

Edgar Filing: GENESIS TECHNOLOGY GROUP INC - Form 10QSB

GENESIS TECHNOLOGY GROUP INC

Form 10QSB

August 11, 2006

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

FORM 10-QSB

(Mark One)

☒ [X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2006

☐ [ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 333-86347

GENESIS TECHNOLOGY GROUP, INC.

-----  
(Exact name of registrant as specified in its charter)

FLORIDA

-----  
(State or other jurisdiction of  
incorporation or organization)

65-1130026

-----  
(I.R.S. Employer  
Identification No.)

7900 GLADES ROAD, SUITE 420  
BOCA RATON, FLORIDA 33434

-----  
(Address of principal executive offices)

(561) 988-9880

-----  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ [ ] No ☒ [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At July 31, 2006, there were 84,010,561 outstanding shares of common stock, \$.001 par value per share.

Transitional Small Business Disclosure Format (Check one): Yes ☐ [ ] No ☒ [X]

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## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "project," "contemplate," "would," "should," "could," or "may." With respect to any forward-looking statement that includes a statement of its underlying assumptions or bases, we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. All subsequent written and oral forward-looking statements attributable to us, or anyone acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

## GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES FORM 10-QSB QUARTERLY PERIOD ENDED June 30, 2006

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## GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET June 30, 2006 (Unaudited)

### ASSETS

#### CURRENT ASSETS:

|                                               |              |
|-----------------------------------------------|--------------|
| Cash and cash equivalents .....               | \$ 1,390,697 |
| Marketable equity securities, at market ..... | 92,140       |
| Prepaid expenses .....                        | 1,022        |
| Deferred acquisition costs .....              | 129,970      |
| Due from related party .....                  | 10,800       |
|                                               | -----        |

|                            |           |
|----------------------------|-----------|
| Total Current Assets ..... | 1,624,629 |
|----------------------------|-----------|

|                                    |        |
|------------------------------------|--------|
| PROPERTY AND EQUIPMENT - Net ..... | 17,619 |
|------------------------------------|--------|

#### OTHER ASSETS:

|                                                          |           |
|----------------------------------------------------------|-----------|
| Restricted marketable equity securities, at market ..... | 1,715,996 |
| Other assets .....                                       | 67,083    |
|                                                          | -----     |

|                    |              |
|--------------------|--------------|
| Total Assets ..... | \$ 3,425,327 |
|                    | =====        |

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### CURRENT LIABILITIES:

|                                              |           |
|----------------------------------------------|-----------|
| Accounts payable and accrued expenses .....  | \$ 52,995 |
| Due to related party .....                   | 21,000    |
| Liabilities of discontinued operations ..... | 150,709   |
|                                              | -----     |

|                                 |         |
|---------------------------------|---------|
| Total Current Liabilities ..... | 224,704 |
|                                 | -----   |

|                         |        |
|-------------------------|--------|
| MINORITY INTEREST ..... | 10,053 |
|                         | -----  |

#### SHAREHOLDERS' EQUITY:

|                                                                                                                                |              |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|
| Preferred stock (\$.001 Par Value; 20,000,000 Shares Authorized)                                                               |              |
| Convertible preferred stock Series A (\$.001 Par Value; 218,000<br>Shares Authorized; 15,900 shares issued and outstanding) .. | 16           |
| Common stock (\$.001 Par Value; 200,000,000 Shares Authorized;<br>83,510,561 shares issued and outstanding) .....              | 83,511       |
| Additional paid-in capital .....                                                                                               | 21,389,036   |
| Accumulated deficit .....                                                                                                      | (19,081,121) |

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|                                                     |           |
|-----------------------------------------------------|-----------|
| Less: treasury stock, at cost (10,000 shares) ..... | (2,805)   |
| Less: deferred compensation .....                   | (316,622) |
| Less: subscription receivable .....                 | (105,840) |
| Accumulated other comprehensive income .....        | 1,224,395 |
|                                                     | -----     |

|                                  |           |
|----------------------------------|-----------|
| Total Shareholders' Equity ..... | 3,190,570 |
|                                  | -----     |

|                                                  |              |
|--------------------------------------------------|--------------|
| Total Liabilities and Shareholders' Equity ..... | \$ 3,425,327 |
|                                                  | =====        |

See notes to consolidated financial statements

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

|                                                         | For the Three Months Ended<br>June 30, |             | For         |
|---------------------------------------------------------|----------------------------------------|-------------|-------------|
|                                                         | 2006                                   | 2005        | 2006        |
|                                                         | (Unaudited)                            | (Unaudited) | (Unaudited) |
| NET REVENUES .....                                      | \$ 3,333                               | \$ 9,738    | \$ 9,738    |
| OPERATING EXPENSES:                                     |                                        |             |             |
| Consulting .....                                        | 65,961                                 | 92,240      | 92,240      |
| Salaries and stock-based compensation .....             | 107,891                                | 482,565     | 482,565     |
| Severance expense .....                                 | -                                      | (3,190)     | (3,190)     |
| Selling, general and administrative .....               | 194,874                                | 120,280     | 120,280     |
|                                                         | -----                                  | -----       | -----       |
| Total Operating Expenses .....                          | 368,726                                | 691,895     | 691,895     |
|                                                         | -----                                  | -----       | -----       |
| LOSS FROM OPERATIONS .....                              | (365,393)                              | (682,157)   | (682,157)   |
| OTHER INCOME:                                           |                                        |             |             |
| Gain from sale of marketable securities .....           | 504,312                                | -           | 1,000       |
| Interest income .....                                   | 9,855                                  | 1           | 1,000       |
|                                                         | -----                                  | -----       | -----       |
| Total Other Income .....                                | 514,167                                | 1           | 1,000       |
|                                                         | -----                                  | -----       | -----       |
| INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS .....      | 148,774                                | (682,156)   | (682,156)   |
| DISCONTINUED OPERATIONS:                                |                                        |             |             |
| Gain (loss) on disposal of discontinued operations .... | (36,681)                               | 63,982      | 63,982      |
| Income (loss) from discontinued operations .....        | 6,500                                  | 83,089      | 83,089      |
|                                                         | -----                                  | -----       | -----       |
| Total Income (Loss) from Discontinued Operations ...    | (30,181)                               | 147,071     | 147,071     |
|                                                         | -----                                  | -----       | -----       |

