

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

CHINA RESOURCES DEVELOPMENT INC  
Form 10-K  
April 16, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

CHINA RESOURCES DEVELOPMENT, INC.

-----  
(Exact name of Registrant as specified in its Charter)

Nevada	0-26046	87-02623643
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

Room 2105, West Tower, Shun Tak Centre,  
200 Connaught Road C., Sheung Wan, Hong Kong  
Telephone: 011-852-2810-7205

-----  
(Address and telephone number of principal executive offices)

Securities registered under Section 12(b) of the Exchange Act: None  
-----

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 par value  
-----

(Title of class)

Indicate by check mark whether the 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 [ X ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

State the aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. (See definition of affiliate in Rule 405, 17 CFR 230.405.): \$1,221,000 as of March 7, 2002.

Note: If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 837,823 shares of

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Common Stock, \$.001 par value (as of March 29, 2002).

DOCUMENTS INCORPORATED BY REFERENCE: None.

### CONVENTIONS

Unless otherwise specified, all references in this report to "U.S. Dollars," "Dollars," "US\$," or "\$" are to United States dollars; all references to "Hong Kong Dollars" or "HK\$" are to Hong Kong dollars; and all references to "Renminbi" or "Rmb" or "yuan" are to Renminbi yuan, which is the lawful currency of the People's Republic of China ("China" or "PRC"). The Company and Billion Luck maintain their accounts in U.S. Dollars and Hong Kong Dollars, respectively. HARC and its subsidiaries maintain their accounts in Renminbi. The financial statements of the Company and its subsidiaries are prepared in Renminbi. Translations of amounts from Renminbi to U.S. Dollars and from Hong Kong Dollars to U.S. Dollars are for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to U.S. Dollars or from U.S. Dollars to Renminbi have been made at the single rate of exchange as quoted by the People's Bank of China (the "PBOC Rate") on December 31, 2001, which was U.S.\$1.00 = Rmb8.28. Translations from Hong Kong Dollars to U.S. Dollars have been made at the single rate of exchange as quoted by the Hongkong and Shanghai Banking Corporation Limited on December 31, 2001, which was US\$1.00 = HK\$7.80. The Renminbi is not freely convertible into foreign currencies and the quotation of exchange rates does not imply convertibility of Renminbi into U.S. Dollars or other currencies. All foreign exchange transactions take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. No representation is made that the Renminbi or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Renminbi, as the case may be, at the PBOC Rate or at all.

References to "Billion Luck" are to Billion Luck Company Ltd., a British Virgin Islands company, which is a wholly-owned subsidiary of the Company.

References to "Central Government" refer to the national government of the PRC and its various ministries, agencies, and commissions.

References to "Common Stock" are to the Common Stock, \$.001 par value, of China Resources Development, Inc. All per share references to Common Stock have been adjusted to give effect to a one-for-ten reverse split on December 31, 1996, and a one-for-ten reverse split on June 11, 1999.

References to "Company" are to China Resources Development, Inc., and include, unless the context requires otherwise, the operations of its subsidiaries (all as hereinafter defined).

References to "Farming Bureau" are to the Hainan Agricultural Reclamation General Company, a division of the Ministry of Agriculture, the PRC government agency responsible for matters relating to agriculture.

References to "First Supply" are to First Goods And Materials Supply And Sales Corporation, a company organized in the PRC and a wholly-owned subsidiary of HARC.

References to "GAAP" or "U.S. GAAP" are to generally accepted accounting principles of the United States.

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

References to "Guilinyang Farm" are to Hainan Province Guilinyang State Farm, a PRC entity which is owned and controlled by the Farming Bureau.

References to "Hainan" are to Hainan Province of the PRC.

References to "Hainan State Farms" are to the rubber farms in Hainan controlled by the Farming Bureau.

References to "Hainan Weilin" are to Hainan Weilin Timber Limited Liability Company, a limited liability company organized in the PRC, whose capital was owned 58% by HARC. On April 30, 2001, HARC disposed of its 58% interest in Hainan Weilin to the Farming Bureau.

-2-

References to "HARC" are to Hainan Cihui Industrial Company Limited (formerly known as Hainan Zhongwei Agricultural Resources Company Limited), a Sino-foreign joint stock company organized in the PRC, and is a wholly-owned subsidiary of the Company. The Company, through Billion Luck, acquired the remaining 39% interest in HARC from the Farming Bureau on April 30, 2001.

References to "Local Governments" are to governments in the PRC, including governments at all administrative levels below the Central Government, including provincial governments, governments of municipalities directly under the Central Government, municipal governments, county governments, and township governments.

References to "Medi-China" are to Zhongwei Medi-China.com Limited, a Hong Kong company and a wholly-owned subsidiary of Silver Moon

References to the "PRC" or "China" include all territory claimed by or under the control of the Central Government, except Hong Kong, Macau, and Taiwan.

References to "PRC Government" include the Central Government and Local Governments.

References to "Provinces" include provinces, autonomous regions, and municipalities directly under the Central Government.

References to "Restructuring Agreements" are to the Shareholders' Agreement on Business Restructuring among Billion Luck, the Farming Bureau and the Company, and the Assets and Staff Transfer Agreement among HARC, First Supply, Second Supply, Sales Centre and the Farming Bureau, both of which were effective as of January 1, 2000.

References to "Sales Centre" are to Rubber Sales Centre, a company organized in the PRC and a wholly-owned subsidiary of HARC.

References to "Second Supply" are to Second Goods And Materials Supply And Sales Corporation, a company organized in the PRC and a wholly-owned subsidiary of HARC.

References to "Series A Preferred Stock" are to the Company's Series A Preferred Stock, \$1.00 par value, of which no shares are outstanding.

References to "Series B Convertible Preferred Stock" are to the Company's formerly designated series B convertible preferred stock, \$.001 par value, of which no shares are outstanding and which is no longer so designated.

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

References to "Series B Preferred Stock" are to the Company's Series B Preferred Stock, \$.001 par value, of which 320,000 shares are outstanding.

