

**GENESIS**

**ANNUAL REPORT 2010**

GENESIS RESEARCH & DEVELOPMENT CORPORATION LIMITED

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## REPORT OF THE BOARD

Last year's report noted that 'the next 12 months will be critical for the company'. The board noted the critical balance between the integrally linked items of achieving important scientific results and obtaining further funds.

Our staff did achieve significant advances in the single stranded gene silencing technology but this was not sufficient to convince the Japanese investor in Solirna to advance the second tranche of investment funding.

The international biotechnology community has been under funding pressure due to the global financial crisis and restrictions in the investment appetite of large pharmaceutical companies, so we were unable to attract funding from other parties despite ongoing efforts.

The Board and management then had no other option but to suspend operations due to the lack of funding.

Several parties indicated interest in acquiring Genesis as a shell to facilitate a back door listing for an entity controlled by them. These proposals were examined but the board did not believe that any had sufficient merit that they should be submitted to shareholders.

UBNZ Funds Management Ltd indicated an interest in supporting Genesis so that it could restart operations with a revised focus on New Zealand derived food and other related products. The board determined that this represented a realistic opportunity for existing shareholders to gain value from their shareholdings.

UBNZ has invested \$446,000 in new equity in Genesis and also advanced a Convertible Note of \$250,000. This has allowed Genesis to terminate its lease and other commitments while retaining ownership of the stake in Real Time Genomics Inc.

In the coming months the board hopes to submit a proposal to shareholders that will allow UBNZ to subscribe for further equity, allowing Genesis to restart operations.

The board would like to pay tribute to all the people who have supported Genesis, especially the employees and the shareholders, over the 18 years that it has been operating.



J H von Roy  
Chairman

28 March 2011

# Chief Executive's Report

## Strategic Direction

The board report has noted the major issues that Genesis faced during 2010, and the opportunity to move into a lower risk area that builds on some of the natural advantages of New Zealand. This direction will become clearer in coming months as negotiations for funding and supply of services are concluded.

## Solirna

Genesis staff invented a single stranded gene silencing technology (ssRNAi) which has the potential to overcome the intra-cellular delivery problems that are hindering the development of siRNA therapeutics. This new gene silencing technology is intended to deliver chemically-modified single-stranded RNAs without a delivery vehicle, which will induce gene silencing only when the masking groups are removed inside cells.

Solirna Biosciences Limited (**Solirna**) was established by Genesis to develop the ssRNAi gene silencing technology. A major Japanese international pharmaceutical company invested in Solirna through MediBIC Alliance Technology Fund-1 (**MATF-1**). The investment by MATF-1 was finalised at the end of November 2009, after all regulatory approvals were achieved, and initial funding was paid to Solirna. The shares issued to MATF-1 have now been transferred to the Japanese Pharmaceutical company following the termination of the MATF-1 fund.

The Japanese company negotiated a commercial license of the Solirna technology, providing rights to develop human therapeutics.

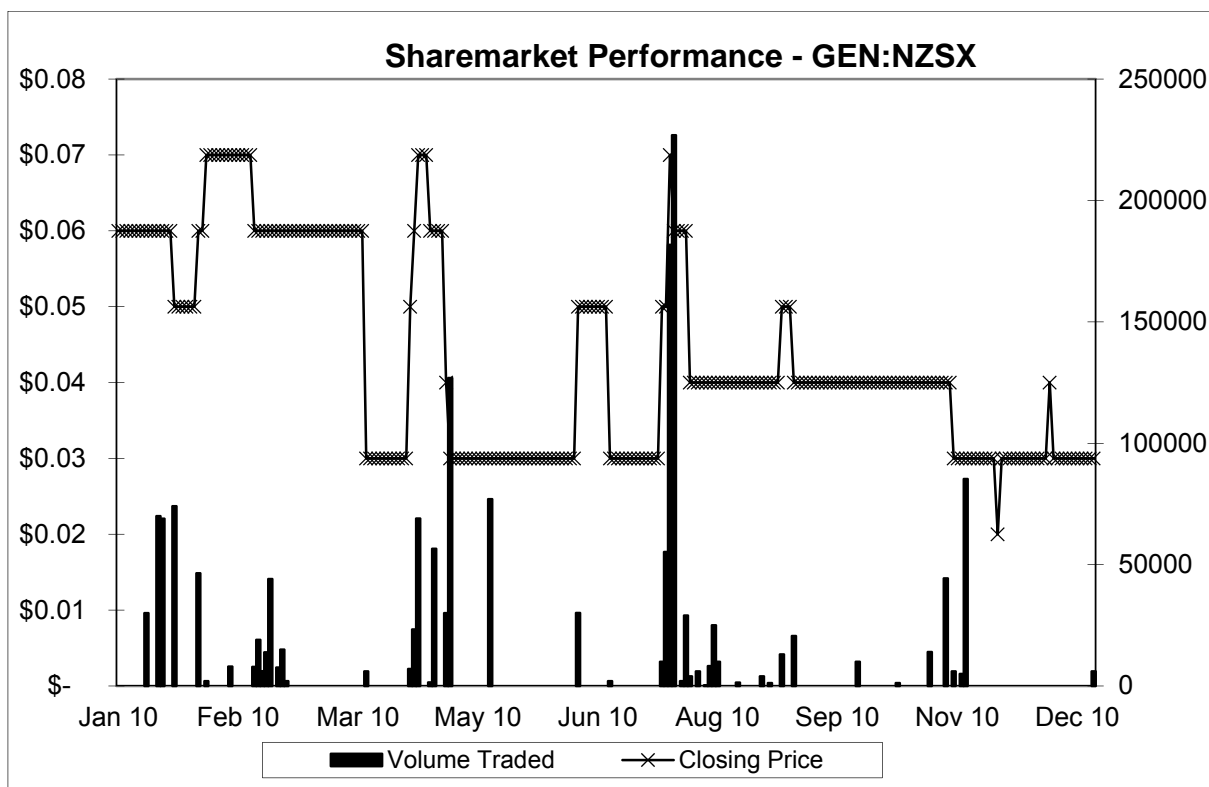
Solirna engaged a leading nucleotide chemistry group based in Japan to synthesise single stranded oligonucleotide materials and set up assays and models to test those materials. Initial work showed effective delivery of single strands into cultured cells and the induction of specific gene silencing.

During the first half of 2010, Solirna tested a variety of single stranded oligonucleotides in order to identify the most appropriate modifications that will allow the use of single stranded oligonucleotides for gene silencing as a human therapeutic. Each round of testing showed improved results, but they were not sufficient to convince the Japanese investor to advance a second tranche of funding to Solirna.

Due to the lack of funding, Solirna operations were suspended but we are still hopeful that the programme could be advanced if Genesis is able to provide further funding.

## Sharemarket

During the year the share price mostly ranged between 3 and 7 cents, giving a market cap of \$1.0 million to \$3.2 million. This variability reflects the uncertainty of Genesis's future.



### Real Time Genomics, Inc.

In February 2009 we converted our right to royalties on the sale of software products based on the Cartesian technology developed by Genesis in 2003-4, into an interest equal to approximately 8% of the equity of Real Time Genomics, Inc., a USA based entity backed by Catamount Ventures, a leading San Francisco Venture Capital firm. Our stake has now been diluted to approximately 7% as Real Time Genomics raised further funding.

Real Time Genomics has continued to make good progress with product development. Customers have provided very positive feedback so it is hoped that it can generate significant commercial sales revenue.

### Funding

Genesis ended 2010 with cash of \$338,000, virtually the same as the end of 2009. This is only sufficient to pay corporate administrative costs such as listing fees etc, so restarting operations will require the injection of new equity.

### Revenue

Genesis recorded revenue of \$425,000 from Solirna for the provision of research services, but this was written off as Solirna has insufficient funds to pay Genesis.

The outstanding debt due from Pure Power Global, which had been fully provided for in the previous year, was finally settled with payments totalling \$400,000. This was substantially less than the original debt but reflects the difficult circumstances.

### Expenditure

Cash expenditure was significantly reduced from \$2.7 million to \$1.5 million as operations were suspended in May 2010.

**Outlook for 2011**

The Board report notes that it hopes to present shareholders with a proposal for the injection of further funds. This will allow Genesis to pursue new projects in the food industry which have the potential to generate early revenue.

A handwritten signature in black ink that reads "Stephen Hall". The signature is written in a cursive style with a large initial 'S'.

S G Hall  
Chief Executive  
28 March 2011

## Corporate Governance

Genesis Research and Development Corporation Limited is a New Zealand company with shares listed on the New Zealand and Australian stock exchanges. The Board of Genesis is committed to the highest standards of behaviour and accountability and has adopted formal policies to ensure that these are achieved, consistent with best practice and stock exchange rules and recommendations regarding corporate governance.

### Role of the Board

The Directors of Genesis are elected by shareholders and are responsible for the direction and supervision of the company's business. The Board has determined that its principal responsibilities are:

- To create shareholder value through the approval of appropriate corporate strategies with particular regard to return expectations, allocation of resources, financial policy and the review of performance against strategic objectives;
- To appoint the Chief Executive and monitor the appointment of senior executives, review their performance, remuneration and succession plans;
- To ensure that material information is disclosed to the market as soon as possible in a fair, accurate and balanced manner;
- To approve and foster a corporate culture which requires management and every employee to operate to the highest level of ethical and professional behaviour;
- To approve major transactions relating to acquisitions and divestments and capital expenditure exceeding delegated authorities;
- To review operating performance, research achievements and the progress of regulatory procedures, against budgets and other performance goals and to monitor corrective action by management;
- To ensure that appropriate external advice is available to management and the Board;
- To recruit Directors and to regularly review and assess Board and subcommittee performance;
- To establish and review processes to assist the effective operation of the Board;
- To appoint auditors, communicate with shareholders and monitor regulatory compliance; and
- To ensure governance issues are reviewed periodically and managed appropriately.