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|                                                          |            |              |       |
|----------------------------------------------------------|------------|--------------|-------|
| INCOME (LOSS) BEFORE MINORITY INTEREST .....             | 118,593    | (535,085)    |       |
| MINORITY INTEREST IN LOSS OF SUBSIDIARY .....            | -          | 2,123        |       |
|                                                          | -----      | -----        | ----- |
| NET INCOME (LOSS) .....                                  | 118,593    | (532,962)    |       |
| PREFERRED STOCK DIVIDEND .....                           | -          | -            |       |
|                                                          | -----      | -----        | ----- |
| NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS ..... | \$ 118,593 | \$ (532,962) | \$    |
|                                                          | =====      | =====        | ===== |
| BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE:        |            |              |       |
| Income (loss) from continuing operations .....           | \$ -       | \$ (0.01)    | \$    |
| Income (loss) from discontinued operations .....         | -          | -            |       |
|                                                          | -----      | -----        | ----- |
| Net income (loss) per common share .....                 | \$ -       | \$ (0.01)    | \$    |
|                                                          | =====      | =====        | ===== |
| Weighted Common Shares Outstanding - Basic .....         | 82,862,209 | 63,484,407   | 75,   |
|                                                          | =====      | =====        | ===== |
| Weighted Common Shares Outstanding - Diluted .....       | 87,739,914 | 63,484,407   | 78,   |
|                                                          | =====      | =====        | ===== |

See notes to consolidated financial statements

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

|                                                                                         | For the Nine Months<br>June 30, |                |
|-----------------------------------------------------------------------------------------|---------------------------------|----------------|
|                                                                                         | 2006                            | 2005           |
|                                                                                         | -----                           | -----          |
|                                                                                         | (Unaudited)                     | (Unaudited)    |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                   |                                 |                |
| Net income (loss) .....                                                                 | \$ 397,104                      | \$ (2,900,000) |
| Income (loss) from discontinued operations .....                                        | 246,501                         | (600,000)      |
|                                                                                         | -----                           | -----          |
| Income (loss) from continuing operations .....                                          | 150,603                         | (2,300,000)    |
| Adjustments to reconcile net income (loss) to net cash<br>used in operating activities: |                                 |                |
| Depreciation and amortization .....                                                     | 5,937                           |                |
| Gain on sale of marketable securities .....                                             | (1,046,894)                     |                |
| Common stock issued and forgiveness of subscription for severance ....                  | -                               |                |
| Severance expense .....                                                                 | -                               | 1,000,000      |
| Stock-based compensation and consulting .....                                           | 526,302                         | 1,200,000      |
| Marketable securities received for services .....                                       | -                               | (1,000,000)    |
| Marketable securities distributed for settlement .....                                  | -                               |                |
| Minority interest .....                                                                 | -                               |                |
| Changes in assets and liabilities:                                                      |                                 |                |
| Prepaid and other current assets .....                                                  | (1,022)                         |                |
| Due from related party .....                                                            | (10,800)                        |                |

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|                                                                 |              |       |
|-----------------------------------------------------------------|--------------|-------|
| Other assets .....                                              | 4,327        |       |
| Accounts payable and accrued expenses .....                     | 12,718       | (     |
| Deferred revenue .....                                          | (13,333)     | (     |
|                                                                 | -----        | ----- |
| Net cash used in continuing operations .....                    | (372,162)    | (1,0  |
| Net cash used in discontinued operations .....                  | (7,668)      | (1    |
|                                                                 | -----        | ----- |
| NET CASH USED IN OPERATING ACTIVITIES .....                     | (379,830)    | (1,1  |
|                                                                 | -----        | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES:                           |              |       |
| Capital expenditures .....                                      | -            |       |
| Deferred acquisition cost .....                                 | (129,970)    |       |
| Purchase of marketable securities .....                         | (100,200)    |       |
| Proceeds from sale of marketable securities .....               | 1,412,260    |       |
|                                                                 | -----        | ----- |
| NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES ..... | 1,182,090    |       |
|                                                                 | -----        | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES:                           |              |       |
| Proceeds from related party advances .....                      | 34,800       |       |
| Repayments on related party advances .....                      | (13,800)     |       |
| Proceeds from exercise of stock options and warrants .....      | 548,380      |       |
|                                                                 | -----        | ----- |
| NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES .....           | 569,380      |       |
|                                                                 | -----        | ----- |
| EFFECT OF EXCHANGE RATE CHANGES IN CASH .....                   | 1,170        |       |
|                                                                 | -----        | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....      | 1,372,810    | (1,1  |
| CASH AND CASH EQUIVALENTS - beginning of year .....             | 17,887       | 1,4   |
|                                                                 | -----        | ----- |
| CASH AND CASH EQUIVALENTS - end of period .....                 | \$ 1,390,697 | \$ 2  |
|                                                                 | =====        | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:               |              |       |
| Cash paid for:                                                  |              |       |
| Interest .....                                                  | \$ -         | \$    |
|                                                                 | =====        | ===== |
| Income taxes .....                                              | \$ -         | \$    |
|                                                                 | =====        | ===== |
| Non-cash investing and financing activities:                    |              |       |
| Preferred stock dividend paid with common stock .....           | \$ 88,304    | \$    |
|                                                                 | =====        | ===== |
| Common stock issued for debt .....                              | \$ 13,902    | \$    |
|                                                                 | =====        | ===== |
| Common stock issued for subscription receivable .....           | \$ 105,840   | \$    |
|                                                                 | =====        | ===== |

See notes to consolidated financial statements.

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### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2006 (Unaudited)

#### NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### THE COMPANY

Genesis Technology Group, Inc. (the "Company" or "Genesis") is a business development and marketing firm that specializes in advising and providing a turn key solution for Chinese small and mid-sized companies entering Western markets. The Company dedicates its expertise and capital resources to expand the potential of Chinese partner companies. The Company provides the marketing strategy, counsel, and plans to support its clients' business, financial, or marketing goals. The Company works closely with top management to define strategy and model to develop effective tactics to support business development. The Company's business mission is to create substantial, incremental stockholder value for emerging growth companies by executing strategy-driven programs that quickly incubate and mature Chinese companies and prepare them for Western markets.

