



CHAIRMAN'S REPORT

Since its origin in 1994, our company has focused its activities on progressing to a public listing. I am delighted to be able to say that after seven years of work, this is the first Annual Report to be issued following the listing of Genesis on the New Zealand and Australian Stock Exchanges.

In 2000, we sought to and were successful in building a strong financial base for ambitious growth in the years to come. The private capital raising and the Initial Public Offering in September resulted in \$51.7 million of new capital, giving Genesis a strong financial base and the confidence that we can achieve our growth and development goals. This growth will take place within the continued values which have guided our development in the past and are forging our identity as a company. First, our research, a true source of innovation, is based on the new science of genomics. This is a field of exceptional promise, unequalled opportunity and growth in all of biotechnology.

Second, the uniqueness of our staff who through their dedication and vision are developing their own reputation for the excellence of their work.

Third, we continue to develop outside the boundaries of New Zealand by building partnerships which strengthen our research but maintain our national roots.

Our science programmes continue to advance and are fully reported on by the Chief Executive. Total research expenditure since Genesis commenced in 1994 now exceeds \$60 million. This has formed the base for development of a number of technologies and products for both human health and agriculture.

PVAC™, our vaccine for Psoriasis, is the nearest to market. Corixa Corporation, our USA partner in the development of PVAC™, has achieved a major milestone through the sale of commercialisation rights in Japan to Zenyaku Kogyo and in North America to Medicis Pharmaceutical Corporation. This has demonstrated the potential of the commercial success for PVAC™ and other products under development. Medicis is the leading independent pharmaceutical company serving the \$5 billion market for dermatology products in North America.

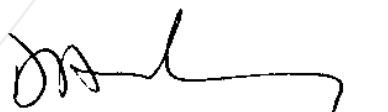
ArborGen, LLC, our forestry biotechnology joint venture with International Paper Company, Westvaco Corporation and Fletcher Challenge Forests USA has established headquarters in Summerville, South Carolina.

It has now completed its first year of operations and is a truly unique venture in the plant world. We hold a 5% ownership stake and an option to acquire an additional 5% equity in the future.

Our scientific staff come from 17 different countries and bring leading edge capability to Genesis. Our management team support the science programmes and are also focused on achieving commercial success from our research.

The Board would like to thank investors for their support. We are grateful to Immunex Corporation and Corixa Corporation for having stayed with us from the start. They are just outstanding science and commercial partners, and importantly active partners at the Board table. Nearly all the original investors in Genesis from inception in 1994 are still on the register. This demonstrates the consistent and successful path that Genesis has taken over the last seven years. We look forward to continued success in the future.

D A Irving
Chairman
30 Jan 2001



The ability to reach into international markets and forge partnerships with complementary organisations is a measure of our success.

R E V

CHIEF EXECUTIVE'S REPORT

The year 2000 has been one of momentous change for Genesis. Seven years ago we set our sights on building a great New Zealand discovery-based biotechnology company. On September 22, we reached a major milestone with the successful completion of our Initial Public Offering and a listing on the New Zealand and Australian Stock Exchanges.

With that step, Genesis has passed through a major evolutionary phase. To put that into context, consider what the father of evolutionary theory, Charles Darwin, wrote almost 150 years ago in *The Origin of Species*. He described the way in which various species adapt to survive in a changing environment, bound together in a complex web of relations and partnerships. "Many more individuals of each species are born", he wrote, "than can possibly survive. Consequently there is a frequently recurring struggle for existence, and it follows that any individual, if it varies however slightly in a manner profitable to itself, will have a better chance of surviving, and will be naturally selected".

A biotechnology company like Genesis does not compete for food, light, air and shelter. We compete for other scarce resources like finance, partners and talented scientists. And that means we need to adopt strategies that will help us survive in a competitive economic environment.

Over the last decade, the network of relationships between biotechnology companies, pharmaceutical companies and capital markets has led to an environment capable of creating and sustaining economic life. In doing so it has given birth to a completely new species of company that could not have existed prior to the emergence of biotechnology. Intellectual capital and science are becoming the key trading commodities in these new companies and this in turn is forcing the development of new business models necessary for survival.

The major difference between the evolution of life forms and that of economic entities formed by the advance of science is the timeframe involved. In the natural world it takes tens of thousands of years for a major new characteristic to emerge. The business of science is not so leisurely; new types of companies seem to emerge overnight, growing and transforming themselves far faster than the evolution of life forms. Yet, unlike many other emerging economic forms, they still require a period of years to produce outcomes. While that transformation, and the learning that accompanies it, often seems difficult it is not nearly so arduous as it is for established companies to transform themselves by developing new survival strategies.

Given that framework, the success of our Initial Public Offering means that Genesis is now better able to "provide itself with the necessities of life". We can continue to build the right skills in our science team. We can extend our partnerships, recognising that the more integrated we are with our environment, the more resources we have to use as we grow and diversify. We also have a greater ability to seek those high quality partnerships where science and culture are compatible with our own. Partnerships are a key competency for us. The ability to reach into international markets and forge partnerships with complementary organisations is a measure of our success, at least as much as our scientific efficiency and intellectual property creation.

But if, as spelled out in more detail in the following pages, the year lived up to its millennial promise for Genesis, we believe 2000 counts less as a marker for where the company has been than as a pointer for where Genesis will go next. We believe we are now well placed for a period of quite active growth.

Like other successful biotechnology companies, Genesis is built on a combination of strong science and a sound business model. Our IPO showed that New Zealand investors have been ready to move from an initial lack of awareness, towards

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Genesis' vision has been to build a genomic science platform and capture value through commercialising intellectual property.

strong acceptance of the business model and we believe this support will continue as investors seek our quality stock.

Beyond the local market, two factors are central to successful growth.

First, there is the quality and commercial potential of Genesis' science. As the deals and the alliances the company has been able to enter into attest, the products in our pipeline show very good signs of succeeding.

Second, there is the environment in which we operate. Both in science and in business, the biotechnology revolution is hitting its stride. Talk of the knowledge economy has become widespread, but really this can be distilled into a recognition that science is reshaping the world. All the other processes of politics and commerce continue, but the sort of work Genesis does and the process of scientific discovery generally have become part of the new fabric of our changing society.

Genesis' vision has been to build a genomic science platform and capture value through commercialising intellectual property. This is being used to underpin our novel treatments for human immune disorders and innovative products for use in the fields of forestry and agriculture.

Our management philosophy has mirrored our approach to research. We have aimed to develop a genomic platform that can be turned into products both for health and for plants, and we have sought out partnerships to share the costs and risks of research. The revenue we now receive from partners is recognition of the quality of Genesis' science, and it also allows us to fund new research as we go, reducing the rate of cash-burn. Most of Genesis' primary industry Research and Development is funded by partners, and milestone payments will grow in the future as we move products resulting from research closer to market.

As a newly listed company Genesis has recently been the subject of several highly favourable analyst and sharebroker reports. Following our recent IPO we are in a strong position to fund future research. In a highly competitive environment this means we have an immense advantage as a company, having adapted in a way that gives us a far better chance of surviving and being "naturally selected".

® Jim Watson
Founder and
Chief Executive



Business
growth Driven
by Economics

Securing
value from
Unique Gene
Pools

Competitive
Advantage

DEVELOPMENT ST[®]ATEGY

Focus on
signalling
Molecules
which control
living
processes

Licensing our
Development

Early
Partnering



Business Growth Driven By Genomics

Our core business is genomics – the translation and use of the chemical information carried within genes of living organisms.

Genomic technology allows us to understand key living processes and use this knowledge to target genes, promoters or proteins that have the potential ability to alter a living process or create a new industrial process. This may result in an improvement over current practice in the treatment of disease, or in horticulture or agriculture, thereby creating commercial value.

Securing Value From Unique Gene Pools

We have carefully selected a diverse range of niche gene pools, currently under-researched by major international companies, from which to build EST databases.

In collaboration with industry partners, we mine these databases with the purpose of developing novel biotechnology products that have value within our partners' industries. We expect to go on to secure additional value by using the same databases to develop products outside of our partners' industries.

Focus on Signalling Molecules Which Control Living Processes

Databases built from each gene pool contain a vast amount of information on how a particular cell grows, functions and dies. While much of this information will have potential value over time, we currently mine just a subset of it, focusing our research efforts on signalling molecules that control cellular growth and behaviour. The signalling molecules or regulators include hormones, transcription factors and receptors, which collectively combine to transmit signals into living processes.

Early Partnering

Partners assist in financing our research and, more importantly, in providing valuable insight as to where economic opportunities may lie within their industry. Their expertise allows us to focus on the gene discovery process and avoid building technical capabilities in areas in which other companies specialise.

Licensing Our Development

Our focus is at the discovery end of a range of value chains. We are not a manufacturer or distributor of products. Those functions are undertaken by our partners. The point at which we hand our results over to them varies depending on the product and industry. It is also conditional on us being satisfied that adequate ongoing value has been secured for our shareholders.

Competitive Advantage

We see our competitive edge in the following areas:

- The diversity of the gene pools that we are turning into high quality databases;
- A DNA sequencing facility working on rotation, sixteen hours a day;
- Highly cost-effective DNA sequencing;
- Integrated capabilities in both sequencing and bioinformatics;
- The best national and international partners;
- Applying our knowledge in therapeutics to developments in non-therapeutic areas;
- Teams of highly qualified and motivated young scientists.