The performance of the Board and individual directors is reviewed annually.

The performance of senior executives is reviewed annually by the Board without the presence of those executives. Performance evaluations for senior executives were undertaken during the past year in accordance with the standard process.

A procedure has been agreed by the Board for any director to take independent professional advice at the expense of the company if required.

### Delegation of Authority

The formulation and implementation of policies and reporting procedures, other than those set out above, has been delegated to management. The Board monitors that delegation as part of the formal business of Board meetings.

### Board Membership

The Board currently comprises four non-executive Directors. The Board periodically reviews its membership and seeks to maintain a balance of Directors with complementary business expertise and biotechnology experience who will, at all times, act with an independent mind, in accordance with the highest ethical standards and contribute in a positive and constructive manner to Board discussion and debate. The Board will ensure that a majority of the Directors are non-executive and have no professional relationship with the company. Nomination and appointment of new Directors is undertaken by the full Board.

In accordance with the Company's Constitution, any newly appointed directors and those retiring by rotation will be subject to re-election at the next annual meeting.

	<b>Number of meetings held during 2010 while a member</b>	<b>Number attended</b>
A J H Gearing	9	9
S Gillis	9	6
J N McLean	7	7
J H von Roy	9	8
S J Washer	9	7

### **Directors' Share Trading**

The company will promptly notify the NZSX and ASX if any Director or Officer acquires or disposes of Genesis securities.

The Directors have implemented policies that restrict all directors and employees from buying or selling Genesis shares when they hold material information .

### **Director Term of Office**

	<b>Appointed</b>	<b>Last Re-elected</b>	<b>No of Years in Office</b>
A J H Gearing	26 January 2006	30 June 2010	5
S Gillis	2 December 1993	30 June 2010	17
J H von Roy	17 June 2005	9 May 2008	5
S J Washer	17 June 2005	30 June 2009	5

### **Board Committees**

The Board has formally constituted two permanent Board Committees, the Audit Committee and the Remuneration Committee.

The Audit Committee is regulated by a charter that addresses membership, function, specific responsibilities, and reporting procedures, consistent with the requirements of NZX Listing Rule 3.6.3. Current members of the Audit Committee are Mr J H von Roy and Dr S J Washer.

The Audit Committee is responsible for:

- Reviewing draft annual and half yearly financial statements prior to submission to the Board for approval;
- Agreeing with the external auditors on the nature, scope and cost of the audit;
- Reviewing the performance of the external auditors;
- Reviewing the effectiveness of internal control systems.

	<b>Number of meetings held during 2010 while a member</b>	<b>Number attended</b>
J N McLean	1	1
J H von Roy	2	2
S J Washer	2	2

The Remuneration Committee, chaired by Mr J H von Roy, is responsible for:

- Establishing and reviewing remuneration policy for the Board and staff;
- Reviewing succession planning;
- Administration of the Employee Share Option Plan;
- Review and recommendation of governance issues including Board and Committee membership.

In setting remuneration policy the Committee takes into consideration employee performance and comparable market rates. These procedures are designed to attract, motivate and retain quality staff. The Board has adopted a comprehensive policy addressing committee membership, function, responsibilities and reporting procedures.

Currently all directors are members of the Remuneration Committee and the Committee business is conducted within the Board meetings.

There are no schemes for retirement benefits for directors.

### **Shareholder Communication**

The board ensures that any material non-confidential information is provided to shareholders in accordance with the continuous disclosure requirements by release to the New Zealand and Australian Stock Exchanges and by prompt posting on the Company's web site. When appropriate, annual and half yearly reports will be supplemented by shareholder newsletters.

### **Risk Management**

The Board has established policies and reporting procedures for management of material business risks. Management has reported to the Board that all material business risks are being managed effectively.

The Board has received declarations from the Chief Executive and the Chief Financial Officer that in their opinion:

- (a) the financial records of the company for the financial year have been properly maintained; and
- (b) the financial statements, and the notes for the financial year comply with the accounting standards; and
- (c) the financial statements and notes for the financial year give a true and fair view; and
- (d) any other matters that are prescribed in relation to the financial statements and the notes for the financial year are satisfied;
- (e) the declarations are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

### **Governance Principles**

The corporate governance principles adopted or followed by Genesis are generally consistent with the NZX Corporate Governance Best Practice Code and the ASX Corporate Governance Council Principles and Recommendations, with the following exceptions:

- The company does not have a separate nomination committee due to the size of the company. This function is undertaken by the full Board acting as the Remuneration Committee;
- The company does not have a performance based share compensation plan. However shareholders have approved the issue of shares to Directors in lieu of cash remuneration.

### **Independence**

The materiality thresholds for considering independence are 5% of the Company's expenditure or 10% of the director's personal income.

Dr Gearing is Chief Executive of, and a shareholder in, Biocommsquare Pty Ltd which has provided business development services to the Company. The Board considers that this relationship is not a material part of Genesis expenses or Dr Gearing's personal income and thus the relationship does not affect Dr Gearing's independence.

The Board considers that the independence of the directors of the company (as referred to in NZSX Listing Rules and ASX Corporate Governance Principles and Recommendations) at 31 December 2010 and at the date of this report is as shown in the Table below:

<b>Director</b>	<b>Status</b>
A J H Gearing	Independent
S Gillis	Independent
J H von Roy	Independent
S J Washer	Independent

## Directors

**Andy Gearing PhD** is based in Melbourne, Australia, where he is the Chief Executive of Biocommsquare Pty Ltd, an international life sciences business development company. Dr Gearing has a successful track record in research management and business development in the European biotechnology sector. He moved to Australia early in 2001 to establish Biocomm Services, which has provided services to many prestigious academic institutions as well as private and listed biotechnology company clients in Australia, New Zealand, Japan, North America and Europe. Under Dr Gearing's management, Biocomm Services successfully completed 11 international licensing transactions for its clients and established three new biotechnology companies. Dr Gearing is also a director of CNSBio Pty Limited and BioMelbourne Network.

**Steven Gillis PhD** joined ARCH Venture Partners in 2005 where he now serves as a Managing Director focused on the evaluation of new life science technologies and the development and growth of ARCH's biotechnology portfolio companies. Dr Gillis was a founder of Immunex Corporation, where he held multiple positions from 1981 to 1994, including acting Chief Executive Officer and Chairman. Dr Gillis co-founded Corixa Corporation in 1994 and served as Chief Executive Officer and as a director since that time and chaired the Corixa Corporation board since March 1999. Corixa Corporation was acquired by GlaxoSmithKline in July, 2005. He serves as Chairman, or as a member of the Board of Directors, of multiple privately-held biotechnology companies located in Seattle, Washington and Boston, Massachusetts.

**Joachim (Aki) von Roy** is a bio-entrepreneur who has focused his activities on New Zealand and Australian opportunities. Aki is known in the New Zealand biotechnology community for his role in leading a \$12 million Series A fund raising for Proacta and for helping other biotechnology start ups, such as CoDa Therapeutics, Corra Life Science, Biomatters and PhotoNZ to develop their business concepts.

He is chairman of Vital Food Processors Ltd, White Biotechnology Pty Limited and Phytomedics Inc and a director of Biomatters Ltd, Corra Life Sciences, Encoate Holdings Limited and Roberts & von Roy Associates Limited. Aki is a partner of Inventages Venture Capital Investments, a venture capital company based in Switzerland and the Bahamas which manages the \$100 million Australasian food, agbiotech and health fund BioPacificVentures in a collaboration with New Zealand based venture capitalist Direct Capital Private Equity Ltd and AgResearch Ltd. He is also a member of BioPacificVentures Investment Committee and an advisor to the Foundation for Research, Science and Technology.

Aki is a German national and is the former European president of pharmaceutical giant Bristol-Myers Squibb. He was the New Zealand managing director for German drug company Schering AG in 1970/71 and after that went to Sweden, the US and eventually back to Germany to co-chair Schering AG's home market. In 1984, he joined Squibb (von Heyden) to bring the two companies together and took over responsibility for Germany, Austria, Switzerland and Eastern Europe. Shortly after the Bristol-Myers merger with Squibb (1989) he became president for Europe, responsible for US\$ 2.2 billion in sales, more than 7,500 employees and some 40 subsidiaries. In 1997, he retired from BMS to establish Roberts & von Roy Associates, a private investment firm specialising in health and related matters. He is now actively involved in creating a sustainable NZ/Australian biotech industry.

**Stewart Washer PhD** has over 20 years of senior executive and Board experience in commercial technology companies in the medical, food, agricultural and industrial sectors. He is currently Chief Executive of Calzada Ltd, an Australian biotechnology company.

Stewart was a founder of BioPacific Ventures, a \$100m New Zealand based fund and the founding CEO of Phylogica Ltd (ASX:PYC). Before this he was CEO of Celentis and managed the commercialisation of intellectual property from AgResearch in New Zealand.

Stewart has been a Venture Partner with Inventages Venture Capital Investments, a Swiss based €1.5 billion life science fund, funded by Nestle and Investment Director with Intersuisse Bioscience Managers Pty Ltd, part of the Excalibur medical sciences investment group who have Australian and European life science funds. He is Chairman of Resonance Health Ltd (ASX:RHT) and Hatchtech Pty Ltd, a director of Healthlinx (ASX:HTX) and White Biotechnology Pty Limited, a member of the Senate at Murdoch University, is on the Australian Federal Government Advisory Panel for Industrial Biotechnology, and is a member of the board of AusBiotech Ltd, Australia's biotechnology industry organisation.

