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GENESIS TECHNOLOGY GROUP INC
Form 10QSB
February 23, 2005

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended: December 31, 2004
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.)

777 YAMATO ROAD, SUITE 130
BOCA RATON, FLORIDA 33431
(Address of principal executive offices) (Zip code)

(561) 988-9880
(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of January 31, 2005: 59,376,082 outstanding shares of common stock, \$.001 par value per share.

GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
FORM 10-QSB
QUARTERLY PERIOD ENDED DECEMBER 31, 2004
INDEX

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2004
(Unaudited)

ASSETS

CURRENT ASSETS:

| | |
|--|----|
| Cash and cash equivalents | \$ |
| Marketable equity securities | |
| Accounts receivable (net of allowance for doubtful accounts of \$67,850) | |
| Inventories | |
| Prepaid expenses and other | |

Total Current Assets 1,

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| | |
|---|-------------|
| PROPERTY AND EQUIPMENT - Net | ----- |
| OTHER ASSETS: | |
| Goodwill | |
| Marketable equity securities - restricted | |
| Other intangible assets (net of accumulated amortization of \$16,667) | |
| Other assets | ----- |
| Total Other Assets | ----- |
| Total Assets | \$ 2, ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | |
|---|----------|
| CURRENT LIABILITIES: | |
| Loan payable | \$ |
| Accounts payable and accrued expenses | |
| Deferred revenue | |
| Due to related parties | ----- |
| Total Current Liabilities | 1, ----- |

MINORITY INTEREST

| | |
|---|-------------|
| SHAREHOLDERS' EQUITY: | |
| Preferred stock (\$.001 Par Value; 20,000,000 Shares Authorized) | |
| Convertible preferred stock Series A (\$.001 Par Value; 218,000 Shares Authorized; 97,500 shares issued and outstanding) | |
| Common stock (\$.001 Par Value; 200,000,000 Shares Authorized; 59,376,082 shares issued and outstanding) | |
| Additional paid-in capital | 19, |
| Accumulated deficit | (16, |
| Less: Deferred compensation | (|
| Less: Subscriptions receivable | |
| Accumulated other comprehensive loss | ----- |
| Total Shareholders' Equity | 1, ----- |
| Total Liabilities and Shareholders' Equity | \$ 2, ===== |

See notes to consolidated financial statements

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

For the Three Months
December 31,

2004

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| | ----- (Unaudited) | ----- (Unaudited) |
|--|----------------------|----------------------|
| NET REVENUES | \$ 7,051,630 | \$ 6,000,000 |
| COST OF SALES | 6,775,972 | 6,000,000 |
| GROSS PROFIT | 275,658 | 0 |
| OPERATING EXPENSES: | | |
| Consulting | 35,530 | |
| Salaries and non-cash compensation | 591,435 | |
| Severance expense | 332,533 | |
| Selling, general and administrative | 462,476 | |
| Total Operating Expenses | 1,421,974 | |
| LOSS FROM OPERATIONS | (1,146,316) | |
| OTHER INCOME (EXPENSE): | | |
| Gain (loss) from sale of marketable securities | - | |
| Settlement income | - | |
| Interest income (expense), net | 805 | |
| Total Other Income | 805 | |
| LOSS BEFORE MINORITY INTEREST | (1,145,511) | |
| MINORITY INTEREST IN LOSS (INCOME) OF SUBSIDIARY | 795 | |
| NET LOSS | \$ (1,144,716) | \$ (1,144,716) |
| LOSS PER COMMON SHARE - BASIC AND DILUTED | | |
| Net loss per common share - basic and diluted | \$ (0.02) | \$ (0.02) |
| Weighted Common Shares Outstanding - basic and diluted | 56,457,293 | 39,000,000 |

See notes to consolidated financial statements

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

For the Three Months
December 31,

2004

(Unaudited) (Unaudited)

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CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|---------------|------|
| Net loss | \$(1,144,716) | \$ (|
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 19,322 | |
| Gain on sale of marketable securities | - | |
| Common stock issued and forgiveness of subscription for severance ... | 88,125 | |
| Settlement income | - | |
| Severance expense | 121,608 | |
| Stock-based compensation | 340,577 | |
| Minority interest | (795) | |
| Marketable securities received for services | (114,000) | |
| Marketable securities distributed for settlement | 22,800 | |
| Changes in assets and liabilities: | | |
| Accounts receivable | (170,116) | |
| Inventories | (173,915) | |
| Prepaid and other current assets | 19,583 | |
| Other assets | - | |
| Accounts payable and accrued expenses | (51,913) | |
| Deferred revenue | (12,500) | |

NET CASH USED IN OPERATING ACTIVITIES (1,055,940)

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---|---------|--|
| Proceeds from sale of marketable securities | - | |
| Capital expenditures | (2,778) | |

NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES (2,778)