Beyond Human Health

The US biotechnology industry, with its considerable financial resources and market opportunities, has long been the key driver for building DNA databases. US health industry financial resources tend to have a very heavy focus around science and technology within the US, limiting partnering opportunities for smaller non-US companies. Because this trend is unlikely to change in the near future, we have diversified from health into other life sciences (such as plants) in order to have a competitive differential to US-based companies.

The differentiating factor of our genomics opportunity today comes from the recognition that New Zealand is at the forefront of advanced breeding of forest trees, farm livestock, forage grasses, crops and fruit. While international research remains heavily focused on capturing the human genome and the genomes for high value crops such as rice, corn, soybean and cotton, we have identified a window of opportunity for us to capture the gene pools of other crops. Each of these gene pools has potential for global commercial development and coincides with an industry in which New Zealand excels.

What Makes Our Vaccines Different?

In the last century, vaccines made a significant impact on human health in the treatment of infectious disease. Our new vaccine therapeutics are different and novel because they can be used to treat immune disorders not generally caused by infection. We have come to appreciate that certain substances can be used to re-programme elements of the immune system which, in some cases, leads to the development of new treatments for inflammatory and autoimmune diseases and allergies.

PVACTM

In partnership with Corixa Corporation, Seattle, we are developing a therapeutic vaccine, PVACTM, for the treatment of psoriasis.

In August 1999, Corixa and Genesis announced the sub-licensing of the rights for sales of PVACTM in Japan to Zenyaku Kogyo Co. Limited in return for milestone payments and product royalties. The agreement provides Zenyaku Kogyo with exclusive rights to market PVACTM in Japan. Under the terms of the agreement, we will share with Corixa potential license fees, research finding and milestone payments of approximately US\$15.5 million based upon successful clinical and commercial progress, as well as a royalty stream on future product sales in Japan. A minority portion of these payments will be paid to SR Pharma plc for its patent rights.

In January 2000, we gained clearance from the Food and Drug Administration in the US to

enter Phase II clinical trials. These placebo-controlled, double-blind clinical trials are now taking place in the US, Brazil and the Philippines. The aim is to establish the efficacy of PVACTM across a range of patient and population types and the effects of various dosages on treatment results. The results from the clinical trials in the US will be available early in 2001, and from those in Brazil and the Philippines later in the year.

On August 15, 2000 Corixa announced the sub-licensing of the rights for sales of PVACTM in the US and Canada to Medicis Pharmaceutical Corporation. Medicis will purchase inventory from Corixa and pay a royalty on net sales of the product. Genesis and Corixa will share any returns on a pro-rata basis consistent with each of their shares of project development costs, after a minority portion is paid to SR Pharma plc.

Medicis made a non-refundable payment of US\$17 million, on signing of the deal and is to provide additional potential development milestone payments of US\$35 million, and commercialisation and cumulative net sales threshold milestone payments of US\$55 million.

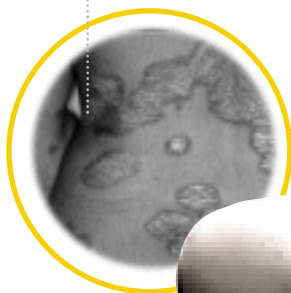
Psoriasis Phase II Trial Results

These results were released on February 15, 2001, after the Annual Report had been prepared. We have included a summary because of shareholder interest in this trial.

Genesis and Corixa Corporation have now completed a Phase II trial using PVACTM in the United States. This is an outline of where we are.

The PVACTM Phase I study carried out in the Philippines indicated that PVACTM may be a safe and efficacious treatment for psoriasis. The USA Phase II study was designed to provide safety data and determine an optimal dose for future efficacy studies. Patients with moderate to severe psoriasis were treated with measured doses of PVACTM or a placebo, and the extent and severity of their psoriasis measured over a period of 12 weeks. In order to

® Psoriasis lesions cause considerable discomfort.



ensure that measurements were not biased by patient or researcher expectations, neither patients nor researchers knew which dose was administered to which patient, or which patients received a placebo instead of PVACTM.

The results of the study indicate that patients treated with PVACTM tend to respond significantly better than patients treated with a placebo. Patients treated with a 15 microgram dose of PVACTM had the most impressive improvement in their condition. 23% of all patients given 15 microgram doses of PVACTM showed 50% or better improvement in their condition at 12 weeks.

Some patients in the Phase II study have had psoriasis for many years, and have tried a range of treatments, including treatments (such as cyclosporin) which suppress the body's immune system for some time. PVACTM acts by regulating the immune system, so it is likely that suppressive treatments will delay or interfere with the action of PVACTM. 43% of patients who had not been exposed to immunosuppressants, and who were treated with 15 microgram doses of PVACTM, showed a 50% or better improvement in their condition at 12 weeks.

Most patients showed increasing improvement with time, and researchers believe that improvements will continue beyond the 12 week observation period. A longer measurement period would probably have shown a larger percentage of patients with more than 50% improvement. Future studies will include measurements beyond 12 weeks.

Some patients showed mild local reactions to injections of PVACTM, but no patients showed adverse systemic reactions. The study indicates that PVACTM can be used safely.

The study results have confirmed the results of Phase I studies, further demonstrated the safety of PVACTM, and provided information on appropriate dosing regimens. Significant improvements have been demonstrated in some of the toughest psoriasis cases.

AVACTM

The incidence of asthma has increased significantly in the past decade, particularly in countries such as New Zealand, Australia, Britain, Canada and the US. In New Zealand and Australia up to 15% of teenagers have asthma symptoms.

Our research has demonstrated that AVACTM, a therapeutic vaccine which we developed from PVACTM, reduces the inflammation associated with asthma in laboratory models. A pilot clinical study in collaboration with the Wellington School of Medicine in 1999 provided safety information encouraging the further development of the technology.

In partnership with SR Pharma plc, research quantities of AVACTM are currently being manufactured in the United Kingdom and we commenced a formal Phase I study in New Zealand in August 2000 involving 40 volunteers treated with AVACTM in a carefully monitored study. The results of this study should be known by the middle of 2001. The cost of this is being met by SR Pharma and Genesis.

MED-1TM

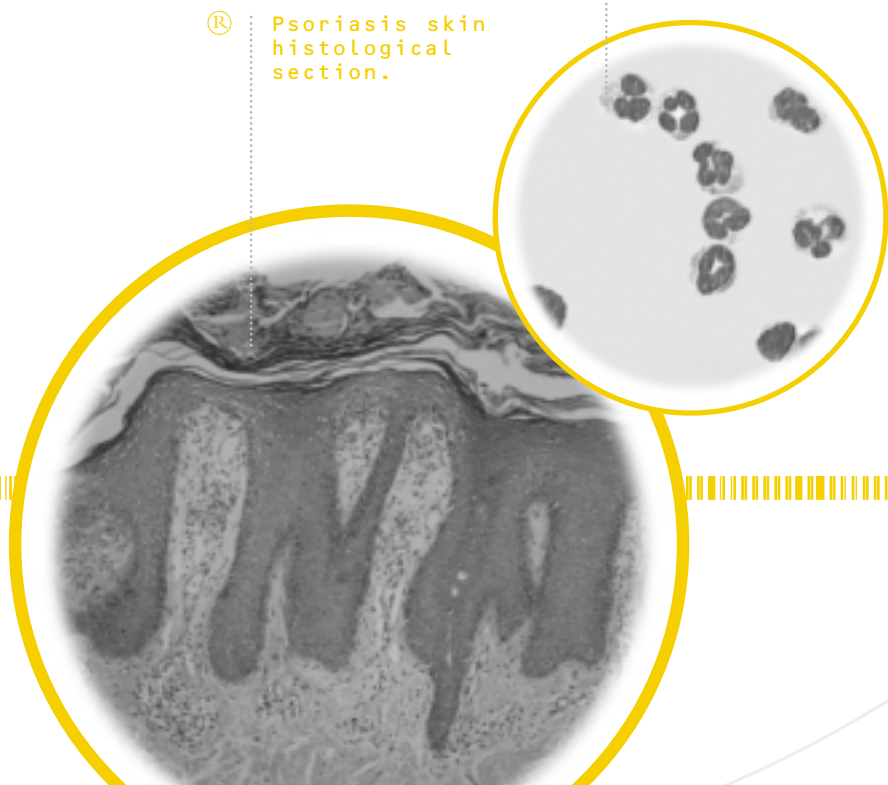
Genesis is working towards both prophylactic and therapeutic vaccines for tuberculosis, a major medical condition in third world countries, where widespread treatment with antibiotics is not available. A prophylactic is a preventive treatment taken before the disease occurs to increase the body's immunity to the bacterium and reduce the likelihood of subsequent infection. In contrast, a therapeutic treats the disease once infection has started.

We have developed MED-1TM, which is being tested as a prophylactic vaccine against tuberculosis in our laboratory models and in collaboration with the Leonard Wood Research Centre in the Philippines.

Prophylactic vaccines, such as MED-1TM, would be widely used where people are exposed to the risk of catching tuberculosis. Such people include health workers, overseas aid workers and military personnel, and those travelling in developing countries or involved in the travel industry. A therapeutic would be particularly useful in treating the growing number of drug-resistant tuberculosis strains, because antibiotics are not always successful in containing these new strains of tuberculosis.