References to "Silver Moon" are to Silver Moon Technologies Limited, a British Virgin Islands company, whose capital is 80% owned by the Company.

References to "Zhongwei Trading" are to Hainan Zhongwei Trading Company Limited, a company organized in the PRC, whose capital is owned 95% by HARC and 5% by Billion Luck.

References to "Zhuhai Zhongwei" are to Zhuhai Zhongwei Development Company Limited, a company organized in the PRC and a wholly-owned subsidiary of HARC.

### FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements. Those statements appear in a number of places in this report and include, without limitation, statements regarding the intent, belief and current

-3-

expectations of the Company, its directors or its officers with respect to the Company's policies regarding investments, dispositions, financings, conflicts of interest and other matters; and trends affecting the Company's financial condition or results of operations. Any such forward-looking statement is not a guarantee of future performance and involves risks and uncertainties, and actual results may differ materially from those in the forward-looking statement as a result of various factors. The accompanying information contained in this report, including without limitation the information set forth above and the information set forth under the heading, "Management's Discussion and Analysis of Results of Operations and Financial Condition," identifies important factors that could cause such differences. With respect to any such forward-looking statement that includes a statement of its underlying assumptions or bases, the Company cautions that, while it believes such assumptions or bases to be reasonable and has 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, the Company, or its management, expresses 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.

-4-

### PART I

[Item 1]

BUSINESS

GENERAL

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

The Company was incorporated as Magenta Corp. on January 15, 1986, in the State of Nevada. The Company was formed to acquire businesses that would provide a profit to the Company. The Company had no operating business until control of it was acquired in December, 1994, by the former shareholders of Billion Luck, who exchanged all of the issued and outstanding shares of capital stock of Billion Luck for 108,000 shares of the Company's Common Stock. As a result of the acquisition, the former shareholders of Billion Luck acquired 90% of the issued and outstanding shares of the then outstanding Common Stock of the Company, and the Company became the owner of all the outstanding shares of capital stock of Billion Luck.

Billion Luck was incorporated in the British Virgin Islands on December 14, 1993. HARC was established in Hainan Province, the People's Republic of China, by Billion Luck, Guilinyang Farm, and the Farming Bureau. Pursuant to an approval document dated March 16, 1997, issued by the Hainan Provincial Securities Management Office, the name of HARC was changed from "Hainan Agricultural Resources Company Limited" to "Hainan Zhongwei Agricultural Resources Company Limited." Pursuant to another approval document dated October 9, 2001, the name of HARC was changed to "Hainan Cihui Industrial Company Limited."

HARC is a Chinese company incorporated on June 28, 1994, with a registered capital of Rmb100 million (US\$12.08 million). Billion Luck made a cash contribution of Rmb56 million (US\$6.76 million) to purchase a 56% interest in HARC. The remaining interests in HARC were acquired by Guilinyang Farm (5%) for a cash contribution of Rmb5 million (US\$0.60 million) and by the Farming Bureau (39%) through the contribution of its interests in two of its subsidiaries, First Supply and Second Supply, which were valued at Rmb39 million (US\$4.71 million). Pursuant to an agreement dated January 31, 1994, between Billion Luck, Guilinyang Farm, and the Farming Bureau, the parties thereto agreed to establish HARC to act as the holding company of First Supply and Second Supply. Pursuant to an Agreement for the Sale and Purchase of Share in HARC dated April 30, 1998 between Guilinyang Farm and the Company, the Company purchased 5,000,000 shares, representing 5% of the total issued and outstanding share capital of HARC, from Guilinyang Farm for consideration of Rmb7 million (US\$0.85 million). On April 30, 2001, Billion Luck, through its nominees, acquired the remaining 39% equity interest in HARC from the Farming Bureau for total consideration of Rmb129.4 million (US\$15.6 million). Following the acquisitions, HARC became an indirect wholly-owned subsidiary of the Company.

Before January 1, 2000, the Company's two primary businesses were the marketing and distribution of natural rubber and the procurement of production materials, supplies and other agricultural products. The Company, through HARC, First Supply and Second Supply, purchased natural rubber produced by the Hainan State Farms and sold the natural rubber to customers throughout the PRC, such as tire manufacturers, rubber processing plants, and import and export companies. As part of its risk management strategy, the Company, through HARC, First Supply and Second Supply, entered into commodity futures contracts to hedge against the exposure to price risk associated with existing inventories and certain firm commitments for the purchase of natural rubber. The Company also entered into natural rubber commodity futures contracts that were not specific hedges, in anticipation of a rise or fall in the price of natural rubber, based on their knowledge of the supply and demand situation with respect to natural rubber in the PRC. In addition, First Supply and Second Supply procured, for the Farming Bureau, the Hainan State Farms and other affiliated customers, many types of production materials, such as automobiles, farm equipment, fuel, and chemicals, as well as for other customers unaffiliated with the Farming Bureau. Pursuant to a Shareholders' Agreement on Business Restructuring dated March 3, 2000 among the Company, Billion Luck and the Farming Bureau, the natural rubber distribution business and the procurement of materials and supplies business of HARC, First Supply and Second Supply ceased effective as of January 1, 2000. The performance of natural rubber distribution and the materials and supplies

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

procurement business had been declining since 1998. Management believed that the poor operating environment for these businesses would persist for the foreseeable future. Management therefore determined that it was in the best interest of the Company to cease the operations of these two businesses. The cessation was expected to reduce selling and administrative expenses and improve operating and management efficiency, allowing management to focus on exploring other investment opportunities.