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|----------|--|
| Due to related parties | (97,940) | |
| Proceeds from exercise of stock options | 20,983 | |

NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES (76,957)

EFFECT OF EXCHANGE RATE CHANGES IN CASH -

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1,135,675)

CASH AND CASH EQUIVALENTS - beginning of year 1,678,739

CASH AND CASH EQUIVALENTS - end of period \$ 543,064 \$

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | |
|--------------------|------|----|
| Cash paid for: | | |
| Interest | \$ - | \$ |
| Income taxes | \$ - | \$ |

Noncash investing and financing activities:
Common stock issued for accrued salary and debt \$ - \$

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| | | |
|---|------------|-------|
| Common stock issued for deferred compensation | ===== | ===== |
| | \$ 888,750 | \$ |
| | ===== | ===== |

See notes to consolidated financial statements.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (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 firm that specializes in assisting small and mid-sized companies in entering the Chinese market. The Company currently owns 80% of a Company in China and 60% of a Florida company, both of which sell computer hardware and peripherals, and derives approximately 98% of its revenues from the sale of computer hardware and peripherals. The Company's strategy includes marketing itself as a resource for small and mid-sized companies in marketing, distribution, manufacturing, forming joint ventures, or establishing a base in China. The strategy envisions and promotes opportunities for synergistic business relationships among all of the companies that Genesis works with, both clients and subsidiaries.

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, 2004 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 three months ended December 31, 2004 are not necessarily indicative of the results for the full fiscal year ending September 30, 2005.

NET INCOME (LOSS) PER SHARE

Basic loss per share is computed by dividing net loss by weighted average number of shares of common stock outstanding during each period. Diluted loss per share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. Diluted loss per common share is not presented because it is anti-dilutive. At December 31, 2004, there were options and warrants to purchase 10,140,406 shares of common stock, which could potentially dilute future earnings per share.

INVENTORIES

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

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004
(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 December 31, 2004. All marketable securities are classified as available for sale at December 31, 2004. 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.

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, expenses and cash flows are translated at the average exchange rate for the period to approximate translation at the exchange rate 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 December 31, 2004, the exchange rate for the Chinese Renminbi (RMB) was \$1 US for 8.28 RMB.

The functional currency of the Company's Chinese subsidiaries is the local currency. The financial statements of the subsidiary are translated to United States dollars using period-end rates of exchange for assets and liabilities, and the average rate of exchange for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not material during the periods presented. The cumulative translation adjustment and effect of exchange rate changes on cash at December 31, 2004 were not material.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2004
(UNAUDITED)

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

STOCK-BASED COMPENSATION

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

Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, "Accounting for Stock Based Compensation", the Company's net loss and loss per share would have been changed to the pro forma amounts indicated below for the three months ended December 31, 2004 and 2003:

| | 2004 | 2003 |
|--|----------------|--------------|
| | ----- | ----- |
| Net loss as reported | \$ (1,144,716) | \$ (138,752) |
| Less: stock-based employee compensation included in reported net loss | 32,452 | - |
| Add: stock-based employee compensation expense determined under fair-value based method, net of related tax effect | (57,655) | (48,345) |
| | ----- | ----- |
| Pro forma net loss | \$ (1,169,919) | \$ (187,097) |
| | ===== | ===== |
| Basic loss per share: | | |
| As reported | \$ (.02) | \$ (.00) |
| | ===== | ===== |
| Pro forma | \$ (.02) | \$ (.00) |
| | ===== | ===== |

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

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 DECEMBER 31, 2004
 (UNAUDITED)

NOTE 2 - RELATED PARTY TRANSACTIONS

Due to related parties

A minority shareholder of the Company's Chorry subsidiary, advanced \$362,319 to this subsidiary for working capital purposes. These advances are non-interest bearing and are payable on demand.

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An employee and director advanced funds to the Company for working capital purposes. These advances are non-interest bearing and are payable on demand. At December 31, 2004, the Company owed this individual \$74,933.

NOTE 3 - SEPARATION AND SEVERANCE AGREEMENT

On December 13, 2004, the Company entered into a Separation and Severance Agreement (the "Agreement") with its former Chairman/President, Dr. James Wang ("Dr.Wang"), Yastock Investment Consulting Company, Limited ("Yastock"), and Shanghai Yastand Information Technology Company, Limited ("Yastand"). The Agreement provides, effective December 13th, 2004, the resignation of Dr. Wang as President, Chairman of the Board and as a director of the Company, and the termination of his Employment Agreement dated August 1, 2004, including all rights, benefits and obligations pursuant thereto. The Agreement provided for the following severance provisions:

