

2002

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- FINANCIAL STATEMENTS
- STATUTORY INFORMATION

GENESIS

d i r e c t o r s

A N D M A N A G E M E N T 2 0 0 1

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 Airwork Limited, Medallion Foods Limited, Cable Bay Vineyards Limited and Nobilo Wines Limited, and holds directorship with 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. 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 also 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 Executive Vice President and Chief Technology Officer responsible for Immunex discovery research and new technology development. He joined Immunex in February 1988 as a staff scientist in Biochemistry. He became head of Immunex research in 1994, and was elected to the board of directors in 1996. Prior to his work at Immunex, Dr Williams served on the faculty of the Indiana University School of Medicine and the department of laboratory medicine at the Roswell Park Memorial Institute. He holds a B.S. Magna Cum Laude in biological sciences from the University of Lowell and a Ph.D. in Physiology from the State University of New York at Buffalo. He serves on the boards of the Amnis Corporation, Seattle, Washington, and Seattle Genetics, Seattle, Washington. He also serves as a Trustee for the Corporate Council for the Arts, Seattle, Washington. He is a member of the Scientific Advisory Board of the Cell Systems initiative in Seattle, Washington.

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 and was responsible for developing business strategies and partnerships. 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. Stephen is responsible for Finance, Human Resources, Patents, Legal and IT. He has had finance and management experience in a number of industries in New Zealand and Australia.

Andrew Shenk, PhD, Head of Plant Sciences. Andrew is responsible for research and collaborations in the areas of 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, MD, BS, FRACP, Head of Health Sciences. Paul manages both the Research & Development and the clinical trials, where products under development are trialled on patients under controlled conditions, and pre-clinical research for new therapeutics. Paul 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.

Matthew Glenn, PhD, Head of Genomics. Dr Glenn leads the Genomics team, which provides a range of skilled services to the Company and to our partners. He received his PhD from the University of Leeds in 1995, and joined Genesis shortly after. He has developed a modern DNA sequencing facility within Genesis and the technologies that are today key for our scientists to understand gene function.



DAVID
IRVING



JON
CIMINO



STEVEN
GILLIS



HERMAN
ROCKEFELLER



DOUGLAS
WILLIAMS

C O R P O R A T E

G O V E R N A N C E

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.

DIRECTORS SHARE TRADING

Although not required to do so by legislation or NZSE regulations, the Directors of Genesis have resolved to notify the company, within seven days, when they acquire or dispose of Genesis shares. The company will promptly notify the NZSE and ASX. This step is being taken in the interests of full disclosure and to help ensure a fully informed market.

The Directors have implemented policies that restrict all directors and employees from buying or selling Genesis shares for a period prior to half and full year result announcements, consistent with the "Approved Procedure" requirements of the Securities Amendment Act.

BOARD COMMITTEES

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

The **Audit Committee**, chaired by Mr J A 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 D A Irving and Dr J D Watson.

The **Administration Committee**, chaired by Mr D A Irving, is responsible for:

- Establishing and reviewing 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.

Other members of the Committee are Mr J A Cimino and Dr J D Watson.



JIM
WATSON



JIM
MCLEAN



STEPHEN
HALL



ANDREW
SHENK



PAUL
TAN



MATT
GLEN



Auditor's Report



To the Shareholders of Genesis Research and Development Corporation Limited.

We have audited the financial statements on pages 23 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 2001. This information is stated in accordance with the accounting policies set out on pages 26 to 27.

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 2001 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.

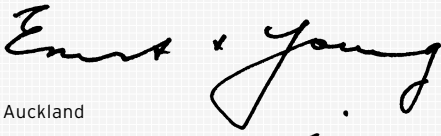
UNQUALIFIED OPINION

We have obtained all the 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 23 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 2001 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 29 January 2002 and our unqualified opinion is expressed as at that date.