## Management

**Chief Executive Officer - Stephen Hall MCom (Hons) CA, CTP.** Stephen joined Genesis in September 2000 and was appointed Chief Executive in 2004. He has been heavily involved in all aspects of the company's commercial activity including negotiations, collaborations, business development, intellectual property, corporate structure, capital markets and governance. Stephen previously held a number of senior management roles in New Zealand and Australian companies.

**Financial Controller - Ewe Poh Lim, B.Econs (Hons), CA.** Ewe Poh Lim joined Genesis as Financial Controller in October 2007. She is responsible for all aspects of the finance and accounting functions for Genesis, including financial reporting and taxation. Ewe Poh has more than 15 years of extensive career in finance in New Zealand. Her previous appointments include five years as Finance Manager of Lodestar, Carter Holt Harvey and five years as Company/Line Accountant of Tasman Asia Shipping/Tasman Orient Line, a subsidiary of the then Fletcher Challenge. Before joining Genesis, Ewe Poh was Financial Controller of Sofrana Shipping NZ. She is a member of the NZ Institute of Chartered Accountants.

**Independent Auditor's Report****To the Shareholders of Genesis Research and Development Corporation Limited****Report on the Financial Statements**

We have audited the financial statements of Genesis Research and Development Corporation Limited and its subsidiaries on pages 11 to 35, which comprise the statement of financial position of Genesis Research and Development Corporation Limited and the group as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on cash flows and our qualified opinion on the statement of financial position, statement of comprehensive income and the statement of changes in equity.

Other than in our capacity as auditor we have no relationship with, or interest in Genesis Research and Development Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

**Basis for Qualified Opinion on Statement of Financial Position, Statement of Comprehensive Income and Statement of Changes in Equity**

The company's and group's investment in Solirna Biosciences Limited has been designated as fair value through profit or loss and is carried at a value of nil on the company and group's Statement of Financial Position at 31 December 2010. We were unable to obtain sufficient evidence to support the fair value of the investment. As a result, the scope of our work was limited and we were unable to undertake adequate audit procedures to conclude in respect of this aspect of the audit. We were unable to determine whether any adjustments were necessary in respect of the company's and group's investment in Solirna Biosciences Limited.

**Qualified Opinion on Statement of Financial Position, Statement of Comprehensive Income and Statement of Changes in Equity**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion, the financial statements on pages 11 to 35:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of Genesis Research and Development Corporation Limited and the group as at 31 December 2010 and the financial performance of the company and group for the year then ended.

**Opinion on Cash Flows**

In our opinion the financial statements on pages 11 to 35 give a true and fair view of the cash flows of Genesis Research and Development Corporation Limited for the year ended 31 December 2010.

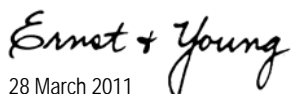
**Material Uncertainty Regarding Continuation as a Going Concern**

During our audit, we have considered the adequacy of the disclosures made in the financial statements regarding the reliance on raising additional capital and funding. As stated in note 24, the financial statements have been prepared on the going concern basis, the validity of which depends upon the ability to raise additional capital and funding. As a result of these matters, we have not been able to assess whether the company will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern. Our opinion is not qualified in this respect.

**Report on Other Legal and Regulatory Requirements**

Except for the item noted above relating to the value of the investment in Solirna Biosciences Limited, we have obtained all the information and explanations we have required.

In our opinion proper accounting records have been kept by Genesis Research and Development Limited as far as appears from our examination of those records.



28 March 2011  
Auckland

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Group / \$000		Parent / \$000	
		2010	2009	2010	2009
Grant		-	356	-	356
Sale of technology and royalty		-	50	-	50
Services		425	529	425	529
Gain on sale of intellectual property		-	1000	-	1000
Sale of equipment		189	-	189	-
Doubtful debt recovery	10	400	-	94	-
Interest		2	13	2	13
<b>Total Income</b>		<b>1,016</b>	<b>1,948</b>	<b>710</b>	<b>1,948</b>
<b>EXPENDITURE</b>					
Research and development		(716)	(1,510)	(716)	(1,510)
Administration		(689)	(1,214)	(689)	(1,228)
Finance costs		(9)	-	(9)	-
Change in fair value of investments	11	(1,000)	-	(1,000)	-
Bad debts	12	(571)	-	(571)	-
<b>Total Expenditure</b>	<b>6</b>	<b>(2,985)</b>	<b>(2,724)</b>	<b>(2,985)</b>	<b>(2,738)</b>
<b>Loss before income tax</b>		<b>(1,969)</b>	<b>(776)</b>	<b>(2,275)</b>	<b>(790)</b>
Income tax expense	7	-	-	-	-
<b>Loss after income tax</b>		<b>(1,969)</b>	<b>(776)</b>	<b>(2,275)</b>	<b>(790)</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>(1,969)</b>	<b>(776)</b>	<b>(2,275)</b>	<b>(790)</b>
Attributable to:					
Equity holders of the parent		(1,969)	(776)	(2,275)	(790)

## LOSS PER SHARE

	Note	Group	
		2010 Cents	2009 Cents
<b>Basic and diluted earnings per share</b>	8	(4.79)	(2.66)

The Statement of Comprehensive Income above should be read in conjunction with the accompanying notes.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Ordinary Shares \$000	ESOP Reserve \$000	Retained Earnings \$000	Convertible Note \$000	Total \$000
<b>GROUP</b>					
<b>For the year ended 31 December 2010</b>					
<b>At 1 January 2010</b>	76,975	235	(76,076)	0	1,134
Loss after income tax	-	-	(1,969)	-	(1,969)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period attributable to equity holders of the parent	-	-	(1,969)	-	(1,969)
<b>Equity Transactions:</b>					
Share Purchase Plan	640	-	-	-	640
Share based payment to directors	52	-	-	-	52
Convertible Note	-	-	-	9	9
Share-based payment	-	-	-	-	-
<b>At 31 December 2010</b>	<b>77,667</b>	<b>235</b>	<b>(78,045)</b>	<b>9</b>	<b>(134)</b>
<b>For the year ended 31 December 2009</b>					
<b>At 1 January 2009</b>	76,506	209	(75,300)	0	1,415
Loss after income tax	-	-	(776)	-	(776)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period attributable to equity holders of the parent	-	-	(776)	-	(776)
<b>Equity Transactions:</b>					
Share Purchase Plan	469	-	-	-	469
Share-based payment	-	26	-	-	26
<b>At 31 December 2009</b>	<b>76,975</b>	<b>235</b>	<b>(76,076)</b>	<b>0</b>	<b>1,134</b>

<b>PARENT</b>					
<b>For the year ended 31 December 2010</b>					
<b>At 1 January 2010</b>	76,975	235	(77,901)	0	(691)
Loss after income tax	-	-	(2,275)	-	(2,275)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period attributable to equity holders of the parent	-	-	(2,275)	-	(2,275)
<b>Equity Transactions:</b>					
Share Purchase Plan	640	-	-	-	640
Share based payment to directors	52	-	-	-	52
Convertible Note	-	-	-	9	9
Share-based payment	-	-	-	-	-
<b>At 31 December 2010</b>	<b>77,667</b>	<b>235</b>	<b>(80,176)</b>	<b>9</b>	<b>(2,265)</b>
<b>For the year ended 31 December 2009</b>					
<b>At 1 January 2009</b>	76,506	209	(77,111)	0	(396)
Loss after income tax	-	-	(790)	-	(790)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period attributable to equity holders of the parent	-	-	(790)	-	(790)
<b>Equity Transactions:</b>					
Share Purchase Plan	469	-	-	-	469
Share-based payment	-	26	-	-	26
<b>At 31 December 2009</b>	<b>76,975</b>	<b>235</b>	<b>(77,901)</b>	<b>0</b>	<b>(691)</b>

The Statement of Changes in Equity above should be read in conjunction with the accompanying notes.

# STATEMENT OF FINANCIAL POSITION

As at 31 DECEMBER 2010

	Note	Group / \$000		Parent / \$000	
		2010	2009	2010	2009
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	9	338	324	338	324
Receivables and prepayments	10	17	187	17	187
<b>Total current assets</b>		<b>355</b>	<b>511</b>	<b>355</b>	<b>511</b>
<b>Non Current Assets</b>					
Investment	11	-	1,000	-	1,000
Property, plant and equipment	13	-	33	-	33
<b>Total non-current assets</b>		<b>-</b>	<b>1,033</b>	<b>-</b>	<b>1,033</b>
<b>TOTAL ASSETS</b>		<b>355</b>	<b>1,544</b>	<b>355</b>	<b>1,544</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	14	(36)	(236)	(36)	(236)
Provisions	15	(203)	(174)	(203)	(174)
Convertible Note	25	(250)	-	(250)	-
<b>Total current liabilities</b>		<b>(489)</b>	<b>(410)</b>	<b>(489)</b>	<b>(410)</b>
<b>Non-current liabilities</b>					
Intercompany payable	12(c)	-	-	(2,131)	(1,825)
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>	<b>(2,131)</b>	<b>(1,825)</b>
<b>TOTAL LIABILITIES</b>		<b>(489)</b>	<b>(410)</b>	<b>(2,620)</b>	<b>(2,235)</b>
<b>NET ASSETS</b>		<b>(134)</b>	<b>1,134</b>	<b>(2,265)</b>	<b>(691)</b>
<b>EQUITY</b>					
Equity attributable to equity holders of the parent					
Issued capital	16	77,667	76,975	77,667	76,975
ESOP Reserve	19	235	235	235	235
Convertible note	25	9	-	9	-
Retained deficit		(78,045)	(76,076)	(80,176)	(77,901)
<b>TOTAL EQUITY</b>		<b>(134)</b>	<b>1,134</b>	<b>(2,265)</b>	<b>(691)</b>

The Statement of Financial Position above should be read in conjunction with the accompanying notes.