- (a) The Company transferred its ownership interest in Yastock and Yastand, free and clear of all liens, pledges, hypothecation, option, contract and other encumbrance, to the previous owners. In connection with this transfer, the Company incurred severance expense of \$121,608.
- (b) Yastock/Yastand shall transfer all rights and privileges of certain agreements to the Company.
- (c) The Company issued Dr. Wang 562,500 shares of the Company's common stock ("Shares") pursuant to the Company's 2004 Stock Option Plan, which Shares are registered under an effective registration statement on Form S-8. In connection with issuance of these shares, the Company recorded severance expense of \$61,875.
- (d) In December 2004, the Company paid Dr. Wang cash of \$100,000 which was released from escrow after the Company filed its annual report on Form 10-KSB for the year ended September 30, 2004 with the Securities and Exchange Commission ("SEC") and the Annual Report was accepted by the SEC Edgar filing system. In connection with this cash payment, the Company recorded severance expense of \$100,000.
- (e) Dr. Wang will assist the Company in maintaining a positive relationship between the Company and its subsidiary, Chorry Technologies, LTD.
- (f) Dr. Wang's options ("Options") to purchase 1,500,000 shares ("Option Shares") of the Company's common stock at an exercise price of .06 cents per share received pursuant to the Employment Agreement and the Company's Non-Qualified Stock Option Plan shall terminate on December 31, 2005, unless exercised prior thereto.
- (g) For a period of three (3) years, Wang, Yastock and Yastand shall not
(i) without first obtaining the written consent of the Company, directly or indirectly, do business with any of the past or current customers of the Company, or (ii) directly or indirectly, solicit or proposition, or otherwise attempt to induce any of the customers of the Company to terminate their relationships with the Company.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2004
(UNAUDITED)

NOTE 3 - SEPARATION AND SEVERANCE AGREEMENT (CONTINUED)

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- (h) The Company transferred to Yastock 95,000 shares of Dragon International Group Corp. restricted common stock. In connection with the transfer of these shares, the Company recorded severance expense of \$22,800.

NOTE 4 - SEGMENT INFORMATION

The following information is presented in accordance with SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. In the periods ended December 31, 2004 and 2003, the Company operated in two reportable business segments - (1) sale of computer equipment and accessories and (2) business development services for small public and private companies regarding public relations, corporate financing, mergers and acquisitions, e-commerce, business operations support and marketing. The Company's reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations. Information with respect to these reportable business segments for the three months ended December 31, 2004 and 2003 is as follows:

| | FOR THE THREE MONTHS ENDED DECEMBER 31, 2004 | FOR THE THREE MONTHS ENDED DECEMBER 31, 2003 |
|--|--|--|
| | ----- (UNAUDITED) | ----- (UNAUDITED) |
| NET REVENUES: | | |
| Computer Equipment and Accessories | \$ 6,928,863 | \$ 6,310,368 |
| Consulting Services | 122,767 | 255,009 |
| | ----- | ----- |
| Consolidated Net Revenue | 7,051,630 | 6,565,377 |
| | ----- | ----- |
| COST OF SALES AND OPERATING EXPENSES: | | |
| Computer Equipment and Accessories | 7,015,139 | 6,303,394 |
| Consulting Services | 1,163,485 | 589,543 |
| DEPRECIATION: | | |
| Computer Equipment and Accessories | 16,816 | 2,161 |
| Consulting Services | 2,506 | 4,145 |
| INTEREST (EXPENSE) INCOME: | | |
| Computer Equipment and Accessories | (2,104) | - |
| Consulting Services | 2,909 | (2,497) |
| NET INCOME (LOSS): | | |
| Computer Equipment and Accessories | \$ (104,401) | \$ 3,850 |
| Consulting Services | (1,040,315) | (142,602) |
| | ----- | ----- |
| NET LOSS | \$ (1,144,716) | \$ (138,752) |
| | ===== | ===== |
| TOTAL ASSETS AT DECEMBER 31, 2004 AND 2003: | | |
| Computer Equipment and Accessories | \$ 2,171,614 | \$ 959,987 |
| Consulting Services | 725,876 | 795,471 |
| | ----- | ----- |
| Consolidated Asset Total | \$ 2,897,490 | \$ 1,755,458 |
| | ===== | ===== |

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December 31, 2004

(UNAUDITED)

NOTE 4 - SEGMENT INFORMATION (CONTINUED)

For the three months ended December 31, 2004 and 2003, the Company derived approximately 86% and 96% of its revenue from its subsidiaries located in the People's Republic of China, respectively. Sales and identifiable assets by geographic areas for the three months ended December 31, 2004 and 2003, and as of December 31, 2004, respectively, were as follows:

| | Revenues | | |
|---------------|--|--------------|-------------------------|
| | For the Three Months Ended December 31, | | Identifiable Assets |
| | 2004 | 2003 | at December 31, 2004 |
| United States | \$ 1,004,163 | \$ 278,344 | \$ 1,873,318 |
| China | 6,047,467 | 6,287,033 | 1,024,172 |
| Total | \$ 7,051,630 | \$ 6,565,377 | \$ 2,897,490 |

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

NOTE 5 - LOAN PAYABLE

The Company's Chinese subsidiary, Chorry, entered into a loan agreement with a Chinese bank to borrow \$120,773. The loan bears interest at a rate of 5.85% per annum and is payable prior to March 25, 2005.