® White Blood cells from lungs of Asthmatic patients.

® Psoriasis skin histological section.



Other New Therapeutics

In addition to the existing products, we are expanding our biologic screening programme in conjunction with Immunex Corporation. By establishing EST databases from specialist human cells, we have expanded database screening techniques to identify new classes of genes which may have commercial potential in the treatment of various skin and autoimmune diseases.

One candidate for development as a cancer therapeutic is a protein called YB-1 that controls the expression of a number of important genes, including those involved in cell growth and survival. We made the novel observation that levels of YB-1 are highly elevated in more than 60% of human tumours, where it leads to faster growth rates and decreased susceptibility to programmed cell death.

Based on this observation we believe that the YB-1 protein may be a suitable target for therapeutic intervention to treat a wide range of cancers by inducing a death reaction to reduce tumour growth.

Another candidate is a protein called Epigen. This is a novel member of a known growth factor family which stimulates the growth of certain skin cells, and may constitute a molecular target for wound healing therapy.

® Richard Forster
Programme
Manager



Although Genesis is part of the new knowledge-based economy, we have always believed that New Zealand's economic strength is based squarely on the primary sector. New Zealand has led the world in agriculture and forestry for over 100 years, and this competitive advantage is still going to define the country's future. Genomics allows us to break down traditional barriers between diverse life science businesses, creating new opportunities to apply our biotechnology expertise to complement other New Zealand companies' expertise in primary production. Which is why we have been active in forming partnerships in agriculture and forestry.

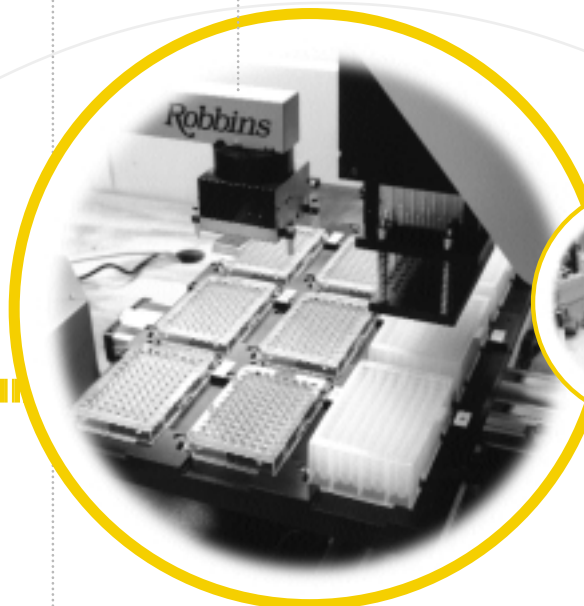
Forestry

Through our Joint Venture with Fletcher Challenge Forests Limited, we have developed the world's most comprehensive EST database for commercial forestry species, focused on *Pinus radiata* and *Eucalyptus grandis*. We have been mining this database for genes which control the basic fibre and growth qualities of these trees. Our efforts have resulted in a strong portfolio of intellectual property, including issued US and international patents for 12 of the 13 biosynthetic steps in the production of lignin in trees.

On February 10, 2000, we completed an agreement with Fletcher Challenge Forests USA Inc., International Paper Company and Westvaco Corporation to establish a joint venture company, ArborGen, LLC. The aim of the joint venture is to develop, field test and market improved tree propagules on commercial terms to its shareholder forestry companies and to the wider forestry industry.

® Genesis state of the art sequencing facility is the largest in the Southern Hemisphere.

® Angela De Ath
Scientist in the
Forestry Team



Agriculture and Horticulture

Together with Fletcher Challenge Forests, we have granted licenses to ArborGen to use the forestry database. ArborGen has contracted Genesis to provide ongoing scientific research services. Genesis has received a 5% equity share in ArborGen and an option to take an additional 5% of equity in the future. Future royalties from the sale of products incorporating genes, ESTs or promoters included in the forestry EST database will be shared by Fletcher Challenge Forests and Genesis.

The real strength of ArborGen is that the partnering companies have pooled their considerable technologies to ensure a pre-eminent position in forestry biotechnology. ArborGen expects to acquire additional forestry technologies from many sources through in-licensing and further collaborations. This combined strategy will significantly reduce the time needed to develop improved forestry tree varieties compared to traditional breeding programmes. Primary targets for research and development are trees that have higher growth rates, lower fibre production costs, greater suitability to the end use, and contribute to healthy forest ecosystems. These improvements will enable forest landowners to meet the growing demand for wood products while strengthening their ability to manage forests in a sustainable manner.

In 1999, in collaboration with the New Zealand Dairy Board, we undertook the sequencing of the genome of an industrial Lactobacillus microbe. This microbe is central to the production of cheese and yoghurt. The New Zealand Dairy Board assigned its interests in our agreement to Vialactia Biosciences (NZ) Limited, a wholly-owned subsidiary of the New Zealand Dairy Board, in August 2000.

In 2000, we built a bovine database with AgResearch and developed bioinformatics capability to identify genetic information important to highly competitive breeding industries. AgResearch provided research revenue for us to complete the database development. We will also receive downstream royalties on any agricultural product commercialised by AgResearch which uses the intellectual property in this database.

Also in 2000, we progressed a research programme with HortResearch to build a fruit tree EST database platform for use within the horticultural industry. We are using our bioinformatics capability to identify genetic information that may deliver benefits to growers, consumers and the environment. HortResearch expertise will be involved in the downstream gene testing and product development programmes. This work promises to speed up the conventional breeding programmes undertaken within the horticultural industry, reducing the 20 years or more currently needed to produce new fruit varieties. HortResearch also provides research revenue for us to complete the database development. We will receive royalties on any horticultural product utilising intellectual property in this database which is commercialised downstream.

In September 2000, we entered a strategic alliance with New Zealand's largest agri-business, Wrightson Limited. Initially we will focus research on new generation forage grass varieties. Controlled trials by Wrightson have shown live weight gains of 30-40 percent in sheep and cattle using Wrightson-bred ryegrasses and pasture management techniques.

We intend to discover the genomic characteristics of these grasses, and then to accelerate their production through natural breeding. We will also be looking for grass that can thrive in harsh conditions. Success would mean significant productivity gains for farmers, contributing to world food production and creating huge potential for export orders.

® Jessica Goris
Scientist in
the Plant
Transformation
Team



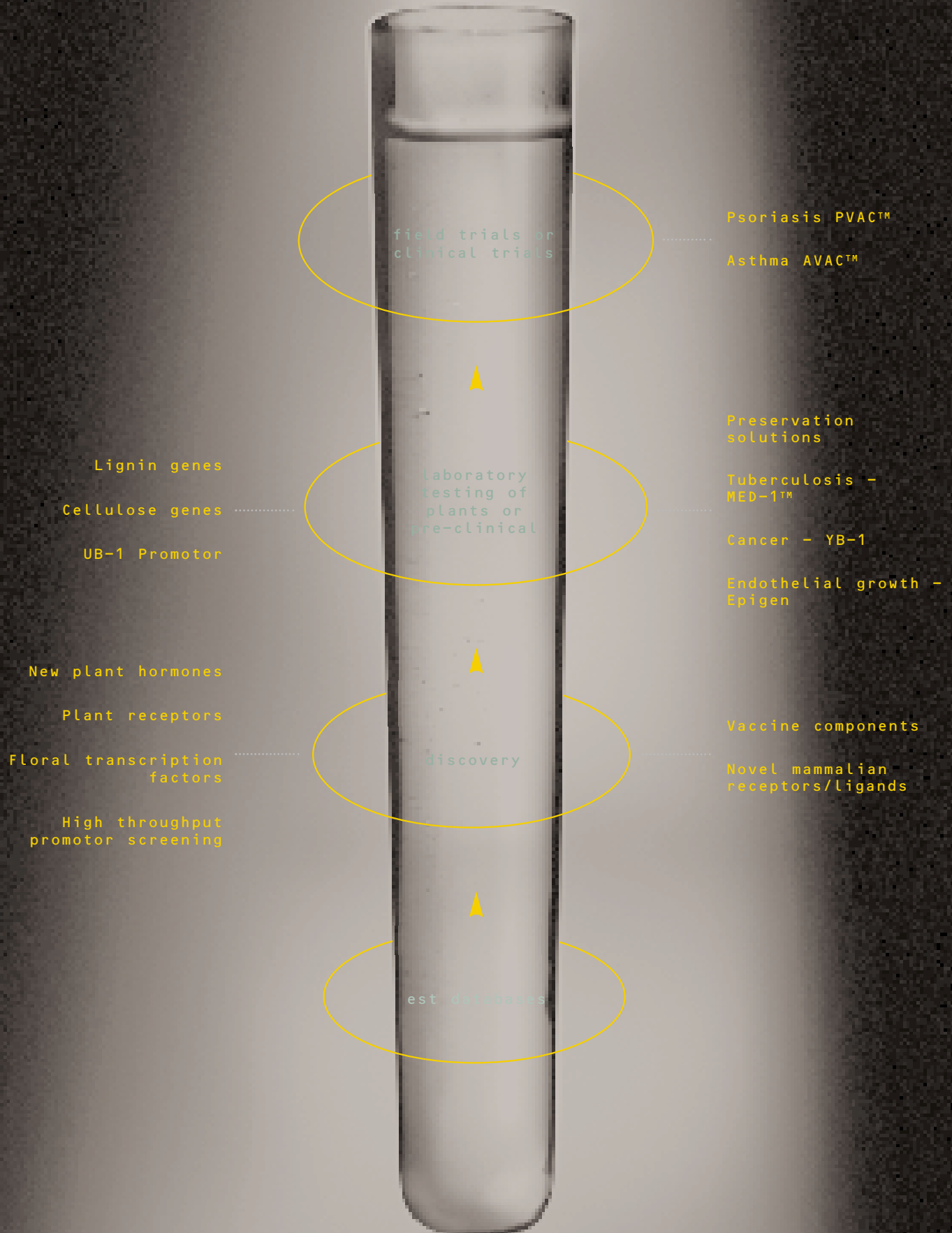
® Success would mean significant productivity gains for farmers, contributing to world food production and creating huge potential for export orders.