For and on behalf of the Board which authorised the issue of these financial statements on 28 March 2010



J H von Roy  
Director



A J H Gearing  
Director

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Group / \$000		Parent / \$000	
		2010	2009	2010	2009
<b>Cash Flows from Operating Activities</b>					
Receipts from grants, royalties and sale of technology right		-	414	-	405
Receipt for services provided		-	494	-	494
Research & development tax credit		-	682	-	682
Recovery of doubtful debt		400	-	94	-
Interest received		2	14	2	14
Payments to suppliers and employees		(1,526)	(2,660)	(1,526)	(2,656)
<b>Net cash inflow from/(used in) operating activities</b>	17	(1,124)	(1,056)	(1,430)	(1,061)
<b>Cash Flows from Investing Activities</b>					
Proceeds from sale of property, plant and equipment		248	52	248	34
Payments for purchase of property, plant and equipment		-	-	-	-
<b>Net cash inflow from/(used in) investing activities</b>		248	52	248	34
<b>Cash Flows from Financing Activities</b>					
Cash Proceeds from Share Purchase Plan		640	469	640	469
Convertible Note		250	-	-	-
Intercompany funding		-	-	306	23
<b>Net cash inflow from/(used in) financing activities</b>		890	469	1,196	492
Net increase/(decrease) in cash and cash equivalents		14	(535)	14	(535)
Net foreign exchange differences		-	-	-	-
Cash and cash equivalents at beginning of period		324	859	324	859
<b>Cash and cash equivalents at end of period</b>		338	324	338	324
<b>Cash balance comprises of:</b>					
Cash in current account		338	2	338	2
Short term deposits		-	322	-	322
Ending cash carried forward		338	324	338	324

The Cash Flow Statement above should be read in conjunction with the accompanying notes.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2010

### 1. Corporate Information

Genesis Research and Development Corporation Limited (“Genesis”) is a company incorporated in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges.

Genesis Research and Development Corporation Ltd is an issuer for the purpose of the Financial Reporting Act 1993.

The Company and its subsidiaries comprise the Genesis Research and Development Corporation Limited Group (Group). AgriGenesis Biosciences Limited (AgriGenesis) has been the only trading subsidiary but ceased active operations in December 2007.

Genesis has a history of development of therapeutics for the treatment of cancer and diseases of the immune system. Genesis has established Solirna Biosciences Limited to develop a novel single stranded gene silencing technology which acts through the RNAi mechanism.

The nature of Genesis’ business includes investing on a venture capital basis, including the investment interests in Solirna Biosciences Ltd and Real Time Genomics Inc. Genesis also owns a number of patents and has potential royalty rights from a number of programmes being developed by other companies such as ArborGen and Wrightson.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements of Genesis and the Group have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The financial statements have also been prepared on a historical cost basis, except for an investment which has been valued at fair value.

For the purposes of complying with NZ GAAP, Genesis is profit oriented. The financial reports, except for cash flow information, have been prepared using the accrual basis of accounting.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

#### (b) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The Financial Statements comply with International Financial Reporting Standards (IFRS).

*New Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2010 are outlined in the table below:*

Reference	Title	Summary	Application date of standard	Impact on Group financial statements	Application date for Group
NZ IFRS 9	Financial instruments	This standard is part of the IASB’s project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value.	1 Jan 2013	The Group has not yet determined the impact of this standard.	1 Jan 2013

### **(c) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of Genesis Research and Development Corporation Limited and its subsidiaries as at 31 December each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Genesis Research & Development Corporation Limited are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

### **(d) Operating Segment**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors

Operating segments have been identified based on the information provided to the chief operating decision maker – being the Board of Directors.

Based on the internal structure and management reporting systems, the Group has identified only one reportable operating segment. The accounting policies and amounts that are disclosed in the financial statements are the same as the management reports that the Board of Directors review.

The Group operates within New Zealand only. On this basis geographical segment reporting is not applicable.

### **(e) Foreign Currency Translation**

#### *(i) Functional and presentation currency*

Both the functional and presentation currency of the group is New Zealand dollars (\$).

#### *(ii) Transaction & balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### **(f) Cash and Cash Equivalents**

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily

convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

#### **(g) Trade and Other Receivables**

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

#### **(h) Discontinued operations**

A discontinued operation is a component of the entity that has been disposed of, has ceased active operations, or is classified as held for sale and that represents a separate major line of business. The results of discontinued operations are presented separately on the face of the statement of comprehensive income and the assets and liabilities are presented separately on the face of the statement of financial position.

#### **(i) Investments and Other Financial Assets**

Investments and financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

##### *(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

##### *(ii) Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the Statement of Financial Position date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

*(iii) Financial Assets at fair value through profit or loss*

Financial assets designated as “fair value through profit or loss” are included in the category “financial assets at fair value through profit or loss”. All changes in the fair value are recognised in the statement of comprehensive income in the period the changes occur.

**(j) Property, Plant & Equipment**

The company had three classes of property, plant & equipment:

- Scientific equipment
- Leasehold improvements
- Office furniture, equipment and computers

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight line basis over the estimated useful life of the specific assets as follows:

- |   |              |
|---|--------------|
| • Scientific Equipment                      | 3 to 8 years |
| • Leasehold Improvements                    | 8.5 years    |
| • Office Furniture, Equipment and Computers | 2 to 8 years |

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end. The carrying amount of plant and equipment is reviewed at reporting date to assess whether there is any indication that the item may be impaired. If there is any indication that the carrying amount of the item exceeds its recoverable amount, the Group recognises the loss in the statement of comprehensive income. Gains and losses on disposals are determined by comparing proceeds with the carrying amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

**(k) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

**(l) Impairment of non-financial assets other than goodwill**

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Genesis Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

### **(m) Provision for Impairment of Financial Assets**

Loans and receivables are reviewed at each balance date to determine whether there is any objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date. The loss event has to have had an impact on the reliable measurement of estimated future cash flows. If any such indication exists, the assets' recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount. The recoverable amounts of loans measured at amortised costs are calculated as the present value of the expected future cash flows discounted at the instrument's original effective interest rate.

The impairment provisions are deducted from finance receivables in the Statement of Financial Position and the movement in the impairment provisions is recognised in the Statement of Comprehensive Income. Bad debts are written off against the provision in the year in which they are identified. If in a subsequent period the amount of an impairment loss decreases and the decrease is linked objectively to an event occurring after the impairment loss, the loss is reversed through the statement of comprehensive income.

### **(n) Research and Development Costs**

Research costs are expensed as incurred. Any intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

### **(o) Trade and Other payables**

Trade and other payables are carried at amortised costs and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(p) Provisions and employee benefits**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### *Employee leave benefits*

Liabilities for wages and salaries, including non-monetary benefit and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are

settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### **(q) Share-based payment transactions**

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black Scholes model, further details of which are given in note 19.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Genesis if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by Genesis to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Genesis in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

#### **(r) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **(s) Revenue Recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- (i) Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.
- (ii) Research collaborations and grants shown in the statement of comprehensive income is the amount received for research performed in the ordinary course of business during the periods. When the grant relates to an expense item it is recognised in income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

### **(t) Income tax and other taxes**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### *Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **(u) Government Grants**

Government grants are recognised in the statement of financial position as a liability when the grant is received.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders' equity.

When the grant relates to an asset, the fair value is credited to deferred income and released to the Statement of Comprehensive Income over the expected useful life of the relevant asset by equal annual instalments.

#### **(v) Earnings per Share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

In accordance with NZ IAS 33, calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares as this would decrease the loss per share from continuing operations.

### **3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise cash and short-term deposits, receivables, payables.

At balance date the group has the following mix of financial assets and liabilities exposed to financial risks listed below.

<b>2010 Group</b>	Financial assets at fair value through profit or loss \$000	Loans and receivables \$000	Available for sale \$000	Financial liabilities at amortised cost \$000	Carrying amount \$000	Fair value \$000
Trade and other receivables	-	1	-	-	1	1
Cash and cash equivalents	-	338	-	-	338	338
Trade and other payables	-	-	-	(36)	(36)	(36)
Investments	-	-	-	-	-	-
Convertible note	-	-	-	(250)	(250)	(250)
	-	339	-	(286)	53	53

	Financial assets at fair value through profit or loss \$000	Loans and receivables \$000	Available for sale \$000	Financial liabilities at amortised cost \$000	Carrying amount \$000	Fair value \$000
<b>2010 Parent</b>						
Trade and other receivables	-	1	-	-	1	1
Cash and cash equivalents	-	338	-	-	338	338
Trade and other payables	-	-	-	(36)	(36)	(36)
Investments	-	-	-	-	-	-
Convertible note	-	-	-	(250)	(250)	(250)
	-	339	-	(286)	53	53

Financial liabilities are payable within six months so their carrying value is assumed to approximate their fair value

	Financial assets at fair value through profit or loss \$000	Loans and receivables \$000	Available for sale \$000	Financial liabilities at amortised cost \$000	Carrying amount \$000	Fair value \$000
<b>2009 Group</b>						
Trade and other receivables	-	108	-	-	108	108
Cash and cash equivalents	-	324	-	-	324	324
Trade and other payables	-	-	-	(236)	(236)	(236)
Investments	1,000	-	-	-	1,000	1,000
	1,000	432	-	(236)	1,196	1,196
<b>2009 Parent</b>						
Trade and other receivables	-	108	-	-	108	108
Cash and cash equivalents	-	324	-	-	324	324
Trade and other payables	-	-	-	(236)	(236)	(236)
Investments	1,000	-	-	-	1,000	1,000
	1,000	432	-	(236)	1,196	1,196

The Group manages its exposure to key financial risks in accordance with the group's financial risk management policy. The objective of the policy is to support achievement of the group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are price risk, credit risk and liquidity risk.