NOTE 6 - STOCKHOLDERS' EQUITY

COMMON STOCK

On October 1, 2004, in connection with an employment agreement, the Company issued 1,000,000 shares of common stock to an executive. The Company valued these common shares at the fair market value on the dates of grant of \$.175 per share or \$170,000 based on the trading price of common shares and recorded stock based compensation of \$42,500 and deferred compensation of \$127,500 which will be amortized over the service period.

For the three months ended December 31, 2004, in connection with the exercise of stock options, the Company issued 463,889 shares of common stock to employees for net proceeds of \$20,983 and a subscription receivable of \$5,000 and the reduction of a subscription payable of \$850.

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NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK (CONTINUED)

On November 1, 2004, in connection with two employment agreements, the Company issued 6,250,000 shares of common stock to executives. The Company valued these common shares at the fair market value on the dates of grant of \$.115 per share or \$718,750 based on the trading price of common shares and recorded stock-based compensation expense of \$119,792 and deferred compensation of \$598,958 which will be amortized over the service period.

On December 13, 2004, in connection with a severance and separation agreement, the Company issued 562,500 shares of the Company's common stock pursuant to the Company's 2004 Stock Option Plan. The Company valued these common shares at the fair market value on the dates of grant of \$.11 per share or \$61,875 based on the trading price of common shares and recorded settlement expense of \$61,875.

STOCK OPTIONS AND WARRANTS

During the three months ended December 31, 2004, 604,319 options were granted to an employee of the Company with an exercise price of \$.06 per share. The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. In connection with these options, the Company recorded stock-based compensation of \$32,452 during the three months ended December 31, 2004 under the intrinsic value method of APB 25.

A summary of outstanding options and warrants at December 31, 2004 are as follows:

| | Number of Options and Warrants | Weighted Average Exercise Price |
|---|--------------------------------------|---------------------------------------|
| | | |
| Stock options and warrants | | |
| ----- | | |
| Balance at October 1, 2004 | 10,699,976 | \$ 0.180 |
| Granted | 604,319 | 0.060 |
| Exercised | (463,889) | 0.058 |
| Forfeited | (700,000) | - |
| | ----- | ----- |
| Balance at December 31, 2004 | 10,140,406 | \$ 0.126 |
| | ===== | ===== |
| Options exercisable at end of period ... | 10,140,406 | \$ 0.126 |
| | ===== | ===== |
| Weighted average fair value of options granted during the period | | \$ 0.060 |

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 December 31, 2004
 (UNAUDITED)

NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED)

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The following table summarizes information about employee stock options and consultant warrants outstanding at December 31, 2004:

| Options and Warrants Outstanding | | | | Options and Warrants Exercisable | |
|----------------------------------|---|---|---------------------------------|---|---------------------------------|
| Range of Exercise Price | Number Outstanding at December 31, 2004 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at December 31, 2004 | Weighted Average Exercise Price |
| \$ 2.25 | 150,000 | 1.00 Years | \$ 2.25 | 150,000 | \$ 2.25 |
| 0.23-0.34 | 861,034 | 2.75 Years | 0.30 | 861,034 | 0.30 |
| 0.12-0.15 | 540,000 | 3.35 Years | 0.14 | 540,000 | 0.14 |
| 0.05-0.10 | 8,589,372 | 3.75 Years | 0.07 | 8,589,372 | 0.07 |
| | ----- 10,140,406 ===== | | ----- \$ 0.126 ===== | ----- 10,140,406 ===== | ----- \$ 0.126 ===== |

NOTE 7 - SETTLEMENT INCOME

On December 31, 2003, the Company settled its litigation against Hy-Tech Technology Group, Inc. ("HYTT"). The Settlement Agreement resulted in the Company accepting 3,750,000 common shares of restricted Hy-Tech Technology Group, Inc. stock (OTCBB: HYTT). In a related matter, the Company conveyed 300,000 of those shares to Elite Financial Communications Group, which had initially introduced the Company to key principals among the HYTT parties. In connection with the settlement, the Company recorded settlement income of \$196,650 based on the fair market value of 3,450,000 net shares that the Company received.

NOTE 8 - COMMITMENTS

Employment agreement

Effective October 1, 2004, the Company entered an employment agreement with a director/chief executive officer of the Company's China operations. The agreement was for a term of one year unless either the Company or the employee terminates the agreement, and contains confidentiality clauses. As consideration for the employees' services, the Company had agreed to a base salary of \$4,000 per month. In addition, the employee shall be granted 1,500,000 shares of the Company's common stock as follows: 1,000,000 common shares on or about October 1, 2004 and (b) 500,000 common shares after six months of employment. The employee shall be entitled to stock options as determined. Additionally, the employee is entitled to an annual bonus of 5% of the net profits generated by the Company's China operations to be paid in common stock or cash as determined by the Company.