® Dr Keith Hudson
Project Leader
Receptors and
Ligands



P[®]ODUCT PIPELINE



MANAGING GENESIS' INTELLECTUAL PROPERTY PORTFOLIO

In 2000, numerous changes in regulations and requirements prescribed by the US Patent and Trademark Office (USPTO) made management of the Genesis intellectual property portfolio an even more challenging task. One consequence for Genesis of these new requirements has been that patent applications are now examined using stricter rules; for patents to be awarded means we have to leap over a bar that has been raised considerably during the year.

Nevertheless, a number of significant patents have been awarded to Genesis during the past year – eight in total, of which three were awarded by the USPTO and the other five by international Intellectual Property Offices. Three of the patents have been issued and are now publicly accessible and five patents are going through the last formalities before issuance.

The US patents issued during 2000 were for two novel proteins, one an *M. vaccae* protein and the other an Epigen found in skin. Also issued was an Australian patent that will protect our claims to a defined set of *M. vaccae* proteins.

These *M. vaccae* proteins are active in assays testing the ability of proteins to mount an immune response and therefore could potentially be used as a component of a vaccine against tuberculosis. The most likely role for these molecules in a vaccine will be to act as amplifiers of the immune response of the body against tuberculosis bacteria.

We face strong competition not only from large genomics companies aiming to own novel molecules but also from the large number of sequences that are now in the

public domain following the completion of the Human Genome Sequencing project. For Genesis to be awarded claims for a novel molecule such as Epigen, which is derived from mouse skin and its human counterpart, represents a considerable achievement. This molecule can potentially be developed to aid in wound healing where new skin growth is required or to encourage new blood vessel growth for the treatment of certain heart conditions.

Partnerships finalised during 1999 and 2000 resulted in an exponential increase in the sequencing capacity of the DNA Technologies group, and consequently in a growing number of new patent applications filed during the past year. Genesis, in collaboration with different partners, had to carefully consider the best way to protect the intellectual property locked up in these sequences. Another challenge was the integration of this strategy into our science programmes to provide experimental support for claims in order to meet the requirements of the raised bar.

To protect the intellectual property arising from the different partnership contracts, eleven new patent applications were filed with the USPTO during 2000. In addition, thirty-nine patent applications were filed to further expand and support existing US patent applications. The information in these applications was also filed in other countries to widen our intellectual property protection, and to this end a total of 42 applications were filed in relevant countries.

During the coming year, strategic planning and management of the Genesis intellectual property portfolio will be a key aspect of our patent and business development. Continued experimental support to characterise important molecules will be a crucial aspect of getting claims awarded. Mining of the vast database that has been built during the past years to identify molecules that can develop into commercial products is another challenging but vital aspect of intellectual property management.

BIOSTORE PATENT PORTFOLIO

Building on the success of the previous years, the BioStore patent portfolio has expanded with seven new patents during 2000. These patents include different formulations of the BioStore preservation solution, as well as patents to use this simple, but highly effective and specific formulation of ions in water for preservation of blood components by freeze-drying. This innovative preservation technique is now protected by patents issued by the USPTO and the New Zealand and Australian Intellectual Property Offices, while another Australian patent is going through the last formalities before issuance.

Continuations of the BioStore patent series have been filed in the US and Australia during 2000 to expand the list of solution formulations and to capture the use of BioStore for other novel medical applications.

® Dr Greg Murison
Project Leader
Functional
Genomics



® Dr Tim Strabala
Senior Staff Scientist
Receptors and Ligands



Insect and disease resistant
crops may reduce the need for
insecticides and fungicides.

R E V O L

ENVIRONMENTAL IMPACT OF GENE TECHNOLOGY

Products arising from discoveries in gene technology are expected to have a profound effect on traditional approaches to horticulture, agriculture, forestry and industry.

By way of example, insect and disease resistant crops may reduce the need for insecticides and fungicides, and thus reduce the leaching of these toxins into soil and water. In industry, traditional methods of paper production, including de-inking recycled paper with solvents and breaking down wood pulp and bleaching with chlorine, all produce environmentally damaging waste streams. New genetic technology is leading to new more environmentally acceptable production techniques using novel enzymes that avoid the production of such toxic substances. Genetic modification of crops may enable agricultural scientists to produce varieties that can survive in severe environments where there is drought or excessive salination, often found in underdeveloped countries, with corresponding benefits on the output of food production for people in those environments. Gene engineering is leading to similar breakthroughs in human health. While the production of our psoriasis and asthma vaccines does not involve gene engineering technology, an increasing range of protein therapeutics produced through genetic engineering is now available commercially. Genesis is well

placed to capitalise on the benefits of this technology in the development of new pharmaceuticals. The stringent regulatory processes through which these therapeutics must pass before marketing commences provide a high level of assurance as to the safety and efficacy of these products.

Despite the positive environmental and health impacts of gene technology, there is significant public concern over the use of genetically modified plants in food substances. A major reason for this concern is that, unlike therapeutics, there is a relatively underdeveloped regulatory process through which new foods are tested prior to marketing. In April 2000, the New Zealand Government established a Royal Commission on Genetic Modification, which will hear and review such concerns and make recommendations back to the Government by June 1, 2001. In October 2000, Genesis made a submission to the Royal Commission noting that many drugs, vaccines and medical diagnostics had been developed in the health biotechnology industry using genetic modification, often providing safer alternatives than previous products. We also noted that success in health technology could be extended into New Zealand primary industries to add value to commodity industries and benefit the environment. Our position is a moderate

one: we believe that implementation of the latest scientific techniques and practices will enable New Zealand to play a competitive role in world markets, and will contribute to economic development and wealth creation. At the same time we acknowledge public concern and support a managed approach to the monitoring of research activities.

® Dr Annette Lasham
Project Leader
Forestry Genes
and Promoters

® Dr Nevin Abernethy
Project Leader
Vaccines



U T I O N

A new suite of molecular biology laboratories, plant growth chambers and a new biochemistry facility to house a state-of-the-art mass spectrometer.

SEVEN YEARS OF G[®]OWTH

2000 has been a landmark year in terms of growth in revenues. While income from our research collaborations has grown steadily over seven years, in 2000 we also received substantial revenue from license fees and milestones through the sublicensing of PVAC™.

Genesis growth can be charted in a number of other ways. One is to look at our staff. We started in 1994 with 30 employees; at the end of 2000 this had increased to 124 employees.

Attracting International Talent

Since Genesis was founded we have been fortunate in being able to attract talented and highly qualified people from overseas. Indeed, whatever the status of the national brain drain, we have grown by reversing the outward flow of knowledge.

By recruiting some extremely bright graduates and experienced scientists from leading British, European and North American companies and universities, Genesis has become a significant importer of world-class talent.

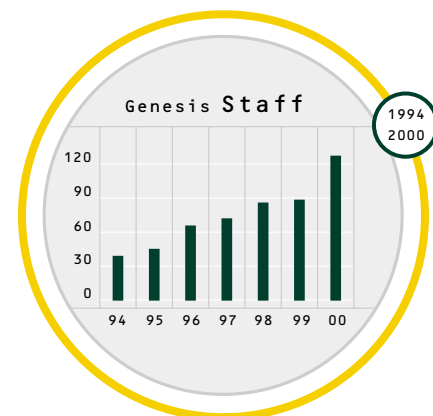
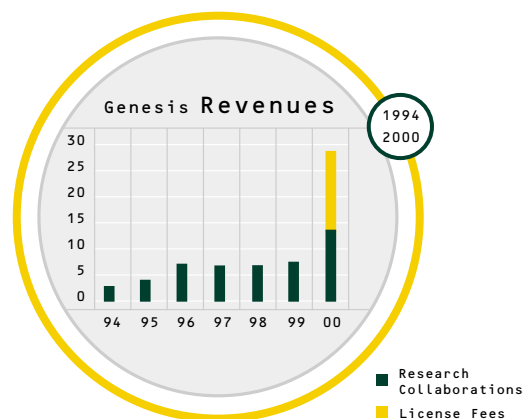
They come to us for two reasons. One is the challenge of work itself. But the second is to be part of the broader international biotechnology revolution. Driving the change is humankind's most ambitious programme of discovery: unravelling the molecular basis of life.

Biotechnology has transformed the health industry. Soon it will begin to reduce our dependence on chemicals in agriculture and expand medicine in remarkable new ways. Like the industrial and information technology revolutions before it, this one knows no geographic or cultural borders. But like them its development will cluster around pockets of expertise where it will create new wealth. New Zealand must ensure that, as a nation, we do not miss out on the benefits it will bring.