Genesis provides strategy and execution services to Chinese clients who believe that penetrating US markets is critical to achieving their core operating and financial objectives. The Company fosters development projects that require marketing, manufacturing, finance, and product deployment expertise for companies in the United States and China. The Company's core competency is sourcing merger and acquisitions opportunities for both its contract clients and the Company.

Effective June 20, 2005, the Company formally established Genesis Equity Partners LLC ("GEP") in which it owns 51%.

In the fall of 2005, GEP signed a contract with The Jin Ma Group Company, Ltd. ("Jin Ma"), a real estate development company in Western China, to globalize its operations in the areas of real estate, construction, and hospitality. To be known as Gold Horse International, Inc., GEP will receive a significant equity position in Gold Horse and ongoing consulting fees for coordination and oversight of its U.S. business activities. Currently, Jin Ma is undergoing an audit of its financial statements by an independent accounting firm.

On March 15, 2006, GEP signed a General Partnership Agreement with Liang Fang Pharmaceutical, Ltd. ("Liang"), a company registered in the People's Republic of China. Liang is based in Beijing and is a drug development, medical device, and retail drug store enterprise with 10 retail outlets. GEP will receive a significant equity position in Liang Fang and ongoing consulting fees for coordination and oversight of its U.S. business activities. Among Liang's best selling products, Valsartan Capsules are a medicine for primary hypertension or high blood pressure. Valsartan first came to market in America in 1996, known as Diovan. Currently, Liang is undergoing an audit of its financial statements by an independent accounting firm.

The Company has incurred approximately \$130,000 of legal, audit and other related fees and expenses in connection with the signing of these Agreements which have been recorded as deferred acquisition costs in the accompanying balance sheet. These fees will be included as a component of the cost of the Acquired Assets pursuant to Statement of Financial Accounting Standards No. 141 Business Combinations or expensed if the Agreement is not consummated.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
June 30, 2006  
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

THE COMPANY (CONTINUED)

On November 15, 2001, the Company entered into a Stock Purchase Agreement with Shanghai Chorry Technology Development Co., Limited ("Chorry") and Chorry's shareholder and acquired an 80% interest in Chorry. Chorry was formerly known as Shanghai Zhaoli Technology Development Company Ltd. Chorry is a Chinese company with principal offices in Shanghai, China. On November 2, 2005, the Company entered into a stock purchase agreement with Dragon Ventures (OTC: DRGV), a Nevada public corporation, for the sale of Chorry. The Company closed on this transaction on February 14, 2006 (See Note 2 - Discontinued Operations). Accordingly, Chorry is reported as a discontinued operation, and prior periods have been restated in the Company's consolidated financial statements and related footnotes to conform to this presentation.

Effective September 8, 2004, the Company acquired 60% of the common stock of Extrema LLC ("Extrema"), a Miami-based computer hardware wholesaler. On May 1, 2005, the shareholders of Extrema unanimously agreed to discontinue the operations of Extrema (See Note 2).

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The accompanying consolidated financial statements for the interim periods are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented. The consolidated financial statements include the accounts of the Company and its wholly and partially owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. These consolidated financial statements should be read in conjunction with the financial statements for the year ended September 30, 2005 and notes thereto contained on Form 10-KSB of the Company as filed with the Securities and Exchange Commission. The results of operations for the nine months ended June 30, 2006 are not necessarily indicative of the results for the full fiscal year ending September 30, 2006.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in 2006 and 2005 include the valuation of stock-based compensation, and the useful life of property and equipment.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) June 30, 2006 (Unaudited)

### NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### MARKETABLE EQUITY SECURITIES

Marketable equity securities consist of investments in equity of publicly traded and non-public domestic and foreign companies and are stated at market value based on the most recently traded price of these securities at June 30, 2006. All marketable securities are classified as available for sale at June 30, 2006. Unrealized gains and losses, determined by the difference between historical purchase price and the market value at each balance sheet date, are recorded as a component of Accumulated Other Comprehensive Income in Stockholders' Equity. Realized gains and losses are determined by the difference between historical purchase price and gross proceeds received when the marketable securities are sold. Restricted marketable equity securities are shown as long-term assets. For the purpose of computing realized gains and losses, cost is identified on a specific identification basis. For marketable securities for which there is an other-than-temporary impairment, an impairment loss is recognized as a realized loss. For the nine months ended June 30, 2006, the Company recognized a gain of \$1,046,894 from the sale of marketable securities.

#### NET INCOME (LOSS) PER SHARE

Basic income (loss) per share is computed by dividing net income (loss) by weighted average number of shares of common stock outstanding during each period. Diluted income per share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. In the 2005 period, diluted loss per common share is not presented because it is anti-dilutive. The following table presents a reconciliation of basic and diluted earnings per share:

|                                                    | For the Three Months<br>Ended June 30,<br>2006 |              | For the Nine m<br>Ended June<br>2006 |                |
|----------------------------------------------------|------------------------------------------------|--------------|--------------------------------------|----------------|
|                                                    | -----                                          | -----        | -----                                | -----          |
| Net income (loss) available to common shareholders | \$ 118,593                                     | \$ (532,962) | \$ 308,800                           | \$ (2,000,000) |
| Weighted average shares outstanding - basic .....  | 82,862,209                                     | 63,484,407   | 75,346,830                           | 59,000,000     |
| Income (loss) per share - basic .....              | \$ 0.00                                        | \$ (0.01)    | \$ 0.00                              | \$ (0.03)      |
|                                                    | =====                                          | =====        | =====                                | =====          |
| Net income (loss) available to common shareholders | \$ 118,593                                     | \$ (532,962) | \$ 308,800                           | \$ (2,000,000) |
|                                                    | =====                                          | =====        | =====                                | =====          |
| Weighted average shares outstanding - basic .....  | 82,862,209                                     | 63,484,407   | 75,346,830                           | 59,000,000     |
| Effect of dilutive securities                      |                                                |              |                                      |                |
| Convertible preferred stock .....                  | -                                              | -            | -                                    | -              |
| Unexercised warrants and options .....             | 4,877,705                                      | -            | 3,566,500                            | -              |
|                                                    | -----                                          | -----        | -----                                | -----          |
| Weighted average shares outstanding- diluted ..... | 87,739,914                                     | 63,484,407   | 78,913,330                           | 59,000,000     |
|                                                    | =====                                          | =====        | =====                                | =====          |
| Income (loss) per share - diluted .....            | \$ 0.00                                        | \$ (0.01)    | \$ 0.00                              | \$ (0.03)      |
|                                                    | =====                                          | =====        | =====                                | =====          |

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
June 30, 2006  
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

FOREIGN CURRENCY TRANSLATION

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

For foreign operations with the local currency as the functional currency, assets and liabilities are translated from the local currencies into U.S. dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at weighted average exchange rates for the period to approximate translation at the exchange rates prevailing at the dates those elements are recognized in the financial statements. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive loss. As of June 30, 2006, the exchange rate for the Chinese Renminbi (RMB) was \$1 US for 8.00647 RMB. The cumulative translation adjustment and effect of exchange rate changes on cash at June 30, 2006 was not material.