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GENESIS TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2004
(UNAUDITED)

NOTE 8 - COMMITMENTS

Real Estate Agreement

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On December 17, 2004, the Company's subsidiary, Extrema, entered into a real estate agreement, whereby Extrema may purchase a 4,800 square foot office/warehouse condominium for \$790,000 on or before June 17, 2005. In connection with this agreement, Extrema paid an initial earnest deposit of \$15,000. Extrema is required to pay an additional \$5,000 per month in earnest deposit to the seller. The earnest money is non-refundable. At closing, Extrema shall pay to the seller an amount equal to the purchase price, minus the sum of the earnest deposit, plus or minus closing costs. In the event that Extrema does not close, Extrema will forfeit all earnest deposits.

NOTE 9 - GOING CONCERN

The accompanying financial statements are prepared assuming the Company will continue as a going concern. During the three months ended year ended December 31, 2004, the Company incurred net losses of \$1,144,716 and had negative cash flows from operations in the amount of \$1,055,940. While the Company is attempting to increase sales, the growth has not been significant enough to support the Company's daily operations Management intends to attempt to raise additional funds by way of a public or private offering. While the Company believes in the viability of its strategy to increase sales volume and in its ability to raise additional funds, there can be no assurances to that effect.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the financial statements of Genesis Technology Group, Inc. for the year ended September 30, 2004 and notes thereto contained in this Report on Form 10-KSB of Genesis Technology Group, Inc.

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

OVERVIEW

Our computer equipment and accessories division is an established business which can grow internally without significant additional capital. In order to diversify our operations out of the China market and to create synergies, effective September 9, 2004, we acquired a controlling interest in Extrema LLC, a Miami-based computer hardware wholesaler with a 22-year history. Extrema markets equipment between North America and Brazil, and we will source and add new products from China to expand Extrema's inventory and sales opportunities. We now own 60% of Extrema and founding management retains 40%.

We believe that as we further develop our consulting services segment, 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 segment of our existing business, 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

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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.

The fee-based structure of our consulting services division 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 intent 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.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

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

We have had about 25 clients under contract since August 2002. Company management has met with over 400 firms that have shown significant interest in introducing their products or services to China or the U.S. We are assisting these clients in penetrating the Chinese market for the purposes of product and solutions sales, distribution, manufacturing, and/or research and development.

FOREIGN EXCHANGE CONSIDERATIONS

Because revenues from our operations in the PRC accounted for approximately 86% and 96% of our consolidated net revenues for the three months ended December 31, 2004 and for the fiscal year ended September 30, 2004, respectively, how we report net revenues from our PRC-based companies is of particular importance to understanding our financial statements. 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 respective 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.

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The functional currency of our Chinese subsidiaries is the Chinese RMB, the local currency. We acquired a controlling interest in Extrema on September 9, 2004. The functional currency of Extrema is the US dollar. The financial statements of the subsidiaries are translated to U.S. dollars using year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not material during the periods presented. The cumulative translation adjustment and effect of exchange rate changes on cash at each of December 31, 2004 and 2003 was not material.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2004 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2003

The following discussion relates to our consolidated results of operations. Further discussion and analysis of operating results follows and is discussed by segment.

Revenues

For the three months ended December 31, 2004, we had consolidated revenues of \$7,051,630 as compared to \$6,565,377 for the three months ended December 31, 2003. This increase resulted from an increase in revenues from our computer hardware and accessories segment primarily due the acquisition of our 60% owned subsidiary, Extrema, in September 2004, offset by a decrease in our business development segment as discussed below.

Cost of Sales

For the three months ended December 31, 2004, cost of sales was directly related to our computer equipment and accessories segment and amounted to \$6,775,972 as compared to \$6,181,525 for three months ended December 31, 2003. This increase resulted substantially from increased revenues from our computer segment and is outlined below.