In pursuit of that goal the challenge is to help attract a new generation of New Zealanders into science, and Genesis has for some time played a modest part in doing so. We have once again supported the annual Genesis Science and Technology Forum held in Auckland. This brings together 120 top science sixth formers from all over the country for two weeks to introduce them to science as a great career. We want to capture their imaginations before they are lost to other occupations. We hope that the students will agree that there is no more exciting or fulfilling vocation.

New Laboratory Space

Good science, like any other business, requires room to expand. In 2000, to meet funded research commitments to our partners ArborGen and Wrightson, we have extended our laboratory space into the ground floor of our Parnell



headquarters. This includes a new suite of molecular biology laboratories, plant growth chambers and a new biochemistry facility to house a state-of-the-art mass spectrometer. This has boosted our gene discovery programme and our analytical capability.

Meanwhile, we have leased a warehouse across the road at Number Six Fox Street to provide needed office space. Number One Fox Street is now free for maximum scientific capability.

These expansions, tangible evidence of Genesis growth, have created an environment in which the business of science – good science – can flourish.

FINANCIAL RESULTS

The net surplus for the year of \$0.7 million is a significant change from the net deficit of \$7.1 million reported for 1999. This reflects the initial license fees received as a result of the sublicensing agreements negotiated with Zenyaku Kogyo for Japan and Medicis Pharmaceutical Corporation for USA and Canada.

Research expenditure also increased significantly from \$11.9 million to \$18.9 million through increased research programmes and the Phase II Psoriasis trial in USA.

No taxation is payable on the net surplus due to accumulated tax losses.

As a result of the capital raising undertaken during the year and the receipt of upfront licensing payments, the company ended the year with a cash balance of \$60.9 million.

This provides the resources necessary to fund our research and development plans for the next four years.

Our fixed assets value has grown to \$6.6 million as a result of the increased laboratory space that has developed. We now have 2,400m² of laboratory, and this will allow for planned expansion in both staff numbers and key research programmes.

Forward Outlook

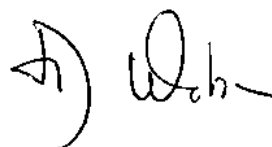
Corixa Corporation will continue to review opportunities for sublicensing of PVAC[™] in Europe and other markets.

We have spent considerable time in assessing partnerships for BioStore and in 2001 we will implement changes in management and science programmes to ensure that this venture will continue to grow.

We will implement two new science initiatives. The first will be to develop proteomics, the natural extension to our DNA technologies. This will allow us to build specialised databases of proteins, the products of DNA blueprints. The second is to focus our efforts on finding novel plant hormones, the application of which to agriculture will create new commercial products.

We are also planning to increase research staff numbers throughout the company in 2001 to accelerate product development and commence new projects of great commercial promise.

This increased Research & Development investment is an important development of Genesis' capability and will result in a Net Deficit for the 2001 financial year.



2000

DIRECTORS AND MANAGEMENT
FINANCIAL STATEMENTS
STATUTORY INFORMATION

Directors

David Andrew Irving, BCA, ACA, has served as a director of Genesis since 1998 and was elected Chairman in 1999. Mr Irving has served as Chief Executive Officer for Watties Limited and as Area Director New Zealand and Australia for Heinz-Wattie Limited. Now as a full-time non-executive director, Mr Irving also chairs the boards of Tenderland Limited, Airwork Limited, Medallion Foods Limited, Cable Bay Vineyards Limited and Nobile Wines Limited, and holds directorships with Restaurant Brands Limited and Hubbard Foods Limited. Mr Irving is an Adjunct Professor in Enterprise and Management at the University of Auckland. He has completed the Senior Executive Programme at Stanford University, and received his BCA from Victoria University of Wellington.

Jonathan Andrew Cimino, BCA, has served as a director of Genesis since 1999. Mr Cimino is currently Chairman of UBS Warburg New Zealand and has worked in the investment banking and sharebroking industries since 1974. He has recently stepped down from the board of the New Zealand Stock Exchange where he served as Deputy Chairman. He is a director of Waste Management NZ Limited and UBS Warburg Investments Limited and a trustee of the Victoria University of Wellington Foundation. He completed a BCA in Economics and Accounting at Victoria University of Wellington and completed the Advanced Management Program at the Harvard Business School.

Steven Gillis, PhD, has served as a director of Genesis since 1993. 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 has served as Chief Executive Officer and as a director since that time and has chaired the Corixa Corporation board since March 1999. In addition, Dr Gillis is a director of Micrologix Biotech Inc and Rosetta Inpharm Atics Inc. He also serves on the scientific

advisory board of Medarex. Dr Gillis graduated from Williams College and received his PhD from Dartmouth College.

Herman Charles Rockefeller, MBA, LLB, BCom, was involved in the capital raising to found Genesis and was a co-founder of Genesis. He has served as a director of Genesis since 1993. Mr Rockefeller is the Chief Financial Officer of Visy Industries Pty Limited, of Melbourne, Australia. He was previously the Chief Financial Officer of Brierley Investments limited from 1986, where he had responsibility for various financial, tax, accounting and asset disposal programmes. He has previously held directorships for Carter Holt Harvey Limited, Sky City Limited and Carlton United Breweries Limited and is currently a director of Fulcrum Consulting Group Pty Limited. Mr Rockefeller holds a Masters Degree in Business Administration from Harvard University and an Honours Degree in Law and a Bachelors Degree in Commerce from the University of Melbourne.

Douglas Edward Williams, PhD, has served as a director of Genesis since 1995. Dr Williams is the Executive Vice President and Chief Technology Officer for Immunex Corporation where he is responsible for discovery research and new technology development. Dr Williams joined Immunex Corporation in February 1988. He was elected to the Immunex Corporation board of directors in 1996. He is also a director of Amnis Corporation. Dr Williams holds a BSc Magna Cum Laude in biological sciences from the University of Lowell and a PhD in physiology from the State University of New York at Buffalo.

James Douglas Watson, PhD, was a co-founder of Genesis in 1994. He has served as the Director of Research (1994-1998) and the Chief Executive Officer (1998-present). Prior to Genesis, Dr Watson was Head of the Department of Molecular Medicine (1983-1994). He has held Professorships at the University of Auckland (1981-1993) and the University of California, Irvine (1976-1981). He has also worked at the Salk Institute (1969-

1975) and Syntex Corporation (1967-1969) in Palo Alto, California. Dr Watson's area of expertise is immunology. He is a Trustee of the Malaghan Institute for Medical Research, a Fellow of the Royal Society of New Zealand and Director of the Foundation for Research, Science and Technology, Kentra Group Limited and ArborGen, LLC. Dr Watson received his PhD from the University of Auckland.

James Neil McLean, BSc (Hons), ACA, joined Genesis in 1994 shortly after the completion of the initial company financing was responsible for developing business strategies and partnerships. He is currently assisting ArborGen, LLC with the development of its commercial infrastructure. Prior to joining Genesis, Mr McLean was a partner with Ernst & Young (1983-1994) consulting in the areas of performance improvement, strategy and financial and business planning. Mr McLean received his BSc (Hons) from the University of Otago.

Management

Stephen Hall, MCom (Hons), CA, CTP, Head of Corporate Services. Mr Hall is responsible for Finance, Human Resources, Legal and Business Development. He has had financial and management experience in a number of industries in New Zealand and Australia.

Andrew Shenk, PhD, Head of Discovery. Dr Shenk is responsible for research and collaborations in the areas of plants, agriculture, horticulture and forestry. Prior to joining Genesis he was a Postdoctoral Fellow at Yale University and a Research Associate Professor at the University of California at Irvine.

Paul Tan, MB, BS, FRACP, Head of Therapeutics. Dr Tan manages the clinical trials, where products under development are trialled on patients under controlled conditions, and pre-clinical research for new therapeutics. He has been a Fellow in the Rheumatic Disease Unit at the University of Toronto, and Associate Professor in Immunology in the Department of Molecular Medicine, University of Auckland.



David
Irving



Jon
Cimino



Steven
Gillis



Herman
Rockefeller



Douglas
Williams

Governance

Genesis Research & Development Corporation Limited is a New Zealand Company whose shares are listed on the New Zealand and Australian stock exchanges. In accordance with the generally accepted requirements by exchanges for formal adoption by Boards of Directors of approved corporate governance practices, the Board of Genesis advises that it is committed to the highest standards of behaviour and accountability and has adopted formal policies to ensure that this is achieved.

Role of the Board

The Board of Directors of Genesis is elected by shareholders and is 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, financial policy and the review of performance against strategic objectives;
- To appoint the Chief Executive and senior executives, review their performance, set their remuneration and plan their succession;
- 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 against budgets and other performance goals and monitor corrective action by Management;
- To recruit Directors and to regularly review and assess Board performance;
- To establish and review processes to assist the effective operation of the Board;
- To appoint auditors, communicate with shareholders and monitor regulatory compliance.

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 comprises five non-executive Directors and two executive Directors. The Board seeks to appoint Directors with complementary experience and knowledge who will, at all times, act in accordance with the highest ethical standards and contribute in a positive and constructive manner to Board discussion and debate.

Board Committees

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

The Audit Committee, chaired by Mr Cimino is regulated by a Board policy which addresses membership, function, specific responsibilities, and reporting procedures.