STOCK-BASED COMPENSATION

Effective October 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R"). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognized the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements. As a result of adopting SFAS No. 123R, the Company's net loss for the nine months ended June 30, 2006 was \$15,816 higher than if we had continued to account for stock-based compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations ("APB Opinion No. 25").

Prior to October 1, 2005, the Company accounted for stock-based employee compensation plans (including shares issued under its stock option plans) in accordance with APB Opinion No. 25 and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123").

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
June 30, 2006  
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

STOCK-BASED COMPENSATION (CONTINUED)

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The following table sets forth the computation of basic and diluted income per share for the nine months ended June 30, 2005 and illustrates the effect on net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

|                                                                                                                                |               |
|--------------------------------------------------------------------------------------------------------------------------------|---------------|
| Net loss as reported .....                                                                                                     | \$(2,929,081) |
| Less: stock-based employee compensation<br>included in reported net loss .....                                                 | 32,452        |
| Add: stock-based employee compensation<br>expense determined under fair-value based<br>method, net of related tax effect ..... | (57,655)      |
|                                                                                                                                | -----         |
| Pro forma net loss .....                                                                                                       | \$(2,954,284) |
|                                                                                                                                | =====         |
| Basic loss per share:                                                                                                          |               |
| As reported .....                                                                                                              | \$ (.04)      |
|                                                                                                                                | =====         |
| Pro forma .....                                                                                                                | \$ (.05)      |
|                                                                                                                                | =====         |

### NOTE 2 - DISCONTINUED OPERATIONS

As described in Note 1, on May 1, 2005, the shareholders of Extrema unanimously agreed to discontinue the operations of Extrema. Extrema is reported as a discontinued operation and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

Additionally, on November 2, 2005, the Company entered into a stock purchase agreement with Dragon Ventures (Pink sheets symbol: DRGV), a Nevada public corporation, for the sale of its majority-owned subsidiary Chorry. The Company closed on this transaction on February 14, 2006.

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### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) June 30, 2006 (Unaudited)

### NOTE 2 - DISCONTINUED OPERATIONS (CONTINUED)

The agreement included the following provisions:

- (1) The Company delivered 100% of its shares in Chorry, representing its 80% ownership of that subsidiary, to DRGV.
- (2) DRGV paid to the Company 17,159,965 shares of DRGV's common stock at a price calculated at the average closing price at the initial closing date on December 15, 2005 of \$.027 per share or \$463,319. Accordingly, in connection with the sale of Chorry, for the nine months ended June 30, 2006, the Company recorded a gain from sale of discontinued operations of \$237,377.

Accordingly, Chorry is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

The remaining liabilities of discontinued operations are presented in the balance sheet under the caption "Liabilities of discontinued operation". The

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approximate carrying amounts of the major classes of these liabilities as of June 30, 2006 are summarized as follows:

|                                             |           |
|---------------------------------------------|-----------|
| Liabilities:                                |           |
| Accounts payable and accrued expenses ..... | \$150,709 |
|                                             | -----     |
| Liabilities of discontinued operation ..... | \$150,709 |
|                                             | =====     |

The following table sets forth for the nine months ended June 30, 2006 and 2005 indicated selected financial data of the Company's discontinued operations.

|                                                      | 2006         | 2005          |
|------------------------------------------------------|--------------|---------------|
|                                                      | -----        | -----         |
| Revenues .....                                       | \$ 7,398,358 | \$ 20,703,892 |
| Cost of sales .....                                  | 7,259,500    | 20,054,670    |
|                                                      | -----        | -----         |
| Gross profit .....                                   | 138,858      | 649,222       |
| Operating and other non-operating expenses .....     | 129,734      | 882,416       |
|                                                      | -----        | -----         |
| Gain (loss) from discontinued operations .....       | 9,124        | (233,194)     |
| Gain (loss) from disposal of discontinued operations | 237,377      | (377,346)     |
|                                                      | -----        | -----         |
| Total gain (loss) from discontinued operations ..... | \$ 246,501   | \$ (610,540)  |
|                                                      | =====        | =====         |

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### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) June 30, 2006 (Unaudited)

#### NOTE 3 - STOCKHOLDERS' EQUITY

##### COMMON STOCK

On November 30, 2005, in connection with the exercise of stock options, the Company issued 528,000 shares of common stock to an employee for a subscription receivable of \$15,840 due in March 2006. In April 2006, this employee filed a lawsuit against the Company (see note 5).

On December 9, 2005, Series A preferred stockholders' converted 11,600 share of Series A Preferred Stock into 500,000 shares of common stock.

In January 2006, the Company issued 1,006,869 shares of common stock to its chief financial officer for services rendered. The Company valued these common shares at the fair market value on the dates of grant of \$.05 per share or \$50,345 based on the trading price of common shares. Accordingly, the Company recorded stock-based compensation expense of \$36,443 and reduced accounts payable by \$13,900.

In March 2006, Series A preferred stockholders' converted 70,000 share of Series A Preferred Stock into 3,017,241 shares of common stock. Additionally, in connection with the conversion, the Company issued 380,621 shares of common stock for preferred stock dividends of \$88,304.

In March 2006, in connection with the exercise of stock options, the Company

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issued 5,468,750 shares of common stock to executives and a director for cash proceeds of \$46,875 and deferred compensation of \$160,156.

In March 2006, in connection with the exercise of warrants, the Company issued 1,646,983 shares of common stock for proceeds of \$501,506.

On May 5, 2006, in connection with a 24-month consulting agreement, the Company issued 1,000,000 shares of common stock for investor relations services rendered and to be rendered in the future. The Company valued these common shares at the fair market value on the date of grant at per share price of \$.23. In connection with issuance of these shares, for the nine months ended June 30, 2006, the Company recorded stock-based consulting expense of \$19,167 and deferred compensation of \$210,833 which will be amortized over the remaining service period.