Operating Expenses

For the three months ended December 31, 2004, operating expenses which include consulting fees, rent, salaries and non-cash compensation, depreciation expense and other selling, general and administrative, were \$1,421,974 as compared to \$717,718 for the three months ended December 31, 2003. As discussed below, increases in operating expenses were attributable to the recording of non-cash compensation in connection with the granting of stock and stock options to officers and employees and the amortization of deferred compensation, and the recording of severance expense related to a severance and separation agreement that we signed with a former officer/director of the Company. During the three months ended December 31, 2004, travel related expenses increased due to increased travel to China as well as increased marketing costs associated with our Chinese round table events, and increased administrative and office expenses due to increased operations. Additionally, professional fee expenses increased attributable to legal and accounting expenses incurred in connection with our audits of our annual financial statements. Non-cash compensation increased due to the issuance of 7,250,000 restricted common shares to executives in October

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and November 2004, which have been valued at the fair market value on the dates of grant of \$.115 to \$.17 per share or \$888,750 based on the trading price of common shares and which will be amortized over the service period. Additionally, at December 31, 2004, we had deferred compensation of \$854,063 which will be amortized into expense during fiscal 2005. In connection with the acquisition of Extrema, we expect operating expenses to increase by approximately \$125,000 per quarter.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

Loss from sale/disposal of marketable securities

For the three months ended December 31, 2004, we recorded no gain or loss from the sale of marketable securities as compared to a gain of \$1,924 for the three months ended December 31, 2003.

Settlement income

On December 31, 2003, we settled our litigation against Hy-Tech Technology Group, Inc. ("HYTT"). The Settlement Agreement resulted in us accepting 3,750,000 common shares of restricted Hy-Tech Technology Group, Inc. stock (OTCBB: HYTT). In a related matter, we conveyed 300,000 of those shares to Elite Financial Communications Group, which had initially introduced us to key principals among the HYTT parties. In connection with the settlement, we recorded settlement income of \$196,650 based on the fair market value of 3,450,000 net shares that we received.

Interest expense, net

Interest income, net was \$805 for the three months ended December 31, 2004 as compared to interest expense, net of \$2,497 for the three months ended December 31, 2003.

OVERALL

We reported a net loss for the three months ended December 31, 2004 of \$1,144,716 compared to a net loss for the three months ended December 31, 2003 of \$138,752. This translates to an overall per-share loss available to shareholders of \$.02 for the three months ended December 31, 2004 compared to per-share loss of \$.00 for three months ended December 31, 2003.

RESULTS OF OPERATIONS BY SEGMENT:

Computer Equipment and Accessories Segment

Revenues for the three months ended December 31, 2004 were \$6,928,863 as compared to \$6,310,368 for the three months ended December 31, 2003, an increase of \$618,495 or 10% and was substantially attributable to revenues of \$881,396 from our newly acquired subsidiary, Extrema. This revenue was generated from sales of computers, printers, copiers, network equipment and software licensing fees. We experienced a decrease in revenues from our China subsidiary, Chorry. This decrease in sales mainly resulted from a decrease in demand from the China markets.

Cost of sales for Chorry and Extrema for the three months ended December 31, 2004 amounted to \$6,775,972 or 97.8% of net sales as compared to \$6,181,525 or 98% of net sales for the three months ended December 31, 2003, a decrease of .20%. This translates in a gross profit margin of 2.2% and 2% for

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the three months ended December 31, 2004 and 2003, respectively. We expect to continue to experience low gross profit margins on our products sales.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

For the three months ended December 31, 2004, we incurred operating expenses of \$255,983 compared to \$124,030 for the three months ended December 31, 2003 and consisted of the following:

| | 2004 | 2003 |
|--|-----------|-----------|
| | ----- | ----- |
| Salaries | \$ 94,617 | \$ 36,370 |
| Rent | 46,844 | 39,049 |
| Other selling, general and administrative .. | 114,522 | 48,611 |
| | ----- | ----- |
| Total operating expenses | \$255,983 | \$124,030 |
| | ===== | ===== |

During the three months ended December 31, 2004, we incurred additional rent due to our growing need for warehouse space. Additionally, during the three months ended December 31, 2004, we incurred increased salary expenses due to increases in our workforce and the acquisition of Extrema which incurred salary expense of \$52,778 for the three months ended December 31, 2004. Other selling, general and administrative expenses incurred by our Chinese subsidiary remained constant and we incurred additional expenses due to the operations of Extrema, our recent acquisition.

Consulting Services Segment

Revenue for the three months ended December 31, 2004 was \$122,767 as compared to \$255,009 for the three months ended December 31, 2003, a decrease of \$132,242 or 52%. During the three months ended December 31, 2004, we spent a substantial amount of time on administrative tasks related to a severance and separation agreement that was executed in December 2004. This diversion of time had a negative effect on our consulting revenues. We expect our revenues to increase during fiscal 2005 as we refocus our attention.

For the three months ended December 31, 2004, we incurred operating expenses of \$1,165,991 as compared to \$593,688 for the three months ended December 31, 2003, an increase of \$572,303 or 96.4%. For the three months ended December 31, 2004, operating expenses consisted of rent of \$23,382, consulting fees of \$35,530, salaries and non-cash compensation of \$496,818, settlement expense of \$332,533, other selling, general and administrative expenses of \$277,728. For the three months ended December 31, 2003, operating expenses consisted of rent of \$24,859, consulting fees of \$180,822, salaries and non-cash compensation of \$294,831 and other selling, general and administrative expenses of \$93,176.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

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

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* Our consulting expense decreased to \$35,530 for the three months ended December 31, 2004 from \$180,822 for the three months ended December 31, 2003. The decrease was due to decreased non-cash consulting expenses recorded during the three months ended December 31, 2004 in connection with the grant of stock options to consultants for services rendered. For the three months ended December 31, 2004, non-cash consulting expense amounted to \$0 as compared to \$43,077 in the 2003 period. Additionally, during the three months ended December 31, 2003, we transferred to consultants 165,000 common shares received by a client for work performed and accordingly recorded consulting expense of \$107,750 related to the transfer of these shares.