Specifically the Audit Committee is responsible for:

- Monitoring the systems of corporate governance;
- 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. Other members of the Committee are Mr Irving and Dr Watson.

The Administration Committee, chaired by Mr Irving, also includes Mr Cimino and Dr Watson. It is responsible for:

- Establishing and reviewing the remuneration for the Board and the Management;
- Succession Planning;
- Administration of the Employee Share Option Plan.

In setting remuneration the Committee has regard to 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.



Jim
Watson



Jim
McLean



Stephen
Hall



Andrew
Shenk



Paul
Tan

To the Shareholders of Genesis Research and Development Corporation Limited.

We have audited the financial statements on pages 19 to 32. The financial statements provide information about the past financial performance of the company and group and their financial position as at 31 December 2000. This information is stated in accordance with the accounting policies set out on pages 23 to 24.

Directors' Responsibilities

The Directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 31 December 2000 and of their financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company and group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Ernst & Young provides taxation advice to the company and group.

Unqualified Opinion

We have obtained all information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 19 to 32:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the company and group as at 31 December 2000 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 30 January 2001 and our unqualified opinion is expressed as at that date.

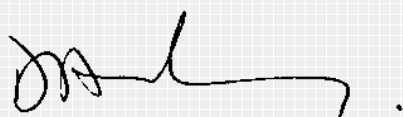

Auckland

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2000

	NOTES	GROUP & PARENT	GROUP & PARENT
		2000 \$000	1999 \$000
Revenue			
Research collaborations and grants		13,271	6,889
Interest received		1,475	91
License fees		13,916	215
OPERATING REVENUE		28,662	7,195
Expenditure			
Research and development		(18,912)	(11,862)
General and administration		(9,027)	(2,483)
TOTAL EXPENDITURE	2	(27,939)	(14,345)
Net surplus (deficit) before taxation		723	(7,150)
Taxation expense	3	-	-
NET SURPLUS (DEFICIT) AFTER TAXATION		723	(7,150)

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.



D A Irving
Chairman
30 January 2001



J D Watson
Chief Executive

CONSOLIDATED STATEMENT OF MOVEMENTS OF EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2000

	NOTES	GROUP & PARENT	GROUP & PARENT
		2000 \$000	1999 \$000
Opening Equity		1,617	4,248
Total recognised revenue and expenses		723	(7,150)
Contribution from owners	4	55,945	4,519
CLOSING EQUITY		58,285	1,617

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2000

	NOTES	GROUP & PARENT 2000 \$000	GROUP & PARENT 1999 \$000
Equity			
Share capital	4	74,639	18,694
Retained deficit		(16,354)	(17,077)
		58,285	1,617
<i>Represented by:</i>			
Non Current Assets			
Investments & advances	5	-	-
Fixed assets	6	6,597	3,451
		6,597	3,451
Current Assets			
Bank balance		60,929	3,945
Receivables and prepayments	7	2,894	162
		63,823	4,107
Current Liabilities			
Deferred revenue		(9,077)	(3,658)
Accounts payable		(575)	(290)
Accruals		(1,893)	(1,138)
Employee entitlements		(462)	(297)
Non trade payables		(128)	(558)
		(12,135)	(5,941)
		58,285	1,617

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2000

	NOTES	GROUP & PARENT 2000 \$000	GROUP & PARENT 1999 \$000
Cash Flows from Operating Activities			
<i>Cash was provided from:</i>			
Receipts from research collaborations, grants, and license fees		30,612	9,569
Interest received		1,012	91
		31,624	9,660
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		22,217	11,669
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	11	9,407	(2,009)
Cash Flows from Investing Activities			
<i>Cash was applied to:</i>			
Purchase of fixed assets		4,630	976
NET CASH OUTFLOW FROM INVESTMENT ACTIVITIES		(4,630)	(976)
Cash Flows from Financing Activities			
<i>Cash was provided from:</i>			
Proceeds of share issues		52,438	4,519
NET CASH INFLOW FROM FINANCING ACTIVITIES		52,438	4,519
NET INCREASE IN CASH HELD		57,215	1,534
Foreign currency translation adjustment		(231)	-
Add opening cash brought forward		3,945	2,411
ENDING CASH CARRIED FORWARD		60,929	3,945
Cash balances in the Statement of Financial Position		60,929	3,945

THE ACCOMPANYING NOTES FORM PART OF THESE FINANCIAL STATEMENTS.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

1. Statement of Accounting Policies

Reporting Entity

Genesis Research and Development Corporation Limited ("Genesis") is a company registered under the Companies Act 1993. Genesis is a reporting entity for the purpose of the Financial Reporting Act 1993. The financial statements, and group financial statements, of Genesis have been prepared in accordance with the Financial Reporting Act 1993.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the group.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied.

Basis of Consolidation - Purchase Method

The consolidated financial statements include the holding company and its subsidiary accounted for using the purchase method. All significant inter-company transactions are eliminated on consolidation. In the parent company financial statements investments in subsidiaries are stated at cost or written down value.

Fixed Assets

The company has three classes of fixed assets:

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

Fixed assets are recorded at cost.

Depreciation

Depreciation is provided on a straight line basis on all tangible fixed assets at rates calculated to allocate the asset's costs less estimated residual value, over their estimated useful lives. Estimates of useful life are revised when appropriate.

Major depreciation periods are:

- | | |
|---|--------------|
| - Scientific equipment | 3 to 8 years |
| - Office furniture, equipment and computers | 2 to 8 years |
| - Leasehold improvements | 8.5 years |

Receivables

Receivables are stated at their estimated realisable value.

Research and Development Costs

Research and development costs are expensed in the period incurred.

Deferred Revenue

Deferred revenue relates to research income received in advance.

Employee Entitlements

Provision is made for employee entitlements accumulated as a result of employees rendering services up to the reporting date. These entitlements include wages and

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

salaries and annual leave. Liabilities arising in respect of wages and salaries, annual leave, and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. Employee entitlement expenses arising in respect of wages and salaries, non-monetary benefits and annual leave, other leave entitlements and other types of employee entitlements are charged against the surplus on an accrual basis. Employee contributor superannuation funds exist to provide benefits for certain of the Group's employees and their dependants. The contributions made to these funds by entities within the Group are charged against the surplus when due.

Income Tax

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method. Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

Leases

The group leases premises in Parnell and computer equipment. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the net surplus in equal instalments over the lease term.

Foreign Currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Short-term transactions covered by forward exchange contracts are measured and reported at the rates specified in those contracts.

At balance date foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these translations are included in the Statement of Financial Performance.

Intellectual Property

Genesis places no value on its intellectual property until such time as the future cash receipts from the intellectual property are secured. Intellectual property includes patents, patent applications, trade secrets and plant variety rights.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets, which excludes intellectual property, acquired at the time of acquisition of a business or shares in a subsidiary, in substance subsidiary or associate. Goodwill is amortised by the straight-line method over a maximum period of 10 years.

Investments

Investments are recognised at the lower of cost or net realisable value.

Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the previous year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

2. Expenditure

Includes:

	GROUP & PARENT 2000 \$000	GROUP & PARENT 1999 \$000
Audit fees	39	29
Auditor's other services	320	19
Depreciation	1,484	1,180
Director's fees	127	94
Provision for BioStore receivable (Parent)	101	-
Exchange variation	85	-
Rental costs	423	389

3. Taxation

	GROUP & PARENT 2000 \$000	GROUP & PARENT 1999 \$000
Net surplus (deficit) before taxation	723	(7,150)
Prima facie taxation at 33%	239	(2,360)
Plus taxation effect of permanent differences	1,176	1
Plus taxation effect of timing differences not recognised	437	257
Less/plus (decrease) increase in losses to carry forward	(1,852)	2,102
TAXATION EXPENSE	-	-

Tax losses available to be carried forward and offset against future periods amount to \$5,718,974 (1999 \$11,338,984). Unrecognised timing differences amount to \$1,325,954 (1999 \$779,011). Availability of tax losses is subject to continuity of shareholding being maintained.

4. Share Capital

	GROUP & PARENT 2000 \$000	GROUP & PARENT 1999 \$000
25,286,211 (1999, 12,359,889) ordinary shares	74,639	17,694
Zero (1999 1,000,000) convertible shares	-	1,000
TOTAL CAPITAL	74,639	18,694

All ordinary shares have equal voting rights and share equally in dividends and surplus on liquidation. In February 2000, 1,000,000 convertible shares were converted to ordinary shares.

In February 2000 Genesis completed a private placement of 130,000 shares at NZ\$5.00 each raising a total of \$650,000.

In April 2000 Genesis completed a private placement of 493,222 shares at NZ\$5.70 each raising a total of \$2,811,365.

In July 2000 Genesis completed a private placement of 2,760,000 shares at NZ\$5.00 each raising a total of \$13,800,000.

In September 2000 Genesis completed a public placement of 5,750,000 shares at NZ\$6.00 each raising a total of \$34,500,000.