Auckland



CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	Group & Parent 2001 \$000	Group & Parent 2000 \$000
> REVENUE			
Research collaborations and grants		13,229	13,271
Interest received		2,940	1,475
License fees		3,809	13,916
OPERATING REVENUE		19,978	28,662
> EXPENDITURE			
Research and development		(20,509)	(18,912)
General and administration		(9,023)	(9,027)
TOTAL EXPENDITURE	2	(29,532)	(27,939)
NET SURPLUS (DEFICIT) BEFORE TAXATION		(9,554)	723
Taxation expense	3	-	-
NET SURPLUS (DEFICIT) AFTER TAXATION		(9,554)	723

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	Group & Parent 2001 \$000	Group & Parent 2000 \$000
> OPENING EQUITY			
TOTAL RECOGNISED REVENUE AND EXPENSES		(9,554)	723
Contribution from owners	4	1,772	55,945
CLOSING EQUITY		50,503	58,285

D A Irving
Chairman
29 January, 2002

J D Watson
Chief Executive

The accompanying notes form part of these financial statements



CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2001

	Notes	Group & Parent 2001 \$000	Group & Parent 2000 \$000
> EQUITY			
Share capital	4	76,412	74,639
Retained deficit		(25,909)	(16,354)
		50,503	58,285
REPRESENTED BY:			
> NON CURRENT ASSETS			
Investments & advances	5	-	-
Fixed assets	6	8,212	6,597
		8,212	6,597
> CURRENT ASSETS			
Bank balance		47,880	60,929
Receivables and prepayments	7	2,094	2,894
		49,974	63,823
> CURRENT LIABILITIES			
Deferred revenue		(3,510)	(9,077)
Accounts payable		(703)	(575)
Accruals		(2,552)	(1,893)
Employee entitlements		(740)	(462)
Non trade payables		(178)	(128)
		(7,683)	(12,135)
		50,503	58,285

The accompanying notes form part of these financial statements



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	Group & Parent 2001 \$000	Group & Parent 2000 \$000
> CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from research collaborations, grants, and license fees		13,565	30,612
Interest received		3,275	1,012
		16,840	31,624
CASH WAS DISBURSED TO:			
Payments to suppliers and employees		(26,335)	(22,217)
Net cash inflow/(outflow) from operating activities	11	(9,495)	9,407
> CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS APPLIED TO:			
Purchase of fixed assets		3,873	4,630
Acquisition of subsidiary		350	
		4,223	4,630
Net cash (outflow) from investment activities		(4,223)	(4,630)
> CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Proceeds of share issues		872	52,438
Net cash inflow from financing activities		872	52,438
Net increase/(decrease) in cash held		(12,846)	57,215
Foreign currency translation adjustment		(203)	(231)
Add opening cash brought forward		60,929	3,945
Ending cash carried forward		47,880	60,929
Cash balances in the Statement of Financial Position		47,880	60,929

The accompanying notes form part of these financial statements



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

I. 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 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 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



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

annual leave, 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.

> 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.

2. EXPENDITURE

INCLUDES:

	Group & Parent 2001 \$000	Group & Parent 2000 \$000
Audit fees	38	39
Auditor's other services	12	320
Depreciation	2,602	1,484
Director's fees	124	127
Provision for BioStore receivable (Parent)	724	101
Foreign exchange (gain)/loss	(203)	85
Investment write down (parent)	1,608	-
Rental costs	610	423

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2001

3. TAXATION

	Group & Parent 2001 \$000	Group & Parent 2000 \$000
Net surplus (deficit) before taxation	(9,554)	723
Prima facie taxation at 33%	(3,153)	239
Plus taxation effect of permanent differences	529	1,176
Plus taxation effect of timing differences not recognised	1,052	437
Plus increase (decrease) in losses to carry forward	1,572	(1,852)
Taxation Expense	-	-

Tax losses available to be carried forward and offset against future periods amount to \$4,904,926 (2000 \$5,718,974). Unrecognised timing differences amount to \$3,187,321 (2000 \$1,325,954). Availability of tax losses is subject to continuity of shareholding being maintained.