On May 18, 2006, in connection with the exercise of options granted to a consultant for services, the Company issued 500,000 shares of common stock for a subscription receivable of \$90,000 due in October 31, 2006.

For the nine months ended June 30 2006, the Company recorded stock-based compensation of approximately \$383,000 from the amortization of deferred compensation.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
June 30, 2006  
(Unaudited)

### NOTE 3 - STOCKHOLDERS' EQUITY (CONTINUED)

#### STOCK OPTIONS AND WARRANTS

On November 30, 2005, the Company granted 528,000 stock options to an employee at an exercise price of \$.03 per share. These options were immediately exercised for a subscription receivable of \$15,840. The Company accounts for stock options issued to employees in accordance with the provisions of SFAS 123R and related interpretations. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 373 percent; risk-free interest rate of 3.75 percent and an expected holding periods of 3.00 years. In connection with these options, the Company recorded stock-based compensation expense of \$26,376.

On February 14, 2006, the Company granted 250,000 stock options to an executive at an exercise price of \$.31 per share. The Company accounts for stock options issued to employees in accordance with the provisions of SFAS 123R and related interpretations. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 379 percent; risk-free interest rate of 3.75 percent and an expected holding periods of 5.00 years. In connection with these options, the Company recorded stock-based compensation expense of \$15,000.

On May 18, 2006, the Company granted 500,000 stock options to a consultant at an exercise price of \$.18 per share. The options were immediately exercised for a subscription receivable of \$90,000. The Company valued these warrants utilizing the Black-Scholes options pricing model at approximately \$0.12 or \$61,000 and recorded a stock-based consulting expense of approximately \$46,000 and deferred consulting of \$15,000 to be amortized over the remaining service period.

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As of June 30, 2006, the total future compensation expense related to non-vested options not yet recognized in the consolidated statement of operations is \$0.

A summary of the stock options and warrants as of June 30, 2006 and changes during the period is presented below:

|                                                                           | Number of<br>Options and<br>Warrants | Weighted<br>Average<br>Exercise<br>Price |
|---------------------------------------------------------------------------|--------------------------------------|------------------------------------------|
|                                                                           | -----                                | -----                                    |
| Balance at beginning of year .....                                        | 19,188,526                           | \$ 0.095                                 |
| Granted .....                                                             | 1,278,000                            | 0.140                                    |
| Exercised .....                                                           | (8,143,733)                          | 0.100                                    |
| Forfeited .....                                                           | (1,657,432)                          | 0.268                                    |
|                                                                           | -----                                | -----                                    |
| Balance at June 30, 2006 .....                                            | 10,665,361                           | \$ 0.146                                 |
|                                                                           | =====                                | =====                                    |
| Options exercisable at end of period .....                                | 10,665,361                           | \$ 0.146                                 |
|                                                                           | =====                                | =====                                    |
| Weighted average fair value of options granted<br>during the period ..... |                                      | \$ 0.140                                 |

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### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) June 30, 2006 (Unaudited)

#### NOTE 3 - STOCKHOLDERS' EQUITY (CONTINUED)

##### STOCK OPTIONS AND WARRANTS (CONTINUED)

The following table summarizes information about employee and consultants stock options and investor warrants outstanding at June 30, 2006:

| Options and Warrants Outstanding |                                           |                                                         |                                          | Options and Warrants<br>Exercisable       |                                          |
|----------------------------------|-------------------------------------------|---------------------------------------------------------|------------------------------------------|-------------------------------------------|------------------------------------------|
|                                  |                                           |                                                         |                                          |                                           |                                          |
| Range of<br>Exercise<br>Price    | Number<br>Outstanding at<br>June 30, 2006 | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable at<br>June 30, 2006 | Weighted<br>Average<br>Exercise<br>Price |
|                                  |                                           |                                                         |                                          |                                           |                                          |
| \$0.28-0.34                      | 3,233,361                                 | 2.00 Years                                              | \$ 0.31                                  | 3,233,361                                 | \$ 0.31                                  |
| 0.12-0.15                        | 540,000                                   | 2.10 Years                                              | 0.14                                     | 540,000                                   | 0.14                                     |
| 0.05-0.10                        | 6,892,000                                 | 2.00 Years                                              | 0.07                                     | 6,892,000                                 | 0.07                                     |
|                                  | -----                                     |                                                         | -----                                    | -----                                     | -----                                    |
|                                  | 10,665,361                                |                                                         | \$ 0.146                                 | 10,665,361                                | \$ 0.146                                 |
|                                  | =====                                     |                                                         | =====                                    | =====                                     | =====                                    |

#### NOTE 4 - RELATED PARTY TRANSACTIONS

##### DUE FROM RELATED PARTIES

As of June 30, 2006, the consolidated financial statements include balances and transactions with related parties. At June 30, 2006, the Company had a receivable from a member of GEP amounting to \$10,800 for reimbursement due of certain marketing expenses in connection to the promotion and marketing campaign

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of Genesis Equity Partners, LLC. These advances were payable on demand and bear no interest.

### DUE TO RELATED PARTY

In June 2006, the Company paid \$13,800 to an officer for advances made to the Company for working capital purposes in March 2006.

At June 30, 2006, the Company owed \$21,000 to a GEP for working capital advances. The advances are payable on demand and bear no interest.

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### GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) June 30, 2006 (Unaudited)

#### NOTE 5 - CONTINGENCIES

##### Litigation

KEKE ZHANG A/K/A KATHERINE ZHANG VS. GENESIS TECHNOLOGY GROUP, INC., A FLORIDA CORPORATION AND GARY L. WOLFSON - CASE NO. 50 2006 CA 003447

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In April 2006, a former employee of the Company filed a lawsuit against the Company and its Chief Executive Officer alleging, amongst other things, breach of an employment agreement, loss of compensation, and losses from the value associated with denied stock options. The Company plans to vigorously defend its position and believes that any settlement will not have a material adverse effect on its financial condition.

#### NOTE 6 - SUBSEQUENT EVENTS

On July 13, 2006, the Company granted 500,000 stock options to a consultant at an exercise price of \$.153 per share. The options were immediately exercise for a subscription receivable of \$76,500. The Company valued these warrants utilizing the Black-Scholes options pricing model at approximately \$0.13 or \$63,000.