-5-

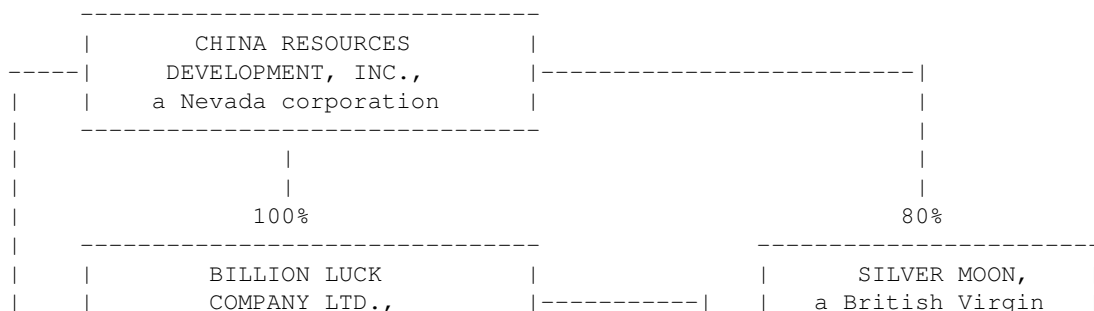
Zhongwei Trading was incorporated on September 28, 1998, with a registered capital of Rmb5 million (US\$0.60 million). Zhongwei Trading is owned 95% by HARC and 5% by Billion Luck. Since its commencement of operation in 1999, Zhongwei Trading has invested in the marketable securities in the China Stock Market as short-term investments. As opportunities arise, Zhongwei Trading may expand its trading to include other products.

Zhuhai Zhongwei, was incorporated on May 18, 1999, with a registered capital of Rmb6 million (US\$0.72 million). Zhuhai Zhongwei is a wholly-owned subsidiary of HARC and is principally engaged in the operation of a supermarket in Zhuhai, PRC, which sells food and daily products.

Hainan Weilin, incorporated on June 22, 1999 with a registered capital of Rmb8.56 million (US\$1.03 million), was principally engaged in the sale of processed timber wooden blocks. Hainan Weilin was owned 58% by HARC. On April 30, 2001, HARC disposed of its 58% interest in Hainan Weilin to the Farming Bureau for a consideration of Rmb3.8 million (US\$0.46 million).

Silver Moon is a British Virgin Islands company incorporated on March 24, 2000. The principal business of Silver Moon and its wholly-owned subsidiary, Medi-China (formerly known as Sky Creation Technology Limited), a Hong Kong company incorporated on October 15, 1999, is to provide online Internet healthcare content, through its website, [medi-china.com](http://medi-china.com), which offers health-related content in both English and Chinese, with a focus on Chinese herbal medicine and therapies. On June 30, 2000, the Company acquired an 80% equity interest in Silver Moon for total consideration of US\$1.5 million through the issuance of 244,897 shares of unregistered restricted common stock to Silver Moon's former sole equity owner, E-link Investment Limited. The number of shares issued was based upon a per share price of US\$6.125, which was the closing bid price of the Company's common stock as quoted on the Nasdaq SmallCap Market on June 29, 2000. In March 2001, E-link Investment Limited sold its equity position in the Company to Anka Capital Ltd., a corporation related to the Company through common directors (see "Directors and Executive Officers of the Registrant"). For the years ended December 31, 2000 and 2001, neither Silver Moon nor Medi-China has contributed to the Company's revenues.

The following chart illustrates the equity ownership by percentage of each of the Company's principal operating subsidiaries as of December 31, 2001:



## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

a British Virgin Islands	Islands company	
company	-----	
-----		
95%	100%	
-----	-----	
5%   HAINAN CIHUI INDUSTRIAL-		
COMPANY. LTD. ("HARC"),		
a PRC company		
-----		
100%	95%	
-----	-----	
ZHUHAI	ZHONGWEI TRADING,	5%
ZHONGWEI,	a PRC company	-----
a PRC company		
-----		

### ORGANIZATIONAL AND MANAGEMENT STRUCTURE OF HARC

During the first quarter of 2000, HARC undertook a restructuring plan, including cessation of the operations of its two primary businesses, the marketing and distribution of natural rubber and the procurement of production

-6-

materials, supplies and other agricultural products, which were originally conducted through its subsidiaries, First Supply, Second Supply and Sales Centre. Under the restructuring plan, the operations of First Supply, Second Supply and Sales Centre ceased and the assets, liabilities and staff related thereto were conveyed to the Farming Bureau, effective as of January 1, 2000. The purchase price was the book value or the fair value of the net assets transferred, as determined by an independent valuer, as of December 31, 1999, whichever was lower. After the restructuring plan, First Supply, Second Supply and Sales Centre became dormant.

In connection with the restructuring, HARC established several new lines of businesses, including supermarket operations (through Zhuhai Zhongwei) and the sale of processed timber wooden blocks (through Hainan Weilin). However, the scale of operation of the new businesses remained relatively small in 2000 and 2001. In light of economic conditions, lack of productivity and unprofitable operations, the Company ceased timber processing operations in connection with the disposition of its 58% interest in Hainan Weilin to the Farming Bureau on April 30, 2001.

HARC has a two-tier structure, consisting of a board of directors and a supervisory committee. The board of directors is responsible for the day-to-day management of and all major decisions relating to HARC (except decisions that may be made by HARC's shareholders during a general meeting of the shareholders). The board of directors is also responsible for exploring business opportunities and making investment decisions. The supervisory committee is responsible for supervising the board of directors and the senior management of HARC in order to prevent the abuse of rights and infringement of the interests of HARC and its shareholders and employees. Among other responsibilities, members of the supervisory board attend meetings of the board of directors and observe HARC's managers to ensure that their acts do not contravene any laws or regulations or HARC's articles of association or the resolutions of HARC's shareholders in meetings thereof. As of December 31, 2001, the board of

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

directors and the supervisory board were made up of 5 and 3 members, respectively.

As of December 31, 2001, the Company's only active operations consisted of its supermarket business.