The Group uses different methods to measure and manage the different types of risks to which it is exposed. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing its main financial risks as summarised below.

## Risk Exposures and Responses

### (i) Price Risk

The investments in Solirna and Real Time Genomics expose the Group to price risk.

At 31 December 2010, the investment in Solirna was recorded at a fair value of zero as Solirna has suspended operations due to lack of funding. This write off has reduced the post tax profit by \$1 million.

Judgement of reasonably possible movements	Profit after tax Higher/(Lower) Group / \$000		Profit after tax Higher/(Lower) Parent / \$000	
	2010	2009	2010	2009
+20% (2009)	-	200	-	200
-100% (-20%, 2009)	-	(200)	-	(200)

### **(ii) Interest Rate Risk**

The Group's exposure to market interest rates only relates to investments in short term deposits. All deposits were held for 90 days or less.

At balance date, the group had the following mix of financial assets and liabilities exposed to New Zealand variable interest rate risk that are not designated in cash flow hedges:

	Group \$000		Parent \$000	
	2010	2009	2010	2009
<b>Financial Assets</b>				
Cash at bank and in hand	338	2	338	2
Short-term deposits	-	322	-	322
<b>Total</b>	<b>338</b>	<b>324</b>	<b>338</b>	<b>324</b>

The group's policy is to invest excess funds on short term deposit of 30 days to 90 days duration with a registered New Zealand trading bank.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Statement of Financial Position date. At 31 December 2010, there was no money invested in term deposit. As such, the interest rate risk is non-existent in terms of possible impact on profit and loss and the sensitivity analysis is not done for 2010.

Judgement of reasonably possible movements	Profit after tax Higher/(Lower) Group / \$000		Profit after tax Higher/(Lower) Parent / \$000	
	2010	2009	2010	2009
+0.5% (50 basis points)	-	2	-	2
-1.0% (100 basis points)	-	(3)	-	(3)

### **(iii) Foreign Currency Risk**

The Group has no exposure of cash held in foreign currency. As such, a foreign currency risk and sensitivity analysis has not been reported.

The Group has transactional currency exposures. Such exposure arises from purchases of science consumables and services denominated in foreign currency.

It is the Group's policy to enter into forward contracts when a significant firm commitment is in place with extended terms. The Group has no creditors denominated in foreign currency at balance date. During 2010 and 2009 no forward contracts were entered into.

### **(iv) Credit Risk**

Credit risk arises from financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables.

The Group does not hold any credit derivatives to offset its credit exposure. The Group does not hold any collateral to securitise its receivables. The Group has very little exposure to receivables.

At 31 December, the Group had the following exposure to credit risk.

	Group \$000		Parent \$000	
	2010	2009	2010	2009
Financial assets				
Cash and cash equivalents	338	324	338	324
Receivables	1	108	1	108
PPG Debt	-	2,107	-	94
Provision for impairment	-	(2,107)	-	(94)

*Concentrations of Credit Risk*

100% (2009, 100%) of cash and cash equivalents is held with Westpac Banking Corporation Limited.

**(v) Liquidity Risk**

The group's objective is to maintain sufficient funding to pay its creditors through capital raising, collaboration, government grants and royalties.

The group monitors forecasts of liquidity reserves on the basis of expected cash flow.

The contractual maturities of the Group's and parent entity's financial liabilities are within six months. The Convertible Note is repayable on demand.

The Board monitors the liquidity of the group on a regular basis and every effort is made to minimise the Group's exposure to risk.

**(vi) Fair Value**

	Year ended 31 December 2010				Year ended 31 December 2009			
	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Group</b>								
Financial assets								
Investments at fair value through profit or loss	-	-	-	-	-	-	1,000	1,000
<b>Total</b>	-	-	-	-	-	-	1,000	1,000
<b>Parent</b>								
Financial assets								
Investments at fair value through profit or loss	-	-	-	-	-	-	1,000	1,000
<b>Total</b>	-	-	-	-	-	-	1,000	1,000

The fair value of unlisted debt and equity securities as well as other investments that do not have an active market is based on valuation techniques using market data that is not observable.

The fair value of the investment in Solirna is deemed to be nil at 31 December because Solirna suspended operations due to lack of funding.

**Reconciliation of fair value movements**

	Group \$000		Parent \$000	
	2010	2009	2010	2009
Opening balance	1,000	-	1,000	-
Decrease in fair value	(1,000)	-	(1,000)	-
Purchases	-	1,000	-	1,000
Closing balance	-	1,000	-	1,000

**4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements

**(a) Significant accounting judgements**

(i) The 2010 financial statements have been prepared on a going concern basis, with a fundamental uncertainty due to the need to raise additional capital and funding (refer to note 24). The nature of Genesis' operations has changed to include investing on a venture capital basis, including the investment interests in Solirna Biosciences Limited and Real Time Genomics Inc. and other opportunities are being investigated. Genesis also owns a number of patents and has potential royalty rights from a number of programmes being developed by other companies such as ArborGen and Wrightson.

(ii) The investment in Solirna Biosciences Ltd has not been equity accounted because management believes that NZ IAS 28 does not apply as the group is now a venture capital organisation and the investment is managed on a venture capital basis. Management believes that "fair value through profit or loss" provides the best information to users of the financial statements.

(iii) Genesis has significant influence on Solirna but does not have control, as the other major shareholder has certain veto and special voting rights, so Solirna is not a subsidiary of Genesis.

(iv) The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

**(b) Significant accounting estimates and assumptions**

(i) The investment in Solirna is accounted for at fair value through profit or loss. In 2009 the fair value of the investment in Solirna was calculated using a valuation technique. The fair value was based on the cash investment in Solirna by the other party and taking into consideration relative ownership interests. The investment in Solirna has a fair value of nil at 31 December 2010 as operations have been suspended due to lack of funding.

(ii) As part of the consideration for the sale of AgriGenesis' holding in BioJoule Ltd, the Group received 951,304 shares in Pure Power Global Limited (PPG). PPG is an early stage development company without established revenues. In the absence of detailed financial information or an active market for PPG securities, it is not possible to obtain a formal valuation for the investment in PPG. In December 2007, the shares were valued at US\$0.60 per share or a total of NZ\$744,175, based on market transactions up to that time. In December 2008 a provision for the full value of the shares was charged to the statement of comprehensive income due to inherent uncertainty as to the valuation. In 2010 the shares were sold back to PPG as part of a comprehensive settlement of the debt due by PPG.

(iii) The investment interest in Real Time Genomics Inc was acquired in settlement of various royalty and other rights. The fair value of the investment is nil because the company is an early stage development company without established revenues.

**(c) Provision for impairment of financial assets**

Due to the inherent uncertainty as to the likelihood of PPG repaying the outstanding settlement of \$2.1 million, a provision for the full amount of the outstanding debt was charged to the Statement of Comprehensive Income in 2009. This outstanding debt was completely written off in December 2010 when PPG made a final settlement payment of \$400,000.

Due to the lack of funding in Solirna, the outstanding debt due from Solirna to Genesis of \$571,000 was written off in 2010.

## 5. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal structure and management reports that are reviewed and used by the Board of Directors in assessing performance and in determining the allocation of resources.

The Group has identified only one reportable operating segment. The accounting policies and amounts that are disclosed in the financial statements are the same as the management reports that the Board of Directors review. There is only one set of figures that are reported to the Board.

The Group has operated solely in the biotechnology industry and considered the Health operation as the only segment. The Health programmes focus on developing products for human health, predominantly in the fields of immunology and cancer, together with animal health and physiology; and include venture capital type investments.

The revenue, loss for the period, assets and liabilities are presented to the board of directors on a regular basis is the same as that presented on the face of the primary statements. Therefore, no separate segment information has been disclosed. Genesis relies on one major customer. Revenue from this customer was \$425,000 for the year ended 31 December 2010. (2009: \$492,000)

The Group operates within New Zealand only. On this basis geographical segment reporting is not applicable.

## 6. EXPENDITURE

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
Employee benefits	524	1,157	524	1,157
Other science costs	14	257	14	257
Facilities and services	108	246	108	246
Premises lease	319	338	319	338
Directors' fees	190	81	190	81
Directors' costs	11	40	11	40
Corporate and other overheads	256	528	257	542
Loss on disposal of property, plant and equipment	(17)	1	(17)	1
Depreciation expense:				
- Scientific Equipment	-	84	-	84
- Office Furniture, Equipment and Computers	-	(8)	-	(8)
Total depreciation	-	76	-	76
<i>Other Costs</i>				
Impairment of receivable	571	-	571	-
Write off investment in Solirna	1,000	-	1,000	-
Finance costs	9	-	9	-
Total expenditure	2,985	2,724	2,985	2,738

## 7. TAXATION

The income tax rate for companies is 30%. Tax losses available to be carried forward and offset against future periods amount to \$52,632,950 (2009: \$50,639,527).

Unrecognised timing differences amount to (\$47341) - (2009: \$361,867). Availability of tax losses is subject to the requirements of the Income Tax legislation being met.