During the year 3,793,500 options were converted to ordinary shares raising a total of \$4,183,325.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

Share Options Plan

In accordance with the Constitution and the Employee Share Option Plan, the directors have discretion to issue up to 5% of the company's capital as staff options each year at a price set by the directors. As at 31 December 2000, 2,504,000 options (1999, 4,207,500) are outstanding of which 1,201,000 (1999, 3,449,500) have vested in the name of individual employees. The remaining outstanding options have a vesting period of between two and four years. At 31 December the following options were outstanding:

EXPIRE	EXERCISE PRICE	NUMBER	NUMBER VESTED	NUMBER VESTED
		OUTSTANDING*	DECEMBER 2000	DECEMBER 1999
2000	\$1.00	-	-	461,900
2001	\$1.25	284,500	284,500	2,018,100
2001	\$1.00	54,500	54,500	138,400
2002	\$1.00	117,000	42,000	27,000
2002	\$2.75	203,300	198,300	211,600
2003	\$2.75	677,700	501,700	592,500
2004	\$2.75	555,000	20,000	-
2005	\$2.75	40,000	-	-
2005	\$5.00	329,500	100,000	-
2005	\$6.00	117,500	-	-
2009	\$6.60	125,000	-	-
TOTAL OPTIONS		2,504,000	1,201,000	3,449,500

All options have no voting rights. Staff options cannot be transferred and entitlement is dependent on continued employment. A further 1,025,000 options have been issued to Genesis Employee Fund Limited, trustee of the Genesis Employee Share Option Plan for future granting to entitled employees. The Board of Directors has the power to appoint or remove trustees of the Employee Share Option Plan.

* *Number of options granted but not yet exercised*

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

5. Investments and Advances

	EQUITY PERCENTAGE HELD		BALANCE DATE
	2000	1999	
BioStore NZ Limited	76.29	76.29	31 December
Arborgen LLC	5.0	0	31 December

The principal activity of BioStore is biotechnology research and development. BioStore's only asset is intellectual property. In accordance with Genesis accounting policy this has not been recognised and the resulting goodwill arising on the acquisition has been written off. The investment in BioStore is carried at a nil value and there is no minority interest to recognise.

The original funding of BioStore by Genesis was by way of subordinated advance. This advance is interest free and is not repayable unless and until BioStore has sufficient surplus cash resources from the commercial exploitation of its intellectual property to repay such advance. The amount advanced to BioStore as a subordinated advance is \$769,087 (1999 \$769,087). This has been fully provided for. Expenditure funded by Genesis from January 2000 to December 2000 is shown as a receivable and has been fully provided for by Genesis.

Genesis owns 5% of the equity of Arborgen LLC a forestry research joint venture based in the USA. The other shareholders are committed to contributing up to US \$60 million over a five year period. Genesis is not required to contribute any capital unless the other shareholders contribute greater than US \$ 60 million. Genesis has the option to acquire a further 5 % holding at market value exercisable in 2005. Consistent with Genesis accounting policy no value is attributed to the ArborGen investment.

6. Fixed Assets

	GROUP & PARENT	
	2000 \$000	1999 \$000
Scientific equipment	7,111	3,833
Accumulated depreciation	(3,432)	(2,523)
	3,679	1,310
Leasehold improvements	3,859	2,954
Accumulated depreciation	(1,424)	(1,082)
	2,435	1,872
Office furniture, equipment and computers	1,827	1,392
Accumulated depreciation	(1,344)	(1,123)
	483	269
TOTAL FIXED ASSETS	6,597	3,451

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

7. Receivables and Prepayments

	GROUP & PARENT	GROUP & PARENT
	2000 \$000	1999 \$000
Trade debtors	2,090	18
Sundry receivables	649	
Prepayments	155	144
TOTAL RECEIVABLES AND PREPAYMENTS	2,894	162

8. Financial Instruments

Credit Risk

Financial instruments, which potentially subject the company to credit risk principally consist of bank balances and accounts receivable.

The company performs credit evaluations on all customers requiring credit and generally does not require collateral.

Maximum exposures to credit risk as at balance date are:

	GROUP & PARENT	GROUP & PARENT
	2000 \$000	1999 \$000
Bank balance	60,929	3,945
Receivables	2,090	17

The above maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above amounts.

Concentrations of Credit Risk

99% of bank balances are held with WestpacTrust Banking Corporation Limited.

The company is not exposed to any other concentrations of credit risk.

Interest Rate Risk

Assets

Interest rates for investments in term deposits during the year varied between 4.75% and 6.85%. (1999 2.55% to 5.10%)

Currency Risk

The group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. The group minimises this risk by limiting the amount of cash held in foreign currency to the amount of future liabilities denominated in foreign currencies.

Fair Values

The estimated fair values of bank balances, receivables and payables are their carrying values.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

9. Commitments

Operating Lease Commitments

Lease commitments under non-cancellable operating leases:

	GROUP & PARENT 2000 \$000	GROUP & PARENT 1999 \$000
Not later than one year	985	425
Later than one year and not later than two years	1,000	425
Later than two year and not later than five years	1,377	1,275
Later than five years	-	-

Capital commitments \$1,368,629 (1999 \$Nil)

10. Contingent Liabilities

\$Nil (1999 \$Nil)

11. Reconciliation of Net Surplus/(Deficit) After Taxation with Cash Outflow from Operating Activities

	GROUP & PARENT 2000 \$000	GROUP & PARENT 1999 \$000
Reported surplus/(deficit) after taxation	723	(7,150)
<i>Add back non-operating items:</i>		
Depreciation	1,484	1,180
Foreign currency translation adjustment	231	-
Capital raising expenses	3,507	-
	5,222	1,180
<i>Movement in working capital:</i>		
Increase in deferred revenue	5,419	2,466
Increase in accounts payable	775	1,548
Increase in receivables and prepayments	(2,732)	(53)
	3,462	3,961
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	9,407	(2,009)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

12. Transactions with Related Parties

Immunex Corporation owns 1,700,000 ordinary shares (1999, 1,000,000 ordinary shares and 1,000,000 convertible shares) in Genesis Research and Development Corporation Limited. In February 2000 Immunex Corporation converted 1,000,000 convertible shares to ordinary shares. Included in revenue is \$ 2,021,731 for research contracts received from Immunex Corporation (1999, \$286,278).

Fletcher Challenge Forests owns 727,273 ordinary shares (1999, 727,273 ordinary shares) in Genesis Research & Development Corporation Limited. Included in revenue is \$0 for research contracts received from Fletcher Challenge Forests. (1999, \$4,000,710)

Genesis funds expenditure in BioStore, in which the company has a 76.29% interest (1999 76.29%). Genesis funds these services at their cost to Genesis. The amount due from BioStore is \$869,830 (1999 \$769,087) and is only receivable from cashflow received by BioStore. As such, the directors have decided to fully provide for this receivable at year-end. The write down of the balance of this receivable is disclosed in Note 2.

13. Segment Information

The company operates predominantly in the biotechnology industry. All direct operations are carried out within New Zealand.

14. Employee Share Option Plan - United States Generally Accepted Accounting Principles ("US GAAP")

The financial statements have been prepared in accordance with NZ GAAP. During the year certain options under the Company's Employee Share Option Plan have been exercised. Under NZ GAAP no compensation expense has been recognised with respect to the Option Plan. Under US GAAP the Company would recognise a compensation expense calculated as the difference between the market price of the shares and the option price at the grant date. The compensation expense would then be amortised over the estimated period of benefit. In 2000 this adjustment would have been nil due to that fact that Genesis grants options at market price.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

15. Prospective Financial Information

On the 22nd of August 2000 Genesis issued an Investment Statement and Prospectus for the issue of 5,750,000 ordinary shares. The information below is a comparison of the prospective financial statements to Genesis Group's actual results for the year ended 31 December 2000.

	GROUP & PARENT ACTUAL 2000 \$000'S	GROUP & PARENT PROSPECTIVE 2000 \$000'S
Statement of Financial Performance		
Operating revenue	28,662	17,259
Operating surplus/(deficit)	723	(9,976)
Net surplus (deficit) for the period	723	(9,976)

Statement of Cashflows

Cashflow used in operating activities

Cash inflow from research collaborations grants and license fees	30,612	13,888
Interest received	1,012	956
Payments to suppliers and employees for research activities	(22,217)	(22,280)
Net cash inflow (outflow) from (used in) operating activities	9,407	(7,436)

Cashflow used in investing activities

Purchase of fixed assets	(4,630)	(3,995)
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Cashflow from financing activities

Private placement to fund working capital	16,833	16,833
Options exercised	4,183	2,458
IPO proceeds to fund working capital	31,422	31,660
Net cash from financing activities	52,438	50,951
NET INCREASE IN CASH HELD	57,215	39,520

Statement of Financial Position

	GROUP & PARENT ACTUAL 2000 \$000'S	GROUP & PARENT PROSPECTIVE 2000 \$000'S
Current assets	63,823	46,020
Non current assets	6,597	5,918
TOTAL ASSETS	70,420	51,938
Current liabilities	12,135	6,079
Total liabilities	12,135	6,079
Total equity	58,285	45,859
TOTAL LIABILITIES AND EQUITY	70,420	51,938

The main difference between actual results and the prospective financials is due to the payments received from Medicis Pharmaceutical Corporation in relation to the development, commercialisation and licensing of PVAC™ in North America. This payment has resulted in the variance in interest, revenue, deferred revenue and current assets compared to the prospective financials.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

16. Arbitration

There are currently unresolved disputes between Fletcher Challenge Forests Limited and Genesis under a joint venture agreement dated 20 September 1996. Such disputes relate to the interpretation of certain provisions of the Joint Venture Agreement, the rights of the Company and Fletcher Challenge Forests Limited in respect to the jointly owned property and their respective rights to share returns generated by the intellectual property.