### INDUSTRY SEGMENTS

In conformity with Item 101(b) of Regulation S-K, the following table sets forth the audited historical financial information related to Industry Segments (amounts in thousands). For the year ended December 31, 1999, the Company had two main reportable segments, marketing and distribution of natural rubber and the procurement of production material, supplies and other agricultural products businesses, ceased as of January 1, 2000. The reportable segments for the year ended December 31, 2000 were supermarket operations and sale of processed timber, the latter of which ceased as of April 30, 2001. Notwithstanding the cessation of natural rubber operations in early 2000, during the year ended December 31, 2001, the Company engaged in trading of natural rubber occasionally, depending on market conditions. See Financial Statements and Notes included therein attached as Appendix A hereto.

	Year Ended December 31,			
	1999	2000	2001	2001
	----- (Rmb)	----- (Rmb)	----- (Rmb)	----- (US\$)
Net sales to external customers:				
Natural rubber:				
Net sales to unaffiliated customers	442,841	--	4,093	494
	-----	-----	-----	-----
	442,841	--	4,093	494
	-----	-----	-----	-----
Materials, supplies and other agricultural products:				
Net sales to unaffiliated customers	9,120	306	--	--
Net sales to affiliates	23,718	--	--	--
	-----	-----	-----	-----
	32,838	306	--	--
	-----	-----	-----	-----
Supermarket operations:				
Net sales to unaffiliated customers	688	5,253	5,999	725
	-----	-----	-----	-----

-7-

	Year Ended December 31,			
	1999	2000	2001	2001
	-----	-----	-----	-----



Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

	(Rmb)	(Rmb)	(Rmb)	(US\$)
	688	5,253	5,999	725
	-----	-----	-----	-----
Total consolidated net sales	476,367	5,559	10,092	1,219
	=====	=====	=====	=====
Depreciation and amortization expenses:				
Natural rubber	723	--	--	--
Materials, supplies and other agricultural products	333	280	--	--
Supermarket operations	7	119	143	17
	-----	-----	-----	-----
Total segment depreciation and amortization expenses	1,063	399	143	17
Reconciling item:				
Depreciation and amortization expenses attributable to corporate assets	28	3,451	7,367	890
	-----	-----	-----	-----
Total consolidated depreciation and amortization expenses	1,091	3,850	7,510	907
	=====	=====	=====	=====
Segment profit/(loss):				
Natural rubber	5,634	--	(157)	(19)
Materials, supplies and other agricultural product	3,040	10	--	--
Supermarket operations	32	453	417	50
	-----	-----	-----	-----
Total segment profit/(loss)	8,706	463	260	31
Reconciling items:				
Corporate expenses	(14,971)	(26,341)	(31,307)	(3,782)
Interest income	944	11,749	1,537	185
Interest expenses	(1)	(73)	(229)	(28)
	-----	-----	-----	-----
Total consolidated loss before income taxes and discontinue operations	(5,322)	(14,202)	(29,739)	(3,593)
	=====	=====	=====	=====
Segment assets:				
Natural rubber	115,651	--	--	--
Materials, supplies and other agricultural product	105,631	--	--	--
Supermarket operations	6,290	6,416	6,895	833
	-----	-----	-----	-----
Total segment assets	227,572	6,416	6,895	833
Reconciling item:				
Corporate assets	58,193	135,091	40,707	4,918
Investments	117,808	184,374	109,615	13,244
Intersegment receivables	(26,477)	--	--	--
Assets of discontinued timber segment	--	7,303	--	--
	-----	-----	-----	-----

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Total consolidated assets	377,096	333,184	157,217	18,995
	=====	=====	=====	=====
Expenditure for additions to long-lived assets:				
Natural rubber	--	--	--	--
Materials, supplies and other agricultural products	54	--	--	--
Supermarket operations	4,223	387	79	9
	-----	-----	-----	-----

-8-

	Year Ended December 31,			
	1999	2000	2001	2001
	-----	-----	-----	-----
	(Rmb)	(Rmb)	(Rmb)	(US\$)
Total segment expenditure for additions to long-lived assets	4,277	387	79	9
Reconciling item:				
Corporate assets	557	2,718	586	71
Discontinued timber segment	1,326	3,250	--	--
	-----	-----	-----	-----
Total consolidated expenditure for additions to long-lived assets	6,160	6,355	665	80
	=====	=====	=====	=====

SUPERMARKET OPERATIONS

The Company, through Zhuhai Zhongwei, has been engaged in the supermarket operations since the fourth quarter of 1999. The supermarket which Zhuhai Zhongwei operates is located in Zhuhai City of Guangdong Province. The supermarket sells more than 10,000 consumer products to customers in the PRC.

Zhuhai Zhongwei maintains numerous suppliers for its sources of consumer products, and no single supplier accounted for more than 10% of total purchases of consumer products in 1999, 2000 and 2001. For the year ended December 31, 2001, Zhuhai Zhongwei had approximately 130 suppliers which supplied a wide variety of products, including fresh meat, fruits and grocery, sanitary products, canned drink and food, snacks, frozen food, fast food, cigarettes, phone cards, wine, etc. The value of total purchases of consumer products was approximately Rmb571,000 (US\$69,000), Rmb4.3 million (US\$519,000) and Rmb4.9 million (US\$592,000) in 1999, 2000 and 2001, respectively. The top five suppliers accounted for approximately 28%, 24% and 18% of total purchases in 1999, 2000 and 2001, respectively. Zhuhai Zhongwei has not entered any long-term purchase arrangement with any supplier. However, Zhuhai Zhongwei does not anticipate that it will incur difficulties in the sourcing of its products. All purchases were made locally in Renminbi on either a cash basis or open

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

account basis payable within 7 to 30 days.

Zhuhai Zhongwei targets the residents of Zhuhai City as its customers and, due to the nature of retail business, no single customer accounted for more than 5% of total revenues from the sales of consumer products in 1999, 2000 and 2001. All sales from the supermarket operations are paid in Renminbi, on a cash basis.

The retailing business is not seasonal in nature, although a slightly higher proportion of sales are recorded in summer when cold drinks and fresh fruits are in larger demand.