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
Accounting (loss) before income tax	(1,969)	(776)	(2,275)	(790)
Prima facie taxation at 30% (2009: 30%)	(591)	(233)	(683)	(237)
Add taxation effect of permanent differences Legal, entertainment and other non-deductible expenses	14	26	14	26
Aggregate income tax credit	(577)	(207)	(669)	(211)
Increase in accumulated tax losses (tax effect)	577	207	669	211
Income tax expense reported in the Statement of Comprehensive Income	-	-	-	-

The Group has not recognised deferred tax assets and liabilities.

The Group will only recognise a deferred tax asset for the carry forward of unused tax losses to the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The group does not have imputation credits available to the shareholders of the parent company at balance date.

## 8. EARNINGS PER SHARE

	Group / \$000	
	2010	2009
<b>(a) Earnings used in calculating earnings per share</b>		
Net (Loss) attributable to ordinary equity holders of the parent	(1,969)	(776)
<b>(b) Weighted average number of shares (000)</b>		
Weighted average number of ordinary shares for basic earnings per share	41,124	29,141

In 2010, the company issued 10,662,905 shares at 6 cents each pursuant to a Share Purchase Plan. The company also issued 874,998 shares at 6 cents each to the directors in lieu of fees.

Share options have been excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future, in accordance with NZ IAS 33, because this would decrease the loss per share.

### (c) Information on the classification of securities

Options granted to employees (including key management personnel) as described in note 19 are considered to be potential ordinary shares and have not been included in the determination of diluted earnings per share as noted above.

## 9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
Cash at bank and in hand	338	2	338	2
Short-term deposits	-	322	-	322
Cash and cash equivalents at end of period	338	324	338	324

## 10. CURRENT ASSETS – RECEIVABLES

		Group / \$000		Parent / \$000	
		2010	2009	2010	2009
Trade debtors	(i)	-	14	-	14
Solirna Biosciences Limited		-	94	-	94
Sundry receivables		1	-	1	-
Prepayments		16	79	16	79
PPG settlement		-	2,107	-	94
Impairment of PPG debt	(ii)	-	(2,107)	-	(94)
		17	187	17	187

- (i) Trade debtors and sundry receivables do not contain impaired assets and are not past due date. It is expected that these balances will be received when due.
- (ii) Impairment of PPG debt: In 2009 a provision for impairment was recognised because there was inherent uncertainty as to whether Pure Power Global Limited (PPG) would repay the debt. PPG paid a final settlement of \$400,000 in 2010 which has been recognised as income. The balance of the loan has been written off completely and the provision has been reversed.

(a) Movements in Provision

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
At 1 January 2010	2107	2107	94	94
Written off during the year	(2,107)	-	(94)	-
At 31 December 2010	-	2,107	-	94

## 11. NON-CURRENT ASSETS – INVESTMENTS

As part of the final settlement with Pure Power Global (PPG) referred to in Note 10, the investment in PPG was transferred to PPG. As the investment had been fully provided for there was no gain or loss recorded on the investment transfer.

The fair value of the investment interest in Real Time Genomics Inc has been assessed as Nil (refer Note 4biii).



(ii) Investment at fair value through profit or loss

(a) Investment details	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
<i>Unlisted</i> Solirna Biosciences Limited	-	1,000	1,000	1,000

The investment in Solirna Biosciences Limited has been designated at fair value through profit and loss. Solirna is not accounted as a subsidiary because Genesis only has significant influence on Solirna but does not have control, as the other major shareholder has certain veto and special voting rights.

The investment is not accounted for as an “investment in associate” under NZ IAS 28, as this standard is not applicable to investments in associates held by venture capital organisations, that upon initial recognition are designated at fair value through profit or loss and accounted for in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments are measured at fair value in accordance with NZ IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

On 2009 the fair value of the investment in Solirna was calculated using a valuation technique. The fair value was based on the cash investment in Solirna by the other party and taking into consideration relative ownership interests. The fair value of the investment in Solirna has been deemed as zero at 31 December 2010 as Solirna suspended operations due to lack of funding.

## 12. RELATED PARTY DISCLOSURE

### (a) Subsidiaries

The consolidated financial statements include the financial statements of Genesis Research and Development Corporation Limited (Genesis) and the subsidiaries listed in the following table.

	Equity Percentage Held		Country of Incorporation	Balance Date
	2010	2009		
AgriGenesis Biosciences Limited	100*	100*	NZ	31 December
BioGenesis Limited	100*	100*	NZ	31 December
BioStore NZ Limited	100*	100*	NZ	31 December
Genesis Employee Fund Limited	100*	100*	NZ	31 December

\* Non-trading

### (b) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 18

### (c) Related party transactions

The following transactions were carried out with related parties:

	2010 \$000	2009 \$000
<i>Parent: Subsidiaries (outstanding balance)</i>		
Intercompany Payable to AgriGenesis AgriGenesis does not have a bank account so Genesis paid for all the expenses and received all income on behalf of AgriGenesis. The movement of \$306,000 in 2010 is due to repayment of outstanding debt by Pure Power Global to AgriGenesis and depositing the proceeds into Genesis' bank.	2,131	1,825
<i>Related Third Party</i>		
BioCommSquare Pty Limited A member of the Genesis board of directors is also the chief executive officer of BioCommSquare. Genesis paid BioCommSquare for consultancy services for market research and business development (such as licensing) with international biotechnology and pharmaceutical companies. No costs have been charged since February 2009.	-	20
<i>Associate Party</i>		
Solirna Biosciences Limited		
(i) Genesis transferred intellectual property to Solirna at a fair value of \$1million in 2009. This was treated as revenue. This investment was recorded at a fair value of zero after Solirna suspended research due to lack of funding.	-	1,000
(ii) Genesis charged Solirna Biosciences for performing science experiments	425	492
(iii) Solirna owes Genesis (refer to Note 10) \$571,000 but it was written off in December 2010	-	94
(iv) Impairment of receivable	571	-

### (d) Terms and conditions of transactions with related parties

Outstanding intercompany balances to related parties at year-end are unsecured and interest free.

## 13. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December	Group – 2010 / \$000			Group – 2009 / \$000			Group / \$000	
	Scientific Equipment	Leasehold Improvements	Furniture & Computers	Scientific Equipment	Leasehold Improvements	Furniture & Computers	Total 2010	Total 2009
At 1 January, net of accumulated depreciation	33	-	-	118	-	(8)	33	110
Additions	-	-	-	-	-	-	-	-
Disposals	(33)	-	-	(2)	-	-	(33)	(2)
Depreciation recovered for disposals	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
Depreciation charged for the year	-	-	-	(83)	-	8	-	(75)
At 31 December, net of accumulated depreciation	-	-	-	33	-	-	-	33
Cost or fair value	-	-	-	3,491	1,244	521	-	5,256
Accumulated depreciation	-	-	-	(3,458)	(1,244)	(521)	-	(5,223)
Net carrying amount	-	-	-	33	-	-	-	33

Year ended 31 December	Parent – 2010 / \$000			Parent – 2009 / \$000			Parent / \$000	
	Scientific Equipment	Leasehold Improvements	Furniture & Computers	Scientific Equipment	Leasehold Improvements	Furniture & Computers	Total 2010	Total 2009
At 1 January, net of accumulated depreciation	33	-	-	118	-	(8)	33	110
Additions	-	-	-	-	-	-	-	-
Disposals	(33)	-	-	(2)	-	-	(33)	(2)
Depreciation recovered for disposals	-	-	-	-	-	-	-	-
Impairment <sup>1</sup>	-	-	-	-	-	-	-	-
Depreciation charged for the year	-	-	-	(83)	-	8	-	(75)
At 31 December, net of accumulated depreciation	-	-	-	33	-	-	-	33
Cost or fair value	-	-	-	3,023	1,244	521	-	4,788
Accumulated depreciation	-	-	-	(2,990)	(1,244)	(521)	-	(4,755)
Net carrying amount	-	-	-	33	-	-	-	33

With the suspension of operations on 31 May 2010 and the surrender of lease in August 2010, all impaired and obsolete scientific and laboratory equipment and other assets was disposed of.

#### 14. TRADE AND OTHER PAYABLES

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
Trade payables	-	95	-	95
Accruals	36	136	36	136
Non trade payables	-	5	-	5
	36	236	36	236

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

#### 15. PROVISIONS

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
Annual leave	-	118	-	118
Directors' fees	203	53	203	53
Other	-	3	-	3
	203	174	203	174

#### 16. CONTRIBUTED EQUITY

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
At 1 January	76,975	76,506	76,975	76,506
Issued during the year	692	469	692	469
At 31 December	77,667	76,975	77,667	76,975

Ordinary Shares	Group / 000		Parent / 000	
	2010	2009	2010	2009
<i>Movement in ordinary shares on issue</i>				
At 1 January	33,965	26,127	33,965	26,127
Issued during the year	11,538	7,838	11,538	7,838
At 31 December	45,503	33,965	45,503	33,965

Shares Issued		Group/Parent \$000/2010	No. of shares Thousands
Share Purchase Plan	15 March 2010	194	3,225
New Share Placement	29 June 2010	446	7,438
Proceeds from issue of shares		640	10,663
Directors – in lieu of fees	5 March 2010	52	875
Total shares issued		692	11,538

		Group/Parent \$000/2009	No. of shares Thousands
Share Purchase Plan	14 August 2010	469	7,838

All ordinary shares do not have a par value. They have equal voting rights and share equally in dividends and surplus on liquidation.

There were no options converted to ordinary shares during the year (2009: nil). 1,008,000 options were outstanding and 492,000 options were still unallocated (See note 19). All options have no voting rights.

### Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Due to the lack of sufficient ongoing funding, the group suspended operations in New Zealand on 31 May and all the staff were made redundant.