4. SHARE CAPITAL

	Group & Parent 2001 \$000	Group & Parent 2000 \$000
26,057,302 (2000 25,286,211) ordinary shares	76,412	74,639
Total Capital	76,412	74,639

All ordinary shares have equal voting rights and share equally in dividends and surplus on liquidation.

During the year 538,000 options were converted to ordinary shares raising a total of \$871,875.

In August 2001, 232,691 shares were issued by the Parent at \$3.87 per share pursuant to an agreement to purchase additional shares in BioStore NZ Limited.

> 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 terms of the plan as the three months average market price. As at 31 December 2001, 2,507,500 options (2000, 2,504,000) are outstanding of which 1,288,157 (2000, 1,201,000) have vested in the name of the individual employees. The remaining outstanding options have a vesting period of between one and eight years.

At 31 December the following options were outstanding:

Expire	Exercise Price	Number Outstanding*	Number Vested December 2001	Number Vested December 2000
2001	\$1.25	-	-	284,500
2001	\$1.00	-	-	54,500
2002	\$1.00	58,000	52,000	42,000
2002	\$2.75	88,800	88,800	198,300
2003	\$2.75	638,700	638,700	501,700
2004	\$2.75	532,000	172,000	20,000
2005	\$2.75	40,000	20,000	-
2005	\$5.00	312,500	100,000	100,000
2005	\$6.00	112,500	-	-
2009	\$2.98 - 7.11 (weighted average \$5.43)	725,000	216,667	-
Total Options		2,507,500	1,288,167	1,201,000

All options have no voting rights. Staff options cannot be transferred and entitlement is dependent on continued employment. From the 1,025,000 options issued in 2000 to the Genesis Employee Fund Limited, trustee of the Genesis Employee Share Option Plan, 336,500 remain 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 2001

5. INVESTMENTS AND ADVANCES

	EQUITY PERCENTAGE HELD		Balance Date
	2001	2000	
BioStore NZ Limited	100.0	76.3	31 December
ArborGen LLC	5.0	5.0	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.

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 \$1,593,631 (2000 \$869,830). This has been fully provided for. Expenditure funded by Genesis from January 2001 to December 2001 is shown as a receivable and has been fully provided for by Genesis.

In August 2001, Genesis acquired the remaining 23.7% of shares in BioStore from the other two shareholders for a total consideration of \$1,607,945. This was made up of issuance of shares at market value of \$900,514, payment in 2001 of \$350,000, and the remaining amount of \$357,431 included in Accruals to be paid in 2002.

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 from 2000. 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 2001 \$000	Group & Parent 2000 \$000
Scientific equipment	8,816	7,111
Accumulated depreciation	(4,913)	(3,432)
	3,903	3,679
Leasehold improvements	4,602	3,859
Accumulated depreciation	(1,841)	(1,424)
	2,761	2,435
Office furniture, equipment and computers	3,252	1,827
Accumulated depreciation	(2,047)	(1,344)
	1,205	483
Capital work in progress	343	-
Total fixed assets	8,212	6,597

7. RECEIVABLES AND PREPAYMENTS

	Group & Parent 2001 \$000	Group & Parent 2000 \$000
Trade debtors	1,139	2,090
Sundry receivables	265	649
Prepayments	690	155
Total receivables and prepayments	2,094	2,894

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2001

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 2001 \$000	Group & Parent 2000 \$000
Bank balance	47,880	60,929
Receivables	1,139	2,090

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

95% 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 4.50% to 6.51%. (2000 4.75% to 6.85%)

• 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.

As at 31 December 2001 the company has bank balances totalling \$US 2,184,670 (2000, \$US 2,259,899) that are not hedged.