Zhuhai Zhongwei faces severe competition in its supermarket operations. There are several large chain supermarkets in Zhuhai City, all of which operate in larger quarters and offer greater products choice. Accordingly, these supermarkets generally offer competitive prices to their customers due to bulk purchases and economy of scale. Zhuhai Zhongwei also faces competition from convenience stores. As the supermarket which Zhuhai Zhongwei operates is located in an upscale residential area where the residents seek higher quality products and services, management believes that the competitive advantages of Zhuhai Zhongwei rest on its ability to source high quality products and provide better services.

As at December 31, 2001, Zhuhai Zhongwei had a total of 31 employees as follows:

Accounting, administration and management	6
Purchasing and supplies	16
Cashier	4
Others	5
	----
	31

-9-

### PROCESSED TIMBER

The Company, through Hainan Weilin, engaged in the processing and sale of timber with an annual production capacity of 5,000 cubic meters. The processing factory operated from early 2000 through October 2000 at only one third of its full capacity. Due to the high cost of production, in part due to limited sources of supply of raw materials, and generally poor market condition, the Company formally ceased processed timber operations following the disposition of its 58% interest in Hainan Weilin to the Farming Bureau in April 2001.

### INTERNET BUSINESS

The Company has entered information technology market through its acquisition of an 80% equity interest in Silver Moon on June 30, 2000. The principal business of Silver Moon, and its wholly-owned subsidiary, Medi-China, is the provision of online Internet healthcare content, with a focus on Chinese herbal medicine and therapies. In light of the global economic downturn and pessimism towards the technology section for Internet related products and services, management is aware that Silver Moon and Medi-China will have to wait patiently for a full economic recovery. In view of the uncertainty lying ahead, the Company has adopted a cautious and prudent approach to control costs and minimize risks. Currently, the Company has no plan to put in extra resources to

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

the website, hoping to maintain only sufficient resources to ride through the fragile economic situation, and to be ready to grasp potential opportunities when the e-commerce industry stabilizes and demonstrates signs of revival.

### PRC LEGAL SYSTEM

Since 1979, many laws and regulations addressing economic matters in general have been promulgated in the PRC. Despite development of its legal system, the PRC does not have a comprehensive system of laws. In addition, enforcement of existing laws may be uncertain and sporadic, and implementation and interpretation thereof inconsistent. The PRC judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in the PRC, it may be difficult to obtain swift and equitable enforcement of such law, or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC's legal system is based on written statutes and, therefore, decided legal cases are without binding legal effect, although they are often followed by judges as guidance. The interpretation of PRC laws may be subject to policy changes reflecting domestic political changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. The trend of legislation over the past 20 years has, however, significantly enhanced the protection afforded foreign investors in enterprises in the PRC. However, there can be no assurance that changes in such legislation or interpretation thereof will not have an adverse effect upon the business operations or prospects of the Company.

The activities of the Company's principal subsidiaries in China are by law subject, in some cases, to administrative review and approval by various national, provincial, and local agencies of the Chinese government. In particular, the realization of the Company's future investment plans in China will also be subject to PRC government approvals.

[Item 2]

### PROPERTIES

The Company's administrative offices, supermarket, timber processing factory and other facilities of HARC and its principal subsidiaries are located in Hong Kong, Hainan, Zhuhai and Shenzhen in the PRC.

Pursuant to an office sharing agreement dated September 1, 2000, the Company's head office in Hong Kong is shared on an equal basis between the Company and Anka Consultants Limited, a private Hong Kong company which is owned by certain directors of the Company. The lease is for a period of 2 years from September 1, 2000 to

-10-

August 31, 2002. The total area of the office is approximately 230 square meters. For the years ended December 31, 2000 and 2001, the Company paid rental expenses to Anka Consultants Limited amounted to HK\$46,000 (US\$6,000) and HK\$276,000 (US\$35,000), respectively. The office sharing agreement also provides that the Company share certain costs and expenses in connection with its use of the office.

In 1994, the Farming Bureau entered into a rental agreement with HARC with respect to the rental of a portion consisting of 532 square meters of a building in Hainan, in which HARC's offices were located. Such rental agreement

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

was for a period of 10 years at an annual rental of Rmb170,240 (US\$20,560) payable in equal semi-annual installments. On July 1, 2001, pursuant to mutual agreement, both parties agreed to terminate the rental agreement. On May 30, 2001, a rental agreement was entered into between HARC and Haikou Nanyang Building Co. Ltd., an unaffiliated third party, with respect to the rental of office space in Hainan with a total gross area of 138 square meters. The rental agreement is for a period of 1 year from June 4, 2001 to June 3, 2002 at a monthly rental of Rmb4,131 (US\$499). HARC plans to renew the lease for another year upon its termination in June 2002.

The structure and building in respect of the supermarket which the Company operates is owned by Zhuhai Zhongwei, the Company's wholly-owned subsidiary, with a total gross area of 720 square meters. The structure and building in respect of the timber processing business was rented by Hainan Weilin from Haikou Mechanical Factory for a period of 1 year ended on November 1, 2000 with a total gross area of 7,000 square meters at an annual rental of Rmb400,000 (US\$48,000).

HARC also maintains a branch office in Shenzhen with a total gross area of 708 square meters. The rental agreement is for a period of 8 years from December 1, 1999 to December 1, 2007 at an annual rental of Rmb509,540 (US\$61,538).

### [Item 3] LEGAL PROCEEDINGS

There are no legal proceedings pending or threatened against the Company or any of its subsidiaries as of December 31, 2001.

### [Item 4] SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 12, 2001, the Company held its annual meeting of shareholders, at which a quorum of shares held of record on October 31, 2001 were present in person or represented by proxy, and the following proposals by the Board of Directors were approved by the holders of a majority of the outstanding shares of the Company:

1. the election of Ching Lung Po and Ng Kin Sing to serve as directors in Class II (1,034,812 votes for, 1,138 abstentions); and
2. the ratification of the appointment of Ernst & Young as the Company's independent accountants for the fiscal year ending December 31, 2001 (1,035,503 votes for, 417 votes against, 30 abstentions).