## 17. RECONCILIATION OF NET PROFIT / (LOSS) AFTER TAX TO NET CASH FLOWS FROM OPERATIONS

	Group / \$000		Parent \$000	
	2010	2009	2010	2009
Reported net Profit / (Loss) after taxation	(1,969)	(776)	(2,275)	(790)
<b>Add back non-cash items:</b>				
Depreciation	-	76	-	76
Share based payments	-	26	-	26
Sale of fixed asset	(216)	(51)	(216)	(33)
Convert directors' fees to share capital	53	-	53	-
Receipts classified as investing cash flow	-	-	(306)	(23)
Accretion interest accrued	9	-	9	-
Sale of technology to Solirna	-	(1,000)	-	(1,000)
Change in fair value of investment in Solirna	1,000	-	1,000	-
	846	(949)	540	(954)
<b>Movement in working capital:</b>				
(Increase)/Decrease in Receivables	170	708	170	698
Increase/(Decrease) in accounts payable	-	54	-	54
Increase /(Decrease) in accruals	(200)	1	(200)	1
Increase)/(Decrease) in employee entitlements	29	(69)	29	(69)
Increase /(Decrease) in non trade payables	-	(25)	-	(24)
Increase /(Decrease) in intercompany funding	-	-	306	23
	(1)	669	305	683
Net cash inflow from (used in) operating activities	(1,124)	(1,056)	(1,430)	(1,061)

## 18. KEY MANAGEMENT PERSONNEL

### Compensation for Key Management Personnel

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
Short-term employee benefits	365	633	365	633
Share-based payment	-	21	-	21
Directors' remuneration	190	89	190	89*
<b>Total compensation</b>	<b>555</b>	<b>743</b>	<b>555</b>	<b>743</b>

At 31 December 2010, \$190,000 directors' fees were accrued but not paid (2009: \$53,000)

## 19. SHARE BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the table below:

	Group \$000		Parent \$000	
	2010	2009	2010	2009
Opening ESOP Reserve	235	209	235	209
Recognised as expenses in statement of comprehensive income	-	26	-	26
<b>Closing ESOP Reserve</b>	<b>235</b>	<b>235</b>	<b>235</b>	<b>235</b>

### Types of share-based payment plans

Genesis Employee Fund Limited is the trustee that holds the unallocated share options in Genesis Research & Development Corporation Ltd. When the company decides to grant share options to an eligible employee the trustee then allocates some of the unallocated share options to that employee.

Share options are granted to all staff when they commence employment. When options are granted to employees, the exercise price is set at the weighted average closing sale price of Genesis shares on the NZSX for the three months immediately preceding the date of granting. The company does not require payment for the options. Payment of the exercise price is required if options are exercised by the employee and shares are issued.

The options vest in three tranches: 40% vests after 2 years of service, another 20% vests after 3 years of continual service and the remaining 40% vests after 4 years of employment. When a participant resigns from employment, the vested share options can be exercised within three months after resignation. Any unvested or unexercised options are taken back by the trustee and held as options available for issue to new employees.

### Summary of options granted under ESOP arrangements

The following table illustrates the number, weighted average exercise price (WAEP), and movements in, share options outstanding during the year:

	Group		Group	
	2010	WAEP 2010 \$	2009	WAEP 2009 \$
Outstanding at beginning of the year	1,008,000	0.26	1,592,485	1.12
Granted during the year	-	-	375,000	0.07
Forfeited during the year	-	-	(538,757)	0.76
Exercised during the year	-	-	-	-
Expired during the year	-	-	(420,728)	2.98
<b>Closing balance</b>	<b>1,008,000</b>	<b>0.26</b>	<b>1,008,000</b>	<b>0.26</b>

The outstanding balance as at 31 December 2010 is represented by:

	Exercise Price	Weighted Average Exercise Price	Number not Exercised	Number Vested 2010	Number Vested 2009
Allocated 2011 pool	0.07 - 0.52*	\$0.26	1,008,000	-	991,600
<b>Total Allocated</b>			<b>1,008,000</b>	<b>-</b>	<b>991,600</b>
Unallocated 2011 pool			492,000		
<b>Total Options</b>			<b>1,500,000</b>		

As at 31 December 2010, 1,008,000 options (2009, 1,008,000) were outstanding of which 1,008,000 (2009: 991,600) have vested in the name of the individual employees. The outstanding options have an expiry period of within one year.

All options have no voting rights. Staff options cannot be transferred and entitlement is dependent on continued employment.

1,500,000 options, as approved at the annual meeting in March 2002, were issued to the trustee, of which 492,000 remain for future granting to entitled employees. This pool expires in March 2011.

The Board of Directors has the power to appoint or remove trustees of the Employee Share Option Plan. As at 19 February 2011, there were 10 option holders (2009: 10).

**Option pricing model:**

The fair value of the equity-settled share options granted under the ESOP is estimated as at the date of grant using the Black-Scholes Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the options granted in 2009 and the calculated option value.

	2009
	ESO2
Share Price at Grant Date (\$)	0.34
Expected life of Options (years)	4.14
Volatility (%)	65.6%
Risk Free Rate (%)	6.9%
Average vesting Period (years)	1.45
Exercise Multiple	5.45
Option Value (\$)	0.16

**Notes:**

Share Price at Grant Date (\$)	Weighted average closing share price over the last three months prior to grant date.
Expected life of Options (years)	The expected life is the average time the option remains unexercised.
Volatility (%)	The long run volatility forecast. This is estimated from the last twelve months' volatility of the closing share price.
Risk Free Rate (%)	The Reserve Bank of NZ wholesale interest rate with a maturity equal to the expected life of the option.
Vesting Period (years)	The period in years during which the options cannot be exercised. It is calculated from the grant date.
Exercise Multiple	This defines the conditions under which employees are expected to exercise their options. It is defined as a multiple of the exercise price when on average employees tend to exercise if the stock price reaches that exercise price.

*ESO2 – options pool that expires in 2011*

**20. AUDITORS' REMUNERATION**

The auditor for Genesis Group is Ernst & Young. The amount received or due and receivable by Ernst & Young for services is:

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
Audit of financial statements	13	32	13	32
Other (accounting advice) Services and disbursements	2	6	2	6
	15	38	15	38

**21. COMMITMENTS**

**Operating Lease commitments**

Until August 2010, the Group had a commercial property lease for its premises.

Lease commitments under non-cancellable operating leases:

	Group & Parent 2010 / \$000	Group & Parent 2009 / \$000
Not later than one year	-	338
Later than one year and not later than two years	-	338
Later than two year and not later than five years	-	930
Later than five years	-	-
Total	-	1,606

Genesis signed a deed of surrender of lease with the landlord on 9 August 2010 and paid the landlord \$150,000 plus GST, which is approximately 5 months rent, as a surrender payment so that there is no ongoing lease commitment.

Genesis has funded this settlement by a convertible loan of \$250,000 which is convertible into 4,166,666 ordinary shares if conversion is approved by shareholders at a future meeting, or otherwise is repayable if not approved

#### Capital commitments

\$Nil (2009: \$Nil)

#### Contingent Liabilities

\$Nil (2009: \$Nil)

## 22. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

None

## 23. GOVERNMENT GRANTS

Movement in government grants accrual

	Group / \$000		Parent / \$000	
	2010	2009	2010	2009
At 1 January	-	-	-	-
Received during the year	-	356	-	356
Released to the Statement of Comprehensive Income	-	(356)	-	(356)
At 31 December	-	-	-	-

## 24. FUNDAMENTAL UNCERTAINTY

The financial statements have been prepared on a going concern basis, the validity of which depends on the ability to pay creditors. The Group will need to raise additional capital to fund corporate expenses and to invest in Solirna Biosciences Limited and other venture capital type of investments. The success of any capital raising depends on the business and scientific progress of the group as well as the market conditions.

Discussions are continuing with a number of groups who are considering investment in Genesis. The financial statements do not include any adjustments that would result from a failure to obtain additional capital and funding.

## 25. Convertible Note

On 9 August 2010 Genesis entered into a Convertible Loan Agreement with UBNZ Funds Management Ltd for a loan of \$250,000, primarily for the purpose of enabling Genesis to terminate its ongoing lease commitment for the premises situated at 1 Fox Street, Parnell. The lease had an unexpired term of 4 years, but a settlement was negotiated with the lessor to terminate the lease for a lump sum payment equivalent to 5 months' rent.

The UBNZ loan is secured by way of a General Security Agreement over all present and after acquired property of Genesis. The loan is due to be converted into 4,166,666 ordinary shares if shareholders approve the conversion, but otherwise is repayable on demand. The Agreement provides for interest to be payable in certain circumstances at the lender's overdraft rate plus 2% but UBNZ has not charged any interest. The option to convert the convertible note to shares has been assessed at \$9,000 which is shown in equity.