* Salaries and non-cash compensation expense increased to \$496,818 for the three months ended December 31, 2004 from \$294,831 for three months ended December 31, 2003. The increase in salaries and non-cash compensation expense was attributable to the recording of non-cash compensation in connection with the granting of stock and stock options to officers and employees and the amortization of deferred compensation.

* During the three months ended December 31, 2004, we recorded severance expense of \$332,533 related to a severance and separation agreement we signed with a former officer/director of the Company. 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 increased to \$277,228 for the three months ended December 31, 2004 from \$93,176 for the three months ended December 31, 2003, an increase of \$184,052 or 197.5%. Travel related expenses increased by \$26,754 or 316% to \$35,212 for the three months ended December 31, 2004 as compared to \$8,458 and related to increased travel to China. We incurred increased marketing costs associated with our Chinese round table events, and increased administrative and office expenses due to increased operations. Additionally, professional fee expenses increased to \$97,978 for the three months ended December 31, 2004 as compared to \$20,985 for the three months ended December 31, 2003, an increase of \$76,993 or 367%. This increase was attributable to recording accounting and legal fees in connection with our annual audit.

For the three months ended December 31, 2004, we incurred interest income, net of \$2,909 as compared to interest expense of \$2,497 for the three months ended December 31, 2003.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, we had a cash balance of \$543,064. As of December 31, 2004, our cash position by geographic area is as follows:

| | |
|---------------|------------|
| United States | \$ 311,284 |
| China | 231,780 |
| | ----- |
| Total | \$ 543,064 |
| | ===== |

On January 16, 2004, we consummated a securities purchase agreement

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under which we agreed to issue \$2,000,000 stated value of our newly created Series A 6% Cumulative Convertible Preferred Stock to several institutional investors. The stated value of the Series A 6% Cumulative Convertible Preferred Stock is \$10.00 per share. We had sold 200,000 Series A 6% Cumulative Preferred shares for net proceeds of \$1,902,475. We are using these proceeds for working capital purposes and to seek acquisition candidates. We do not intend to sell any more Series A shares.

Net cash used in operations was \$(1,055,940) for the three months ended December 31, 2004 as compared to net cash used in operations of \$(6,694) for the three months ended December 31, 2003. For the three months ended December 31, 2004 we used cash to fund our net loss of \$1,144,716 and recorded income from the receipt of marketable securities for services of \$114,000 offset by non-cash items such as stock-based compensation of \$340,577, depreciation and amortization expense of \$19,322, and settlement expense of \$232,533, as well as changes in assets and liabilities of \$(388,861). For the three months ended December 31, 2003, we used cash to fund our net loss of \$138,752, recorded non-cash revenue from the receipt of marketable securities for services rendered of \$27,332 and from settlement income of \$196,650, and a gain on sale of marketable securities of \$1,924 offset by non-cash items such as stock-based compensation of \$282,798 and depreciation and amortization expense of \$6,306 as well as changes in assets and liabilities of \$67,897.

Net cash used in investing activities for the three months ended December 31, 2004 was \$2,778 as compared to net cash provided by investing activities for the three months ended December 31, 2003 of \$169,960. For the three months ended December 31, 2004, we used cash for capital expenditures of \$2,778. For the three months ended December 31, 2003, we received cash from the sale of marketable securities of \$176,008 offset by cash used for capital expenditures of \$(6,048).

Net cash used in financing activities was \$76,957 for the three months ended December 31, 2004 as compared to net cash provided by financing activities of \$314,197 for the three months ended December 31, 2003. For the three months ended December 31, 2004, net cash used in financing activities related primarily to the repayment of related party advances of \$97,940 offset by proceeds received from the exercise of stock options of \$20,983. For the three months ended December 31, 2003, net cash provided by financing activities related to proceeds from related party advances of \$14,197 and proceeds from the exercise of stock options of \$300,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

We currently have no material commitments for capital expenditures except that on December 17, 2004, our subsidiary, Extrema, entered into a real estate agreement. Currently, Extrema occupies a 4,800 square foot office/warehouse condominium located in Miami, Florida. On December 17, 2004, Extrema entered into a real estate agreement with Grupo Akkar LLC ("Seller"), whereby Extrema may purchase this 4,800 square foot office/warehouse condominium for \$790,000 on or before June 17, 2005. The property is currently being used by Extrema for their office and warehouse space. In connection with this agreement, Extrema paid an initial earnest deposit of \$15,000. Extrema is required to pay an additional \$5,000 per month in earnest deposit to the seller. The earnest money is non-refundable. At the time of closing, which is conditional upon Extrema securing funding, closing, Extrema shall pay to the seller an amount equal to the purchase price, minus the sum of the earnest deposit, plus or minus closing costs. In the event that Extrema does not close, Extrema will forfeit all earnest deposits and may need to vacate premises. We are currently seeking

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funding for this transaction. However, as of the date of this report, no financing has been secured.