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#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following analysis of our consolidated financial condition and results of operations for the nine months ended June 30, 2006 and 2005, should be read in conjunction with the consolidated financial statements, including footnotes, and other information presented in our Form 10-KSB for the year ended September 30, 2005 as filed with the Securities and Exchange Commission.

##### OVERVIEW

We are a business development and marketing firm that specializes in proving leadership and commerce opportunities to small and mid-sized companies in the United States and China. We provide and procure development projects that require marketing, manufacturing, finance, and product deployment expertise. Our core competency is sourcing merger and acquisitions opportunities for both our contract clients and Genesis respectfully. The majority of our commercial proceedings involve China in a significant capacity. Historically our clients

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range from global 1000 companies, emerging high-growth organizations, to venture-backed start-ups. Genesis, and through its subsidiaries, creates and fosters a unique framework for business collaboration between companies and organization in United States and China.

Genesis and The YaSheng Group, Ltd. ("YaSheng") signed a Letter of Intent dated December 13, 2005. YaSheng is a Chinese biotech/agribusiness conglomerate in Gansu Province, China. The merger would have consisted of a YaSheng subsidiary merging into GTEC, and the succeeding entity possibly having a majority ownership by YaSheng. We have currently ceased our negotiations with YaSheng.

Effective June 20, 2005, we formally established Genesis Equity Partners LLC ("GEP") in which we own 51% and the balance of 49% is owned by China West LLC (25%) and a director of the Company (24%).

In the fall of 2005, GEP signed a contract with The Jin Ma Group Company, Ltd., a real estate development company in Western China, to globalize its operations in the areas of real estate, construction, and hospitality. To be known as Gold Horse International, Inc., GEP will receive a significant equity position in Gold Horse and ongoing consulting fees for coordination and oversight of its U.S. business activities, when established. Currently, Jin Ma is undergoing an audit of its financial statements by an independent accounting firm.

On March 15, 2006, GEP signed a General Partnership Agreement with Liang Fang Pharmaceutical, Ltd. ("Liang"), a company registered in the People's Republic of China. Liang is based in Beijing and is a drug development, medical device, and retail drug store enterprise with 10 retail outlets. GEP will receive a significant equity position in Liang Fang and ongoing consulting fees for coordination and oversight of its U.S. business activities, when established. Among Liang's best selling products, Valsartan Capsules are a medicine for primary hypertension or high blood pressure. Valsartan first came to market in America in 1996, known as Diovan. For its U.S. operations, this pharmaceutical company will be known as Lotus Pharmaceuticals, Inc. Currently, Liang Fang is undergoing an audit of its financial statements by an independent accounting firm.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

We intend to repeat this strategy and secure similar contracts with other qualified Chinese companies. Presently, we have five such candidates in the due diligence phase.

We intend to continue to pursue acquisitions that we believe could complement or expand our business, or augment our market coverage. We seek companies or product lines that we believe have consistent historical cash flow and brand growth potential and can be purchased at a reasonable price. We also may acquire businesses that we feel could provide us with important relationships or otherwise offer us growth opportunities. We plan to fund our future acquisitions through bank financing, seller debt or equity financing and public or private equity financing. Although we are actively seeking acquisitions that will expand our existing products or add new lines of business, as of the date of this we have no agreements with respect to any such acquisitions, and there can be no assurance that we will be able to identify and acquire such businesses or obtain necessary financing on favorable terms. While we are seeking acquisitions that we believe would improve our financial results, a completed acquisition may not provide the anticipated financial results, thus leading to continuing net losses. Even if we achieve profitability, we may not

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be able to sustain or increase profitability on a quarterly or annual basis.

### Discontinued operations

On November 15, 2001, we entered into a Stock Purchase Agreement with Shanghai Chorry Technology Development Co., Limited ("Chorry") and Chorry's shareholder and acquired an 80% interest in Chorry. Chorry was formerly known as Shanghai Zhaoli Technology Development Company Ltd. Chorry is a Chinese company with principal offices in Shanghai, China. On November 2, 2005, the Company entered into a stock purchase agreement with Dragon Ventures (OTC: DRGV), a Nevada public corporation, for the sale of Chorry. We closed on this transaction on February 14, 2006. Accordingly, Chorry is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

On May 1, 2005, the shareholders of Extrema unanimously agreed to discontinue the operations of Extrema. Our 60% owned subsidiary, Extrema LLC, ceased U.S. operations which will contribute to the costs savings. For the periods discussed, Extrema is reported as a discontinued operation, and prior periods have been restated in the Company's financial statements and related footnotes to conform to this presentation.

We believe that as we develop our consulting services, more opportunities to expand our operations through acquisitions will also be presented to us. It is critical to our long-term business model to both increase our revenues from the consulting services, as well as to diversify our revenue base. By virtue of the nature of our consulting services and the professional experience of our management and directors, we interact with a number of both U.S. and Chinese companies. Through this broadening of our relationship base, we believe that we will be able to not only provide better services to our client companies, but we will have certain advantages over other companies our size when it comes to identifying and closing acquisitions.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

The fee-based structure of our consulting services is such that if our client company is successful in its particular venture, we can earn additional fees. These fees could range from a flat cash fee, to a fee which includes a combination of equity in our client and a success fee payable upon the completion of transactions such as acquisitions, formations of joint ventures, or licensing or selling technologies in China, to a solely performance based fee upon the completion of the project. We do not intend to operate as an investment company or become subject to the Investment Company Act of 1940. However, in order to materially grow our business we will need to raise additional working capital. Capital will typically be needed not only for the acquisition of additional companies, but also for the effective integration, operation and expansion of these businesses. There are no assurances we will be able to raise additional capital. If we are unable to secure additional capital as need, this inability will in all likelihood hamper or restrict our ability to acquire and integrate additional companies and to otherwise increase our revenues in future periods.

We are engaged in a series of discussions for the purpose of entering into technology and sales alliances or possible acquisitions. Such discussions are ongoing and the Company anticipates that these negotiations will lead to the consummation of several critical contracts, agreements and/or alliances in the foreseeable future that will provide the Company with the ability to increase revenues and attain profitability through fiscal year 2006 and thereafter.

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### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included in this Form 10-KSB. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about the company's operating results and financial condition.