## PART II

### [Item 5] MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted on the electronic inter-dealer quotation system operated by The Nasdaq Stock Market, Inc. ("The Nasdaq Stock Market"), a subsidiary of the National Association of Securities Dealers, Inc. ("NASD"), in the category of Small Cap Issues. Since August 7, 1995, the Company's Common Stock has traded on The Nasdaq Stock Market under the symbol "CHRB." Prior to such date, the Company's Common

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Stock was traded in the over-the-counter market on the OTC Bulletin Board operated by the NASD under the symbol "CEVL." Until August 7, 1995, there was only a limited trading market for the Company's Common Stock. The following table sets forth the high and low bid prices for the Company's Common Stock as reported by The Nasdaq Stock Market for each fiscal quarter of 2000 and 2001. The bid prices are inter-dealer prices, without retail markup, markdown or commission, and may not necessarily reflect actual transactions. All of the below quotations were obtained from Bloomberg Business News, and the quotations have been adjusted to give retroactive effect to the one-for-ten reverse stock split that was effective as of June 11, 1999:

Period -----	High Bid -----	Low Bid -----
2000 Fiscal Year, quarter ended:		
March 31, 2000.....	\$10.1	\$7.2
June 30, 2000.....	17.8	3.9
September 30, 2000.....	6.4	4.8
December 31, 2000.....	4.8	2.6
2001 Fiscal Year, quarter ended:		
March 31, 2001.....	\$3.84	\$2.38
June 30, 2001.....	3.15	2.51
September 30, 2001.....	3.71	2.55
December 31, 2001.....	3.00	2.15

On March 29, 2002, there were 300 holders of record of the Company's Common Stock.

The Company has not paid any dividends with respect to its Common Stock and has no present plan to pay any dividends in the foreseeable future. The Company intends to retain its earnings to support the growth and expansion of its business.

Any dividends paid in the future by the Company will be paid at the discretion of the Company's Board of Directors and will be dependent upon distributions, if any, made by HARC to the Company's wholly-owned subsidiary, Billion Luck. Applicable PRC law and HARC's Articles of Association (the "Articles") require that, before HARC, as a limited joint stock company, distributes profits to investors, it must (1) satisfy all taxes; (2) provide for all losses incurred in previous years; and (3) allocate a specified percentage of remaining profits to each of the following: a surplus reserve (in the amount of 10% of such remaining profits), a collective welfare fund (in the amount of 10% of such remaining profits), and an incentive fund (in an amount between 5% and 10% of such remaining profits). The Articles provide that the foregoing may be adjusted by HARC'S board of directors based upon HARC's business performance and development needs, subject to the approval of HARC's shareholders. In addition to the foregoing, any future determination to pay a dividend to holders of shares of Common Stock will depend on the Company's results of operations, its financial condition and other factors deemed relevant by the Board of Directors. Since the acquisition of Billion Luck by the Company in December 1994, the Company has not received any distributions from any of its subsidiaries and has not made any distributions to its shareholders.

[Item 6]

### SELECTED FINANCIAL DATA

The following table sets forth selected financial data of the Company and its subsidiaries. The selected historical consolidated financial data in the table for the Company's five fiscal years ended December 31, 1997, 1998, 1999, 2000 and 2001, are derived from the consolidated financial statements elsewhere herein. The data should be read in conjunction with, and are qualified in their

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

entirety by reference to, "Management's Discussion and Analysis of Results of Operations and Financial Condition", the Consolidated Financial Statements of the Company and related Notes thereto, and other financial information contained elsewhere herein.

-12-

	In Thousands, Except Per Share Amounts				
	Year Ended December 31,				
	1997	1998	1999	2000	2001
	(Rmb)	(Rmb)	(Rmb)	(Rmb)	(Rmb)
INCOME STATEMENT DATA					
Net sales	1,149,171	527,692	476,367	5,559	1,149,171
Cost of sales	(1,092,972)	(510,631)	(468,021)	(5,096)	(1,092,972)
Gross Profit	56,199	17,061	8,346	463	56,199
Depreciation	(1,429)	(1,343)	(1,085)	(942)	(1,429)
Amortization	--	--	--	(2,841)	--
Provision for doubtful accounts	--	(4,740)	--	--	--
Loss on impairment of an investment	--	(49,969)	--	--	--
Loss on disposition of assets	--	--	--	--	(1,429)
Selling, general and administrative expenses	(32,934)	(35,419)	(23,785)	(18,608)	(32,934)
Financial income, net	145	6,590	864	7,871	145
Other income/(expenses), net	30,580	4,070	10,338	(145)	30,580
Income/(loss) from continued operations before income taxes	52,561	(63,750)	(5,322)	(14,202)	52,561
Income taxes	(9,798)	--	--	(2,887)	(9,798)
Income/(loss) from continued operations before minority interests	42,763	(63,750)	(5,322)	(17,089)	42,763
Minority interests	(24,563)	11,079	(1,674)	(4,634)	(24,563)
Income/(loss) from continued operations	18,200	(52,671)	(6,996)	(21,723)	18,200
Discontinued operations:					
Loss on continuing operations of discontinued timber segment	--	--	--	(1,477)	--
Net income/(loss)	18,200	(52,671)	(6,996)	(23,200)	18,200

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

### Earnings/(loss) per share\*

#### Basic

Continuing operations	30.55	(87.91)	(11.80)	(30.37)	
Discontinue operations	--	--	--	(2.06)	
	-----	-----	-----	-----	-----
	30.55	(87.91)	(11.80)	(32.43)	( )
	=====	=====	=====	=====	=====

#### Diluted

Continuing operations	30.46	(87.91)	(11.80)	(30.37)	
Discontinue operations	--	--	--	(2.06)	
	-----	-----	-----	-----	-----
	30.46	(87.91)	(11.80)	(32.43)	( )
	=====	=====	=====	=====	=====

### OTHER FINANCIAL DATA

#### Income/(loss) before income

taxes, minority interests, loss on continuing operations of discontinued timber segment, depreciation and amortization	53,990	(62,407)	(4,231)	(10,352)	(2 )
	=====	=====	=====	=====	=====

### BALANCE SHEET DATA

Current assets	281,692	243,188	248,052	127,646	3
Working capital	217,927	167,851	162,789	79,634	1
Total assets	437,880	370,726	377,096	333,184	15
Current liabilities	63,765	75,337	85,263	48,012	1
Minority interests	133,143	107,945	111,399	115,480	
Total liabilities and minority interests	196,908	183,282	196,662	163,492	1
Shareholders' equity	240,972	187,444	180,434	169,692	13

\* The computation of diluted earnings/(loss) per share did not assume the conversion of the stock option because their inclusion would have been antidilutive.