STATUTORY INFORMATION

Quoted Equity Security Holder Information

Distribution of ordinary shareholders as at 19 January 2001

SIZE OF SHAREHOLDING	NO. OF HOLDERS	TOTAL SHARES HELD	%
1-999	350	154,577	0.61
1,000-4,999	886	1,399,866	5.54
5,000-9,999	178	1,063,190	4.20
10,000-49,999	170	3,460,239	13.68
50,000-99,999	28	1,660,935	6.57
100,000-499,999	20	3,940,048	15.58
500,000-999,999	2	1,337,273	5.29
1,000,000-	4	12,270,483	48.53
TOTAL	1,638	25,286,611	100.00

Domicile of ordinary shareholders as at 19 January 2001

DOMICILE OF SHAREHOLDING	NO. OF HOLDERS	TOTAL SHARES HELD	%
New Zealand	1,509	21,407,481	84.66
Australia	101	1,906,224	7.54
United States of America	13	1,914,050	7.57
United Kingdom	5	27,956	0.11
Hong Kong	3	17,000	0.07
Canada	3	2,200	0.01
Germany	2	7,500	0.03
Japan	1	3,000	0.01
Vanuatu	1	1,200	0.00
TOTAL	1,638	25,286,611	100.00

Top twenty ordinary shareholders as at 19 January 2001

NAME	TOTAL SHARES HELD	%
New Zealand Central Securities Depository	8,531,307	33.73
Immunex Corporation	1,700,000	6.72
Emerald Capital Investments Limited	1,025,000	4.05
J D Watson & M H Watson & G J Stevens	1,014,176	4.01
Fletcher Challenge Forests Limited	727,273	2.87
C J Fernyhough & C M Fernyhough	610,000	2.41
Sierra Asset Limited	430,000	1.70
J N McLean	380,000	1.50
Commonwealth Custodial Services Limited	316,526	1.25
UBS Warburg Private Clients Nominees Pty Limited	314,135	1.24
P M Wiggins	275,000	1.08
Fibre Optics (Aust) Pty Limited	250,000	0.98
N M Birchall & J Smith	215,000	0.85
I H Bode & B H Sole	202,118	0.79
Invia Custodian Pty Limited	200,000	0.79
P Tan	157,657	0.62
N M Malaghan & G L Malaghan & M A Malaghan & C D Williams	150,000	0.59
Jurox New Zealand Limited	142,495	0.56
G L Malaghan & M L Malaghan & C D Williams	136,117	0.53
A Geursen & L M Geursen & K A Pearson	132,000	0.52

STATUTORY INFORMATION

Disclosure of Substantial Security Holdings

The following Substantial Security Holders have, as at 31 December 2000, disclosed holdings of relevant interests in the voting securities of the Company:

SUBSTANTIAL SECURITY HOLDERS	NUMBER OF SHARES
Arcus Investment Management Limited	1,353,814
Armstrong Jones NZ Limited	1,345,000
AXA Asia Pacific Holdings Limited	1,475,035
Immunex Corporation	1,700,000

Equity Securities Held by Directors and Associated Persons of each Director as at 31 December:

DIRECTOR	YEAR	BENEFICIAL	ASSOCIATED PERSONS
J A Cimino	1999	76,000 Shares	-
	2000	76,000 Shares	-
		25,000 2009 \$6.60 Options	-
S Gillis	1999	100,000 Shares	-
	2000	100,000 Shares	-
		25,000 2009 \$6.60 Options	-
D A Irving	1999	-	100,000 Shares
	2000	25,000 2009 \$6.60 Options	105,000 Shares
J N McLean	1999	255,000 Shares	50,000 Shares
		150,000 2001 \$1.25 Options	-
		50,000 2001 \$1.00 Options	-
		100,000 2002 \$2.75 Options	-
		40,000 2003 \$2.75 Options	-
	2000	380,000 Shares	53,000 Shares
		100,000 2002 \$2.75 Options	-
H C Rockefeller	1999	46,000 Shares	-
	2000	46,000 Shares	-
J D Watson	1999	25,000 2009 \$6.60 Options	-
		100,000 Shares	50,000 Shares
		700,000 2001 \$1.25 Options	400,000 2001 \$1.25 Options
	2000	250,000 2003 \$2.75 Options	-
		250,000 2003 \$2.75 Options	1,014,176 Shares
D E Williams	1999	-	-
	2000	25,000 2009 \$6.60 Options	10,000 Shares

Remuneration of Directors

	GROUP & PARENT		GROUP & PARENT	
	2000	\$000	1999	\$000
J A Cimino	25		15	
S Gillis	20		15	
D A Irving	40		30	
J N McLean	197		150	
H C Rockefeller	20		15	
J D Watson	235		220	
D E Williams	20		15	

STATUTORY INFORMATION

Remuneration of Employees

	GROUP & PARENT
100,001 - 110,000	2
170,001 - 180,000	2
190,001 - 200,000	2

Directors' Interests

S Gillis	S Gillis is a director and shareholder of Corixa Corporation, and a shareholder of Immunex Corporation.
J N McLean	J N McLean is a shareholder of Corixa Corporation.
J D Watson	J D Watson is a shareholder of Corixa Corporation.
D E Williams	D E Williams is a director and shareholder of Immunex Corporation.

Share Dealings

During the year the following directors acquired or disposed of the following shares and options in the company:

DIRECTOR	NUMBER ACQUIRED	CLASS OF SECURITY	CONSIDERATION	DATE OF ACQUISITION
	(DISPOSED)		PAID (RECEIVED)	OR DISPOSAL
J A Cimino	25,000	Options	Nil	26 October 2000
S Gillis	25,000	Options	Nil	26 October 2000
D A Irving	5,000	Ordinary Shares	\$30,000	22 September 2000
	25,000	Options	Nil	26 October 2000
J N McLean	50,000	Ordinary Shares	\$50,000	14 January 2000
	100,000	Ordinary Shares	\$125,000	13 April 2000
	50,000	Ordinary Shares	\$50,000	13 April 2000
	(75,000)	Ordinary Shares	(\$427,500)	13 April 2000
	3,000	Ordinary Shares	\$18,000	22 September 2000
H C Rockefeller	25,000	Options	Nil	26 October 2000
J D Watson	100,000	Options	Nil	01 February 2000
	791,011	Ordinary Shares	\$988,764	10 April 2000
	100,000	Ordinary Shares	\$100,000	10 April 2000
	208,989	Ordinary Shares	\$261,236	13 April 2000
	(235,824)	Ordinary Shares	(\$1,344,197)	13 April 2000
D E Williams	10,000	Ordinary Shares	\$28,000	13 January 2000
	25,000	Options	Nil	26 October 2000

Directors' Insurance

The company has arranged policies of Directors' Liability Insurance that, together with a Deed of Indemnity, ensures 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 actions or deliberate and 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 Company

J D Watson and J N McLean are directors of subsidiary company BioStore N.Z. Limited. J A Cimino, D A Irving and J D Watson are directors of Genesis Employee Fund Limited, the Trustee of the Genesis Employee Share Option Plan.

Principal Activities

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

DIRECTORY

DIRECTORS OF THE COMPANY

D A Irving, BCA, ACA (Chairman)
25 Seaview Road
Remuera
Auckland
New Zealand

J D Watson, PhD (Chief Executive)
769 Riddell Road
Glendowie
Auckland
New Zealand

J A Cimino, BCA
53 Portland Road
Remuera
Auckland
New Zealand

S Gillis, PhD
4311 Forest Avenue
SW Mercer Is
WA 98090
USA

J N McLean, BSc(Hons), ACA
7 Belvedere Street
Epsom
Auckland
New Zealand

H C Rockefeller, MBA, LLB, BCom
136 Finch Street
East Melbourne
Victoria
Australia

D E Williams, PhD
21800 Nootka Road
Woodway
WA 98020
USA

Website:

www.genesis.co.nz

Registered Office

One Fox Street
Parnell, Auckland, New Zealand
Telephone: +64 9 3735600
Facsimile: +64 9 3735685

INVESTOR ENQUIRIES

Share Registrar

NEW ZEALAND
Computershare Registry Services
Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland 1309
Private Bag 92119, Auckland 1020
Telephone: +64 9 4888777
Facsimile: +64 9 4888787

AUSTRALIA

Computershare Registry Services Pty
Limited
Level 3, 60 Carrington Street
Sydney, NSW 2000
GPO Box 7045, Sydney, NSW 1115
Freephone: 1 800 269981
Telephone: +61 2 82345222
Facsimile: +61 2 82345050

SHAREMARKET TICKER SYMBOL

New Zealand GEN
Australia GEN

Solicitors

NEW ZEALAND
Lowndes Jordan
Level 22, The ANZ Centre
23-29 Albert Street, Auckland
P O Box 5966, Auckland

AUSTRALIA

Allen Allen & Hemsley
The Chifley Tower
2 Chifley Square, Sydney, NSW 2000
GPO Box 50, Sydney, NSW 2000
Australia

Patent Attorneys

NEW ZEALAND
Baldwin Shelston Waters
Level 14, NCR House
342 Lambton Quay, Wellington

UNITED STATES OF AMERICA

Speckman Law Group
1501 Western Ave, Suite 100
Seattle WA 98101
USA

Auditor

Ernst & Young
37-41 Shortland Street, Auckland
P O Box 2146, Auckland