# STATUTORY INFORMATION

## Quoted Equity Security Holder Information

### Domicile of Ordinary Shareholders as at 1 March 2011

Country/Region	No. of holders	Total shares held	%
New Zealand	1,775	39,410,860	86.62
Australia	140	4,289,469	9.44
Canada	2	1,200	0.00
Czech Republic	1	500	0.00
France	1	1,000	0.00
Germany	2	29,416	0.06
Hong Kong	3	12,125	0.03
Indonesia	1	319	0.00
Ireland	1	9,000	0.02
Japan	3	37,550	0.08
Malaysia	1	4,000	0.01
Netherlands	1	10,000	0.02
Poland	1	500	0.00
Singapore	1	3,200	0.01
Spain	1	100	0.00
Switzerland	1	150,166	0.33
Taiwan	1	2,000	0.00
Timor-Leste	1	1,500	0.00
Turkey	1	500	0.00
U.S.A.	22	1,512,867	3.32
United Kingdom	13	26,374	0.06
<b>Total</b>	<b>1,973</b>	<b>45,502,646</b>	<b>100.00</b>

### Top Twenty Ordinary Shareholders as at 1 March 2011

Name	Total shares held	%
UBNZ Funds Management Limited	7,437,941	16.35
Accident Compensation Corporation	4,370,000	9.6
Piat Corp Pty Ltd	891,705	1.96
Pershing Advisor Solutions	890,000	1.96
J M Donougher	821,700	1.81
J N Mclean	686,782	1.51
The Old Brewery Company Pty Ltd	586,500	1.29
J D Watson & G J Stevens	568,037	1.25
C & J E Donougher	556,000	1.22
M H Watson & L B Richards	507,088	1.11
J & J von Roy	477,615	1.05
S Gillis	431,782	0.95
Investment Custodial Services Limited	415,573	0.91
Rotorua Trust Perpetual Capital Fund Limited	400,000	0.88
Ohau Properties Limited	360,949	0.79
G E Kirke	360,000	0.79
FNZ Custodians Limited	346,661	0.76
J Silcock	314,282	0.69
J D Honeywell	300,000	0.66
J von Roy	291,666	0.64
<b>TOTAL</b>	<b>21,014,281</b>	<b>46.18</b>

### Distribution of Ordinary Shareholders as at 1 March 2011

Size of Shareholding	No. of Holders	Total Shares Held	%
1-999	410	174,720	0.38
1,000-4,999	883	1,639,229	3.60
5,000-9,999	167	1,042,553	2.29
10,000-99,999	448	14,362,132	31.56
100,000 and over	65	28,284,012	62.17
<b>Total</b>	<b>1,973</b>	<b>45,502,646</b>	<b>100.00</b>

### Disclosure of Substantial Security Holdings

The following Substantial Security Holders have, as at 1 March 2010, disclosed holdings of relevant interests in the voting securities of the Company:

Substantial Security Holders	Number of Shares
UBNZ Funds Management Limited	7,437,941
Accident Compensation Corporation	4,370,000
N S Bagnall	4,427,435

The total number of issued voting securities of the Company at 1 March 2011 was 45,502,646. As at 1 March 2011, there were 891 holders with less than a marketable parcel of securities.

### Principal Activities

The company's principal activity in the year was commercialising scientific research.

### Directors Holding Office during the Year

Andrew John Hubert Gearing

Steven Gillis

Joachim Herbert von Roy

James Neil McLean (resigned in June 2010)

Stewart James Washer (resigned 1 March 2011)

Note that Daniel Mahnert-Lueg and Graham Chin have been appointed in March 2011.

### Equity Securities Held by Directors and Associated Persons of each Director as at 1 March 2011:

Director	Year	Beneficial		Non Beneficial	Associated Parties
S Gillis	2010	431,782	Shares	-	-
	2009	160,950	Shares	-	-
J H von Roy	2010	769,281	Shares	492,000 Options*	-
	2009	310,950	Shares	492,000 Options*	-
S J Washer	2010	229,166	Shares	-	-
	2009	-	-	-	-
A J H Gearing	2010	226,448	Shares	-	-
	2009	63,950	Shares	-	-

\*492,000 options (2009, 492,000) held as Directors of Genesis Employee Fund Limited, trustee of the Employee Share Option Plan.

### Entries in the Interests Register

**A J H Gearing** is the CEO of, and a shareholder in, Biocommsquare Pty Ltd, an international life sciences business development company based in Melbourne, Australia that provides business development services to Genesis. He is a director of CNSBio Pty Limited and BioMelbourne Network.

**S Gillis** is a managing director of ARCH Venture Partners, Chairman of VLST Corporation Inc., Qwell Pharmaceuticals, VentiRx Pharmaceuticals; Spaltudaq Corporation and PhaseRx, a director of Trubion Pharmaceuticals Inc., Allozyne, Variation Biotechnologies Inc., Limerick BioPharma, Magen BioSciences, Accelerator Corporation and Surface Logix Inc. and a shareholder of Amgen, Inc.

**J H von Roy** is Chairman of Phytomedics Inc, Vital Food Processors Ltd, White Biotechnology Pty Limited, a director of Biomatters Ltd, Corra Life Sciences Inc, Encoate Holdings Limited and Roberts & von Roy Associates Limited, a partner of Inventages Venture Capital Investments, a member of BioPacificVentures Investment Committee, an advisor to the Foundation for Research, Science and Technology, shareholder in a number of the companies noted above and in Proacta Inc, CoDa Limited, Source Precision Medicine Inc, PhotoNZ Corporation Limited and Cytran Ltd.

**S J Washer** is CEO of Calzada Ltd, an Australia based biotechnology company focused on developing a platform for the oral delivery of existing injectable peptide drugs. He has been a venture partner in Inventages Venture Capital Investments and the Investment Director of IB Managers life science funds. Dr Washer is also Chairman of Resonance Health (ASX:RHT) and Hatchtech Pty Ltd, a director of AusBiotech Ltd, White Biotechnology Pty Ltd and Healthlinx Limited (ASX:HTX), a member of the Senate at Murdoch University and is on the Australian Federal Government Advisory Panel for Industrial Biotechnology.

#### Remuneration of Directors

	Group & Parent \$000 2010	Group & Parent \$000 2009
A J H Gearing	35	15
S Gillis	35	15
J N McLean	15	15
J H von Roy	70	29
S J Washer	35	15

#### Directors' Insurance

The company has arranged policies of Directors' Liability Insurance that, together with a Deed of Indemnity provide that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. The insurance does not cover liabilities arising from criminal activities or deliberate or reckless acts or omissions.

#### Use of Company Information

During the year the Board received no notices from Directors of the company requesting to use company information received in their capacity as Directors, which would not otherwise have been available to them.

#### Subsidiary Companies

J N McLean is a Director of BioStore NZ Limited.

J N McLean and J H von Roy are Directors of Genesis Employee Fund Limited.

S Gillis and J N McLean are Directors of BioGenesis Limited.

S Gillis, J N McLean, J H von Roy and S J Washer are Directors of AgriGenesis Biosciences Limited.

#### Company Secretary

Although under New Zealand law a company secretary is not required, Stephen Hall assumes these responsibilities.

#### Remuneration of Group Employees

Remuneration Range	Number of Employees
\$110,001 – 120,000	1
\$190,001 – 200,000	1

#### New Zealand Stock Exchange (NZX) Waivers

As an NZSX & ASX dual listed Issuer, the company has been granted a waiver from compliance with rules 11.1.1 and 11.1.4 to allow for restricted securities during an escrow period under ASX Rules. On 18 September 2009 Genesis was granted a waiver from the requirement in Rule 9.2.1 to seek shareholder approval of the transfer of technology to Solirna combined with the proposed issue of

equity securities in Solirna to MATF-1 and the execution of the definitive documents and therefore to obtain an Appraisal Report on the transactions as would be required by Rule 9.2.5.

#### **Australian Stock Exchange (ASX) Waivers**

The company has been granted a waiver from a number of ASX Rules to allow for conflicts with New Zealand legislation and NZX Rules. This waiver allows the company to provide certain information and issue securities in accordance with New Zealand legislation and NZX Rules.

The Company has been granted a waiver from ASX Rule 10.13.3 and 10.13.5 to allow the issue of shares to Directors in lieu of cash payments for Directors' fees, up to 31 December 2010.

ASX has also granted Genesis a waiver from Rules 7.1 and 10.11 in respect of the Share Purchase Plan which is currently in operation.

#### **Australian Stock Exchange Disclosures**

The company is incorporated in New Zealand under the Companies Act 1993.

The company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act - Australia, dealing with the acquisition of shares (such as substantial holdings and takeovers). Limitations on the acquisition of shares are imposed by the following New Zealand legislation: Companies Act 1993, Securities Act 1978, Securities Amendment Act 1988, Takeovers Act 1993, Overseas Investment Act 1973, Commerce Act and various regulations promulgated under such Acts.

#### **CORPORATIONS ACT – AUSTRALIA DECLARATION**

This declaration is made in accordance with a resolution of the Directors of Genesis Research and Development Corporation Limited ("Genesis") dated 1 March 2011.

- (a) the financial statements of Genesis and its subsidiaries ("Group") for the year ended 31 December 2009 and the notes to those financial statements comply with the accounting standards issued by the New Zealand Institute of Chartered Accountants; and
- (b) the Group financial statements and notes give a true and fair view of the financial position and performance of the Group; and
- (c) in the Directors' opinion, there are reasonable grounds to believe that Genesis will be able to pay its debts as and when they become due and payable.
- (d) The Board has been given declarations from the Chief Executive and the Chief Financial Officer that in their opinion the financial records of the company for the financial year have been properly maintained, the financial statements, and the notes for the financial year comply with the accounting standards, the financial statements and notes for the financial year give a true and fair view and any other matters that are prescribed in relation to the financial statements and the notes for the financial year are satisfied.



J H von Roy  
Director  
28 March 2011

# Directory

## Directors of the Company

### **J H von Roy (Chairman)**

One Fox Street, Parnell,  
Auckland, New Zealand

### **A J H Gearing, PhD**

27 -31 Wright Street, Clayton,  
Melbourne, VIC 3168, Australia

### **S Gillis, PhD**

1000 2<sup>nd</sup> Avenue, Suite 3700,  
Seattle, WA 98104, USA

### **S J Washer, PhD**

105 Hay Street, Subiaco,  
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### **Chief Executive**

S G Hall MCom(Hons) CA CTP

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### **Auditor**

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### **Sharemarket Ticker Symbols**

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Australia ASX: GEN

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GENESIS RESEARCH & DEVELOPMENT CORPORATION LIMITED