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.

CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is included in Note 1 to the audited consolidated financial statements included in our filing on Form 10-KSB as filed with the Securities and Exchange Commission for the year ended September 30, 2004. Management believes that the application of these policies on a consistent basis enables the Company to provide useful and reliable financial information about the company's operating results and financial condition.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

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

Marketable equity securities consist of investments in equity of publicly traded and non-public domestic companies and are stated at market value based on the most recently traded price of these securities at December 31, 2004. All marketable securities are classified as available for sale at December 31, 2004. 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.

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RECENT ACCOUNTING PRONOUNCEMENTS

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

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151 "Inventory Costs". This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement will be effective for the Company beginning with its fiscal year ending 2006. The Company is currently evaluating the impact this new Standard will have on its operations, but believes that it will not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 153 "Exchanges of Non monetary Assets - an amendment of APB Opinion No. 29. This Statement amended APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of this Standard is not expected to have any material impact on the Company's financial position, results of operations or cash flows.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR RESULTS OF OPERATIONS (CONTINUED)

In December 2004, the FASB issued SFAS 123 (revised 2004) "Share-Based Payment". This Statement requires that the cost resulting from all share-based transactions be recorded in the financial statements. The Statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement in accounting for share-based payment transactions with employees. The Statement also establishes fair value as the measurement objective for transactions in which an entity acquires goods or services from non-employees in share-based payment transactions. The Statement replaces SFAS 123 "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees". The provisions of this Statement will be effective for the Company beginning with its fiscal year ending 2007. The Company is currently evaluating the impact this new Standard will have on its financial position, results of operations or cash flows.

OPERATING RISK

(a) Country risk

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

(b) Products risk

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In addition to competing with other computer and electronics equipment companies, the Company competes with larger US companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel. These companies may be able to offer products at a lower price. There can be no assurance that the Company will remain competitive should this occur.

(c) Political risk

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

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

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

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ITEM 3. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for us. Based upon such officers' evaluation of these controls and procedures as of a date within 45 days of the filing of this Quarterly Report, and subject to the limitations noted hereinafter, the Certifying Officers have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in this Quarterly Report is accumulated and communicated to management, including our principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers have also indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Our management, including each of the Certifying Officers, does not expect that our disclosure controls or our internal controls will prevent all error and 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. In addition, 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 a 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 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 override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events,

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and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

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Item 2. Changes in Securities and Use of Proceeds

On October 1, 2004, in connection with an employment agreement, we issued 1,000,000 shares of common stock to an executive. We valued these common shares at the fair market value on the dates of grant of \$.175 per share or \$170,000 based on the trading price of common shares and recorded stock based compensation of \$42,500 and deferred compensation of \$127,500 which will be amortized over the service period.

On November 1, 2004, in connection with two employment agreements, we issued 6,250,000 shares of common stock to executives. We valued these common shares at the fair market value on the dates of grant of \$.115 per share or \$718,750 based on the trading price of common shares and recorded stock-based compensation expense of \$119,792 and deferred compensation of \$598,958 which will be amortized over the service period.

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 and Reports on Form 8-K

(1) Exhibits

| Exhibit Number | Description |
|-------------------|--|
| ----- | ----- |
| 31.1 | Certification by Chief Executive Officer Pursuant to Section 302 |
| 31.2 | Certification by Chief Financial Officer Pursuant to Section 302 |
| 32.1 | Certification by Chief Executive Officer Pursuant to Section 906 |
| 32.2 | Certification by Chief Financial Officer Pursuant to Section 906 |

(2) Reports on Form 8-K

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On December 20, 2004, we reported that we entered entered into a Separation and Severance Agreement ("Agreement") with Dr. James Wang ("Dr.Wang"), Yastock Investment Consulting Company, Limited ("Yastock"), and Shanghai Yastand Information Technology Company, Limited ("Yastand") as of the 13th day of December 2004.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Boca Raton, Florida on February 23, 2005.

GENESIS TECHNOLOGY GROUP, INC.

By: /s/ Gary Wolfson

Gary Wolfson
Chief Executive Officer

By: /s/ Adam Wasserman

Adam Wasserman
Chief Financial Officer

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