-13-

[Item 7]

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and related Notes thereto, and other financial information included elsewhere herein. The financial statements of the Company are prepared in conformity with U.S. GAAP.

#### OVERVIEW

#### THE COMPANY

The Company, through HARC, First Supply and Second Supply, previously engaged in marketing and distribution of natural rubber and rubber products produced by the Hainan State Farms and non-state farms in the PRC, procurement of production materials and supplies, including chemicals, farm equipment and machinery, automobiles and other commodities for use primarily by the Hainan State Farms and other unaffiliated customers, and trading in natural rubber



## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

commodity futures contracts. Pursuant to a Shareholders' Agreement on Business Restructuring dated March 3, 2000, among the Company, Billion Luck and the Farming Bureau, the natural rubber distribution business and the procurement of materials and supplies business ceased effective as of January 1, 2000. Pursuant to an Assets and Staff Transfer Agreement dated March 3, 2000, among the Farming Bureau, HARC, First Supply, Second Supply and Sales Centre, the assets, liabilities and staff related to the ceased businesses were transferred to the Farming Bureau effective as of January 1, 2000. The restructuring resulted in the discontinuation of substantially all of the existing operations of the Company as of December 31, 1999. In the fourth quarter of 1999 and the first quarter of 2000, the Company undertook several new lines of businesses as part of the restructuring, including its new supermarket operations and the processed timber operation. On April 30, 2001, the Company, through its nominees, acquired a 39% equity interest in its 61%-owned subsidiary, HARC, from the Farming Bureau. Following the acquisition, HARC became an indirect wholly-owned subsidiary of the Company. Concurrent with the acquisition, HARC entered into several agreements with the Farming Bureau to dispose of certain assets, including its 58% interest in Hainan Weilin. Thereafter, the Company formally ceased its timber processing operation. Because of the restructuring undertaken and the acquisition and disposition of assets by the Company, operating results of prior years are not indicative of the operating results that may be expected in future years.

The Statements under "Results of Operations" and "Liquidity and Capital Resources" relate to the operations and financial condition of the Company and its subsidiaries.

### RESULTS OF OPERATIONS

The following table shows the selected consolidated income statement data of the Company and its subsidiaries for each of the three fiscal years ended December 31, 1999, 2000 and 2001. The data should be read in conjunction with, and qualified in their entirety by reference to, the Consolidated Financial Statements of the Company and related Notes thereto and other financial information included elsewhere therein:

-14-

	Year Ended December 31,			
(In thousands)	1999	2000	2001	2002
	(Rmb)	(Rmb)	(Rmb)	(U.S. Dollars)
	-----	-----	-----	-----
Net sales:				
Natural rubber	442,841	--	4,093	
Materials and supplies and other agricultural products	32,838	306	--	
Supermarket operations	688	5,253	5,999	
	-----	-----	-----	-----
	476,367	5,559	10,092	10,092
Gross profit	8,346	463	260	
Gross profit margin	1.8%	8.3%	2.6%	

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Loss from continuing operations before income taxes	(5,322)	(14,202)	(29,739)	(3)
Income taxes	--	(2,887)	(1,579)	
	-----	-----	-----	-----
Loss from continuing operations before minority interests	(5,322)	(17,089)	(31,318)	(3)
Minority interests	(1,674)	(4,634)	1,198	
	--	--	--	
Loss from continuing operations	(6,996)	(21,723)	(30,120)	(3)
Discontinued operations:				
Loss on continuing operations of discontinued timber segment	--	(1,477)	(24)	
	--	--	--	
Net loss	(6,996)	(23,200)	(30,144)	(3)
	=====	=====	=====	=====

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

### SALES AND GROSS PROFIT- NATURAL RUBBER

Notwithstanding the cessation of natural rubber operations in early 2000, from time-to-time the Company engages in the trading of natural rubber, depending upon management's evaluation of market conditions. The Company had sales of Rmb4.1 million (US\$494,000) and gross loss of Rmb157,000 (US\$19,000) on natural rubber operations in 2001. As a result of a decline in the natural rubber market in the second half of 2001, the Company sold all of its rubber inventories in late 2001, and a loss was recorded.

### SALES AND GROSS PROFIT- MATERIALS, SUPPLIES AND OTHER AGRICULTURAL PRODUCTS

Procurement and sales of materials, supplies and other agricultural products were discontinued effective January 1, 2000. Sales of materials and supplies in 2000 represented the sales of old inventories as of December 31, 1999.

### SALES AND GROSS PROFIT- SUPERMARKET OPERATIONS

Net sales from supermarket operations increased by 14.2% from Rmb5.3 million (US\$634,000) for the year ended December 31, 2000 to Rmb6.0 million (US\$725,000) for the year ended December 31, 2001. For the year ended December 31, 2000, supermarket operations had gross profit and gross profit margin of Rmb0.5 million (US\$55,000) and 8.6%, respectively. For the year ended December 31, 2001, supermarket operations had gross profit and gross profit margin of Rmb0.4 million (US\$50,000) and 6.9%, respectively. The increase in net sales were due to increased sales volume resulting from the successful marketing efforts of the Company.