Accounting for Stock Based Compensation - Effective October 1, 2005, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment ("SFAS No. 123R"). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognized the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements. The adoption of SFAS No. 123R will have a negative impact on our future results of operations.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Marketable equity securities consist of investments in equity of publicly traded and non-public domestic companies and are stated at market value based on the most recently traded price of these securities at June 30, 2006. All marketable securities are classified as available for sale at June 30, 2006. Unrealized gains and losses, determined by the difference between historical purchase price and the market value at each balance sheet date, are recorded as a component of Accumulated Other Comprehensive Income in Stockholders' Equity. Realized gains and losses are determined by the difference between historical purchase price and gross proceeds received when the marketable securities are sold. Realized gains or losses on the sale or exchange of equity securities and declines in value judged to be other than temporary are recorded in gains (losses) on equity securities, net. Marketable equity securities are presumed to be impaired if the fair value is less than the cost basis continuously for three consecutive quarters, absent evidence to the contrary.

### RESULTS OF OPERATIONS

NINE MONTHS ENDED JUNE 30, 2006 COMPARED THE NINE MONTHS ENDED JUNE 30, 2005

#### REVENUES

For the nine months ended June 30, 2006, we had consolidated revenues of \$13,333 as compared to \$148,825 for the nine months ended June 30, 2005, a decrease of \$135,492 or 91%. During the nine months ended June 30, 2006, we spent a substantial amount of time with discussions with potential candidates for acquisition, and the sale of our Chorhy subsidiary. This diversion of time had a negative effect on our management and marketing revenues. However, we

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entered into contracts with clients in China with enormous potential for significant revenues and profit. We expect our revenues to increase during fiscal 2006, however, we can not give any assurances that revenues will increase.

For the nine months ended June 30, 2006, operating expenses which include consulting fees, rent, salaries and non-cash compensation, professional fees and other selling, general and administrative, were \$920,264 compared to \$2,472,400 for the nine months ended June 30, 2005, a decrease of \$1,552,136 or 63%.

The decrease in operating expenses was primarily attributable to the following:

\* Our consulting expense decreased to \$65,961 for the nine months ended June 30, 2006 from \$162,754 for the nine months ended June 30, 2005, a decrease of \$96,793 or 60%. The decrease was due to a decline in the use of consultants and a change in our business model and the sectors of our focus.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

#### OPERATING EXPENSES

\* Salaries and stock-based compensation expense decreased to \$424,944 for the nine months ended June 30, 2006 from \$1,426,144 for nine months ended June 30, 2005, a decrease of \$1,001,200 or 70%. The decrease in salaries and stock-based compensation expense was attributable to a decrease in the recording of stock-based compensation in connection with the granting of common stock and stock options to officers, employees, and directors and the amortization of deferred compensation. Additionally, we had a decrease of approximately \$165,000 attributable to a decrease in staff in our US and China business development offices. Additionally, at June 30, 2006, we had deferred compensation of \$316,622, which will be amortized into expense during fiscal 2006.

\* During the nine months ended June 30, 2005, we recorded severance expense of \$329,343 related to a severance and separation agreement we signed with a former officer/director of the Company compared to \$0 for the nine months ended June 30, 2006. In connection with this agreement, we paid cash of \$100,000, issued common shares with a value of \$61,875, reduced a subscription receivable of \$26,250, distributed marketable securities with a value of \$22,800, and incurred severance expense of \$121,608 related to the distribution of the net assets of Yastock.

\* Other selling, general and administrative expenses decreased to \$429,359 for the nine months ended June 30, 2006 from \$554,159 for the nine months ended June 30, 2005, a decrease of \$124,800 or 23%. Other selling, general and administrative expenses included the following:

|                                                   | 2006       | 2005       |
|---------------------------------------------------|------------|------------|
|                                                   | -----      | -----      |
| Professional fees .....                           | \$197,948  | \$155,692  |
| Rent .....                                        | 37,719     | 57,650     |
| Travel and entertainment .....                    | 39,464     | 59,462     |
| Other selling, general and<br>administrative..... | 154,228    | 281,355    |
|                                                   | -----      | -----      |
| Total .....                                       | \$ 429,359 | \$ 554,159 |
|                                                   | =====      | =====      |

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In fiscal 2005, professional fees increased by \$42,256 or 27% due to an increase in legal fees of \$34,017 related to general corporate matters, a litigation matter against a former employee, and other legal matters in which we are the plaintiff. Additionally, we incurred an increase in accounting and auditing fees of approximately \$8,239.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Rent expense decreased to \$37,719 for the nine months ended June 30, 2006 from \$57,650 for nine months ended June 30, 2005, a decrease of \$19,931 or 35%. The decrease in rent was attributable to the relocation of our offices to a smaller, less expensive office facility and the closing of our office in Shanghai, China.

During the nine months ended June 30, 2006, travel related expenses decreased by \$19,998 or 34% as compared to the 2005 period and was attributable to a decrease in the number of staff traveling to China and the use of consultants and staff in Beijing.

Other selling, general and administrative expenses include office expenses and supplies, telephone and communications, and other expenses. For the nine months ended June 30, 2006, other selling, general and administrative expenses amounted to \$154,228 compared to \$281,355 during the nine months ended June 30, 2005, a decrease of \$127,127 or 45%. The decrease was attributable to the closing of our Shanghai office, the reduction in marketing activities, and cost cutting measures.

### GAIN FROM SALE OF MARKETABLE SECURITIES

For the nine months ended June 30, 2006, we recorded a gain from the sale of marketable securities of \$1,046,894 compared to a \$0 for the nine months ended June 30, 2005. The gain from the sale of marketable securities relates to marketable securities that we had previously received for business development services rendered by us and which we had previously valued and recorded as revenue over the contract period. The gain represents the difference in the sale price of the marketable securities and the fair value of services provided which was previously recorded as revenue. Additionally, in connection with services previously rendered, we were granted warrants to purchase marketable securities which we exercised at a price less than fair market value. These marketable securities were sold and contributed to the gain from sale of marketable securities.

### GAIN (LOSS) FROM DISCONTINUED OPERATIONS

For the nine months ended June 30, 2006, we recorded a gain from discontinued operations of \$9,124 associated with the discontinuation of our Chorry subsidiary which was sold on February 14, 2006 and Extrema subsidiary. For the nine months ended June 30, 2005, we recorded a loss from discontinued operations of \$233,194 due to the closure of our Extrema subsidiary and the discontinuation of our Chorry subsidiary.