• Foreign Currency Monetary Assets and Liabilities

The group had the following unhedged monetary assets and liabilities at 31 December 2001:

	2001 (\$US 000)	2000 (\$US 000)
Monetary Assets	-	319
Monetary Liabilities	550	750

• Fair Values

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

9. COMMITMENTS**> OPERATING LEASE COMMITMENTS**

Lease commitments under non-cancellable operating leases:

	Group & Parent 2001 \$000	Group & Parent 2000 \$000
Not later than one year	1,067	985
Later than one year and not later than two years	794	1,000
Later than two years and not later than five years	661	1,377
Later than five years	106	

> CAPITAL COMMITMENTS \$616,379 (2000 \$1,368,629)



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

10. CONTINGENT LIABILITIES

\$Nil (2000 \$Nil)

11. RECONCILIATION OF NET SURPLUS/(DEFICIT) AFTER TAXATION WITH CASH FLOW FROM OPERATING ACTIVITIES

	Group & Parent 2001 \$000	Group & Parent 2000 \$000
Reported surplus/(deficit) after taxation	(9,554)	723
ADD BACK NON-OPERATING ITEMS:		
Depreciation	2,602	1,484
Investment write down	1,608	-
Foreign currency translation adjustment	203	231
Capital raising expenses		3,507
	4,413	5,222
MOVEMENT IN WORKING CAPITAL:		
Decrease in deferred revenue	(5,567)	5,419
Increase in accounts payable	413	775
Decrease in receivables and prepayments	800	(2,732)
	(4,354)	3,462
Net cash inflow (outflow) from operating activities	(9,495)	9,407

12. TRANSACTIONS WITH RELATED PARTIES

Immunex Corporation owns 1,700,000 ordinary shares (2000, 1,700,000) in Genesis. In February 2000 Immunex Corporation converted 1,000,000 convertible shares to ordinary shares. Included in revenue is \$0 for research income received from Immunex Corporation (2000 \$2,021,731).

Genesis funds expenditure in BioStore, in which the company has a 100% interest (2000 76.3%). Genesis charges these services at the cost to Genesis. The amount due from BioStore is \$1,593,631 (2000 \$869,830) and is only receivable from cashflows received by BioStore. As such, the directors have decided to fully provide for this receivable at year-end. The write down 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 granted. Under NZ GAAP no compensation expense has been recognised with respect to the Option Plan. Under US GAAP the Company would recognise compensation expense for options granted to employees using the intrinsic value method, calculated as the difference between the market price of the shares and the exercise price of the options at the grant date. Options granted to non-employees would be accounted for using the fair value method. Compensation expense would then be amortised over the estimated period of benefit. Genesis grants options at market price. There is no significant compensation expense to be recognised under US GAAP.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2001

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 2001.

	Group & Parent Actual 2001 \$000's	Group & Parent Prospective 2001 \$000's	Group & Parent Actual 2000 \$000's	Group & Parent Prospective 2000 \$000's
> STATEMENT OF FINANCIAL PERFORMANCE				
Operating revenue	19,978	18,640	28,662	17,259
Operating surplus/(deficit)	(9,554)	(9,101)	723	(9,976)
Net surplus (deficit) for the period	(9,554)	(9,101)	723	(9,976)
> STATEMENT OF CASH FLOWS				
CASHFLOW USED IN OPERATING ACTIVITIES				
Cash inflow from research collaborations				
grants and licence fees	13,565	15,316	30,612	13,888
Interest received	3,275	2,913	1,012	956
Payments to suppliers and employees for research activities	(26,335)	(25,551)	(22,217)	(22,280)
Net cash inflow (outflow) from (used in) operating activities	(9,495)	(7,322)	9,407	(7,436)
CASHFLOW USED IN INVESTING ACTIVITIES				
Acquisition of subsidiary	(350)			
Purchase of fixed assets	(3,873)	(920)	(4,630)	(3,995)
Net cash outflow used in operating activities	(4,223)	(920)	(4,630)	(3,995)
CASHFLOW FROM FINANCING ACTIVITIES				
Private placement to fund working capital	-	-	16,833	16,833
Options exercised	872	1,028	4,183	2,458
IPO proceeds to fund working capital	-	-	31,422	31,660
Net cash from financing activities	872	1,028	52,438	50,951
Net increase (decrease) in cash held	(12,846)	(7,214)	57,215	39,520
> STATEMENT OF FINANCIAL POSITION				
Current assets	49,974	38,436	63,823	46,020
Non current assets	8,212	5,033	6,597	5,918
Total assets	58,186	43,469	70,420	51,938
Current liabilities	7,683	5,681	12,135	6,079
Total liabilities	7,683	5,681	12,135	6,079
Total equity	50,503	37,788	58,285	45,859
Total liabilities and equity	58,186	43,469	70,420	51,938

