange rate of Remnibi converted to US dollars on that date. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

#### (d) Political risk

Currently, PRC is in a period of growth and is openly promoting business development in order to bring more business into PRC. Additionally PRC allows a Chinese corporation to be owned by a United States corporation. If the laws or regulations are changed by the PRC government, the Company's ability to operate the PRC subsidiaries could be affected.

F-33

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2003

### NOTE 14 - SUBSEQUENT EVENTS

In October 2003, the Company granted and immediately exercised stock options for 472,501 shares of common stock to employees for services rendered.

In October 2003, the Company entered into a one-year consulting agreement with a third party for business development services. In connection with this agreement, the Company granted 1,000,000 stock options to purchase 1,000,000 shares of the Company's common stock at \$0.22 per share. In October and November 2003, the consultant exercised these options for net proceeds of \$220,000.



## Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10-K

In December 2002, in connection with the granting and immediate exercise of 1,800,000 stock options, the Company issued 1,800,000 shares of common stock to employees for subscription receivables in the amount of \$156,000 which will be shown in stockholders' equity as a subscription receivable.

On December 2, 2002, the Company entered into a one-year consulting agreement with a third party for business development services. In connection with this consulting agreement, the Company granted 1,000,000 stock options to purchase 1,000,000 shares of the Company's common stock at \$.15 per share.

F-34