On November 2, 2005, we entered into a stock purchase agreement with Dragon Ventures (OTC: DRGV), a Nevada public corporation, for the sale of our majority-owned subsidiary Chorry. In connection with this agreement, we delivered 100% of our shares in Chorry, representing our 80% ownership of that subsidiary, to DRGV, we received 17,159,965 common shares of DRGV valued at closing at approximately \$463,000 calculated at the average closing price of \$.027 per share on December 15, 2005. In connection with the sale of Chorry, for the nine months ended June 30, 2006, we reported a gain from the sale of Chorry

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of \$237,377 compared to a loss of \$377,346 for the disposition of Extrema for the nine months ended June 30, 2005.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

#### OVERALL

We reported net income for the nine months ended June 30, 2006 of \$397,104 compared to a net loss for the nine months ended June 30, 2005 of \$2,929,081. This translates to an overall per-share income available to shareholders of \$.00 for the nine months ended June 30, 2006 compared to per-share loss of \$.04 for nine months ended June 30, 2005.

#### LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2006, we had a cash balance of \$1,390,697 and working capital of \$1,399,925. During the nine months ended June 30, 2006, we received cash amounting to approximately \$1,412,260 from the sale of marketable equity securities. We will continue to sell marketable equity securities to obtain cash for working capital purposes. At June 30, 2006, we had marketable securities available for sale with a fair market value of \$92,140. We are presently meeting our current obligations from cash proceeds received from the sale of marketable equity securities. Although proceeds from sales of marketable equity securities have allowed us to meet our obligations in the recent past, there can be no assurances that our present methods of generating cash flow will be sufficient to meet future obligations. Historically, we have, from time to time, been able to raise additional capital from sales of our capital stock, but there can be no assurances that we will be able to raise additional capital in this manner.

Net cash used in operations was \$379,830 for the nine months ended June 30, 2006 as compared to net cash used in operations of \$1,183,905 for the nine months ended June 30, 2005, a decrease of \$804,075 or 68%. For the nine months ended June 30, 2006, we used cash to fund our loss from continuing operations. For the nine months ended June 30, 2005, we used cash to fund our net loss of \$(2,929,081) offset by non-cash items such as stock-based compensation of \$1,216,093, depreciation expenses of \$4,234 and severance expense of \$232,533 as well as other non-cash items and changes in assets and liabilities of \$292,316.

Net cash provided by investing activities for the nine months ended June 30, 2006 was \$1,182,090 as compared to net cash used in investing activities for the nine months ended June 30, 2005 of \$6,683. For the nine months ended June 30, 2006, we received cash from the sale of marketable securities of \$1,412,260. In March 2006, we exercised stock warrants and purchased marketable securities for \$100,200. During the nine months ended June 30, 2006, we used cash in connection with deferred acquisition cost of approximately \$130,000 related to agreements entered by one of our subsidiaries, Genesis Equity Partners, LLC. For the nine months ended June 30, 2005, we used cash for capital expenditures of \$6,683.

Net cash provided by financing activities was \$569,380 for the nine months ended June 30, 2006 as compared to net cash provided by financing activities of \$25,983 for the nine months ended June 30, 2005. For the nine months ended June 30, 2006, net cash provided by financing activities related to proceeds received from the exercise of stock warrants of \$548,380 and proceeds from related party advances of \$34,800 offset by repayment of related party advances of \$13,800. For the nine months ended June 30, 2005, net cash provided by financing activities related to proceeds received from the exercise of stock options of \$25,983.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

We currently have no material commitments for capital expenditures.

Our future growth is dependent on our ability to raise capital for expansion, and to seek additional revenue sources. If we decide to pursue any acquisition opportunities or other expansion opportunities, we may need to raise additional capital, although there can be no assurance such capital-raising activities would be successful. There are no assurances that such capital will be available to us when needed or upon terms and conditions which are acceptable to us. If we are able to secure additional working capital through the sale of equity securities, the ownership interests of our current stockholders will be diluted. If we raise additional working capital through the issuance of debt or additional dividend paying securities our future interest and dividend expenses will increase. If we are unable to secure additional working capital as needed, our ability to grow our sales, meet our operating and financing obligations as they become due and continue our business and operations could be in jeopardy and we could be forced to limit or cease our operations.

RECENT ACCOUNTING PRONOUNCEMENTS

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

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement.

When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS 154 will have a significant effect on its financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

ITEM 3. CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the "Evaluation"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures ("Disclosure Controls") as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act. Based on this Evaluation, our CEO and CFO concluded that our Disclosure Controls were effective as of the end of the period covered by this report.

We have also evaluated our internal controls for financial reporting, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

Our management, including our CEO and CFO, does not expect that our Disclosure Controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. CEO and CFO Certifications Appearing immediately following the signatures section of this report there are Certifications of the CEO and the CFO. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This Item of this report, which you are currently reading is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

KEKE ZHANG A/K/A KATHERINE ZHANG VS. GENESIS TECHNOLOGY GROUP, INC., A FLORIDA CORPORATION AND GARY L. WOLFSON - CASE NO. 50 2006 CA 003447, PALM BEACH COUNTY, FLORIDA

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In April 2006, a former employee of the Company filed a lawsuit against the Company and our Chief Executive Officer alleging breach of an employment agreement, loss of compensation, and losses from the value associated with denied stock options. We plan to vigorously defend our position and believe that any settlement will not have a material adverse effect on our financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On May 5, 2006, we issued 1,000,000 shares of common stock for services. The Company valued these common shares at the fair market value on the date of grant at per share price of \$.23. The recipient was an accredited or otherwise sophisticated investor and the transaction was exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act. The recipient had access to information concerning our company.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit

| Number | Description                                                                                                        |
|--------|--------------------------------------------------------------------------------------------------------------------|
| 31.1   | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *           |
| 31.2   | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *           |
| 32.1   | Certification of Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * |
| 32.2   | Certification of Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * |

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\* Filed herein

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENESIS TECHNOLOGY GROUP, INC.

By: /s/ Gary Wolfson

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Gary Wolfson  
Chief Executive Officer

August 10, 2006

By: /s/ Adam Wasserman

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Adam Wasserman  
Chief Financial and Accounting Officer

August 10, 2006

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