The main difference between actual results and the prospective financials for the cash balance is due to the payments received from Medicis Pharmaceutical Corporation in relation to the development, commercialisation and licensing of PVAC™ in North America. Capital expenditure is higher than forecasted due to the fit out of further laboratory space at One Fox Street.



STATUTORY INFORMATION

QUOTED EQUITY SECURITY HOLDER INFORMATION

> DISTRIBUTION OF ORDINARY SHAREHOLDERS AS AT 29 JANUARY 2002

Size of Shareholding	No. of Holders	Total Shares Held	%
1 - 999	588	262,956	1.00
1,000 - 4,999	1,243	2,142,398	8.20
5,000 - 9,999	230	1,390,650	5.34
10,000 - 49,999	194	3,626,329	13.92
50,000 - 99,999	35	2,193,071	8.42
100,000 - 499,999	26	5,270,070	20.23
500,000 -	10	11,171,828	42.89
Total	2,326	26,057,302	100.00

> DOMICILE OF ORDINARY SHAREHOLDERS AS AT 29 JANUARY 2002

Domicile of Shareholding	No. of Holders	Total Shares Held	%
New Zealand	2,151	22,335,981	85.71
Australia	120	1,598,936	6.14
USA	18	1,986,300	7.63
Great Britain	12	27,425	0.11
Hong Kong	7	34,925	0.13
Canada	4	15,000	0.06
Germany	3	35,000	0.13
Netherlands	2	4,500	0.02
Japan	2	4,300	0.02
United Arab Emirates	1	2,000	0.01
Singapore	1	500	0.00
Saudi Arabia	1	3,550	0.01
Poland	1	500	0.00
Ireland	1	6,885	0.03
France	1	1,000	0.00
Brunei	1	500	0.00
Total	2,326	26,057,302	100.00



STATUTORY INFORMATION

TOP TWENTY ORDINARY SHAREHOLDERS AS AT 29 JANUARY 2002

Name	Total Shares Held	%
New Zealand Central Securities Depository	7,499,533	28.79
Immunex Corporation	1,700,000	6.52
Emerald Capital Investments Limited	1,025,000	3.93
J D Watson & M H Watson & G J Stevens	1,014,176	3.89
Rubicon Investments Limited	727,273	2.79
Sierra Asset Limited	680,000	2.61
C J Fernyhough & C M Fernyhough	610,000	2.34
Commonwealth Custodial Services Limited	488,222	1.87
J N McLean	480,000	1.84
P M Wiggins	275,000	1.05
UBS Warburg Private Clients Nominees Pty Limited	231,980	0.89
Jurox New Zealand Limited	223,410	0.85
Frater Williams Custodial Services Limited	202,118	0.77
N M Birchall & J Smith	200,000	0.76
Invia Custodian Pty Limited	200,000	0.76
P Tan	157,657	0.60
N M Malaghan & G L Malaghan & M A Malaghan & C D Williams	150,000	0.57
Rotorua Energy Charitable Trust	138,381	0.53
G L Malaghan & M L Malaghan & C D Williams	136,117	0.52
A Geursen & L M Geursen & K A Pearson	117,000	0.44

DISCLOSURE OF SUBSTANTIAL SECURITY HOLDINGS

The following Substantial Security Holders have, as at 29 January 2002, disclosed holdings of relevant interests in the voting securities of the Company:

Substantial Security Holders	Number of Securities
Arcus Investment Management Limited	1,818,844
James Douglas Watson	2,136,676
AMP Limited & its related bodies corporate	1,441,353
AXA Asia Pacific Holdings Limited	4,014,943
Immunex Corporation	1,700,000



STATUTORY INFORMATION

EQUITY SECURITIES HELD BY DIRECTORS AND ASSOCIATED PERSONS OF EACH DIRECTOR AS AT 31 DECEMBER:

Director	Year	Beneficial	Associated Persons
J A Cimino	2000	76,000 Shares	-
		25,000 2009 \$6.60 Options	-
	2001	76,000 Shares	-
		25,000 2009 \$6.60 Options	-
S Gillis	2000	100,000 Shares	-
		25,000 2009 \$6.60 Options	-
	2001	100,000 Shares	-
D A Irving	2000	25,000 2009 \$6.60 Options	105,000 Shares
		25,000 2009 \$6.60 Options	105,000 Shares
	2001	25,000 2009 \$6.60 Options	105,000 Shares
J N McLean	2000	380,000 Shares	53,000 Shares
		100,000 2002 \$2.75 Options	-
		40,000 2003 \$2.75 Options	-
	2001	480,000 Shares	53,000 Shares
H C Rockefeller	2000	46,000 Shares	-
		25,000 2009 \$6.60 Options	-
	2001	46,000 Shares	-
J D Watson	2000	250,000 2003 \$2.75 Options	1,014,176 Shares
		100,000 2005 \$5.00 Options	
	2001	250,000 2003 \$2.75 Options	1,014,176 Shares
		100,000 2005 \$5.00 Options	
D E Williams	2000	25,000 2009 \$6.60 Options	10,000 Shares
		25,000 2009 \$6.60 Options	10,000 Shares
	2001	25,000 2009 \$6.60 Options	10,000 Shares

REMUNERATION OF DIRECTORS

	Group & Parent 2001 \$000's	Group & Parent 2000 \$000's
J A Cimino	25	25
S Gillis	20	20
D A Irving	40	40
J N McLean	196	197
H C Rockefeller	20	20
J D Watson	297	235
D E Williams	20	20



STATUTORY INFORMATION

REMUNERATION OF EMPLOYEES

	Group & Parent
110,001 - 120,000	1
120,001 - 130,000	3
150,001 - 160,000	1
190,001 - 200,000	1
200,001 - 210,000	2
210,001 - 220,000	1

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 the following shares and options in the company:

Director	Note	Number Acquired	Class of Security	Consideration Paid	Date of Acquisition
J N McLean	1	100,000	Ordinary Shares	\$275,000	28 August 2001
J D Watson	2	100,000	Options	Nil	29 March 2001

Notes

1. J N McLean acquired 100,000 shares by exercising 100,000 options granted as part of his remuneration in 1997.
2. J D Watson was granted 100,000 options as part of his remuneration as Chief Executive.

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 COMPANY

J D Watson and J N McLean are directors of subsidiary company BioStore NZ Limited.

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)
One Fox Street
Parnell
Auckland
New Zealand

J A Cimino, BCA
2.4 Axis Building
91 St Georges Bay Road
Parnell
Auckland
New Zealand

S Gillis, PhD
1124 Columbia Street
Seattle
WA 98104
USA

J N McLean, BSc (Hons), ACA
One Fox Street
Parnell
Auckland
New Zealand

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

D E Williams, PhD
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USA

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INVESTOR ENQUIRIES & CHANGE OF ADDRESS NOTIFICATION

> SHARE REGISTRAR NEW ZEALAND

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Facsimile: +64 9 488 8787

> SHARE REGISTRAR AUSTRALIA

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> SHAREMARKET TICKER SYMBOL

New Zealand GEN
Australia GEN

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GENESIS
RESEARCH AND DEVELOPMENT
CORPORATION LTD