### SALES AND GROSS PROFIT- PROCESSED TIMBER (DISCONTINUED OPERATIONS)

The timber processing factory had been operated from early 2000 through October 2000 at one third of its

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

full capacity. Due to the high cost of production, as a result of limited sources of supply of raw materials, and the poor market condition, the Company decided to formally cease processed timber operations in 2001. The sale of processed timber had a gross loss of Rmb503,000 (US\$61,000) or 36.1% on sales for the year ended December 31, 2000.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses decreased by Rmb3.4 million (US\$410,000) or 18.3% to Rmb15.2 million (US\$1.8million) in 2001 from Rmb18.5 million (US\$2.3 million) in 2000. The decrease was mainly due to a reduction of salary and rental expenses in HARC resulting from the relocation to a smaller office in mid-2001 and the reduction of headcounts.

### FINANCIAL INCOME, NET

Net financial income decreased from Rmb7.9 million (US\$951,000) in 2000 to Rmb1.3 million (US\$157,000) in 2001. The significant decrease was mainly attributable to interest income earned of Rmb11 million (US\$1.3 million) in 2000 from a short term loan granted to an unaffiliated third party. The interest income was partly offset by a realized currency exchange loss amounted to Rmb3.8 million (US\$459,000), arising from the conversion of Renminbi to Hong Kong dollars. The decrease in interest income earned in 2001 was mainly due to the decrease in cash and cash equivalents.

### OTHER INCOME/(EXPENSES), NET

Net other income/(expenses) increased by Rmb7.5 million (US\$905,000) to net income of Rmb7.3 million (US\$888,000) in 2001 from net expenses of Rmb145,000 (US\$18,000) in 2000. Net other income in 2001 mainly consisted of a net gain on trading of marketable securities of Rmb7.1 million (US\$852,000) and a premium earned on written call option of Rmb3.2 million (US\$384,000), which was partly offset by the write off of acquired website technology of Rmb2.9 million (US\$350,000). Net other expenses in 2000 included the net gain on trading of marketable securities of Rmb1.5 million (US\$183,000) and loss on disposal of property and equipment of Rmb1 million (US\$121,000).

### INCOME TAXES

It is management's intention to reinvest all the income attributable to the Company earned by its operations outside the US. Accordingly, no US federal and state income taxes have been provided in these consolidated financial statements.

Income taxes consist of PRC federal income tax computed at 15% on assessable income for foreign investment enterprises operating in Hainan.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

### SALES AND GROSS PROFIT- MATERIALS, SUPPLIES AND OTHER AGRICULTURAL PRODUCTS

Procurement and sales of materials, supplies and other agricultural products were discontinued effective January 1, 2000. Sales of materials and supplies in 2000 represented the sales of old inventories as of December 31, 1999.

### SALES AND GROSS PROFIT- SUPERMARKET OPERATIONS

The significant increase in sales was mainly due to the supermarket operations commenced during the fourth quarter of 1999. There was a full year operations in 2000. Supermarket operations had gross profit and gross profit

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

margin of Rmb0.5 million (US\$55,000) and 8.6%, respectively, for the year ended December 31, 2000.

-16-

### SALES AND GROSS PROFIT- PROCESSED TIMBER

Processed timber operations were set up in early 2000 and, therefore, there was no sales in 1999. The sale of processed timber had a gross loss of Rmb503,000 (US\$61,000) or 36.1% on sales for the year ended December 31, 2000, as the processing factory was only operated at one-third of its full capacity during 2000.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses decreased by Rmb5.2 million (US\$633,000) or 22.0% to Rmb18.5 million (US\$2.2 million) in 2000 from Rmb23.8 million (US\$2.9 million) in 1999. The decrease was mainly due to the reduction of sales activities in 2000.

### FINANCIAL INCOME, NET

Net financial income increased from Rmb864,000 (US\$104,000) in 1999 to Rmb7.9 million (US\$951,000) in 2000. The significant increase was mainly attributable to interest income earned of Rmb11 million (US\$1.3 million) in 2000 from a short term loan granted to an unaffiliated third party. The interest income was partly offset by a realized currency exchange loss amounted to Rmb3.8 million (US\$459,000), arising from the conversion of Renminbi to Hong Kong dollars.

### OTHER INCOME/(EXPENSES), NET

Other income decreased by Rmb10.5 million (US\$1.3 million) to net expenses of Rmb145,000 (US\$18,000) in 2000 from net income of Rmb10.3 million (US\$1.2 million) in 1999. Other income in 1999 represented the recovery of a margin deposit paid to a future broker of Rmb3 million (US\$362,000) which was provided for in 1998, dividend income from the Company's long-term investment that amounted to Rmb6.7 million (US\$809,000) and a net gain on trading of marketable securities. Net expenses in 2000 mainly represented the net gain on trading of marketable securities of Rmb1.5 million (US\$183,000) and loss on disposal of property and equipment of Rmb1 million (US\$121,000).

### INCOME TAXES

It is management's intention to reinvest all the income attributable to the Company earned by its operations outside the US. Accordingly, no US federal and state income taxes have been provided in these consolidated financial statements.

Income taxes consist of PRC federal income tax computed at 15% on assessable income for foreign investment enterprises operating in Hainan.

### SIGNIFICANT ACCOUNTING POLICIES

Our financial statements reflect the selection and application of accounting policies which require management to make significant estimates and

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

assumptions. We believe that the following are some of the more significant judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

### IMPAIRMENT OF INTANGIBLE ASSETS

Whenever events or changes in circumstances indicate that the carrying values of our intangible assets may be impaired, management performs an analysis to determine the recoverability of the asset's carrying value. Intangible assets consisted of acquired website technology which was amortized on the straight-line basis over two years. Management's analysis indicated that the carrying value of the acquired website technology was not recoverable from future cash flows. The Company therefore wrote off the balance of unamortized acquired website technology of Rmb2,936,000 (US\$355,000) as of December 31, 2001 to the statement of operations.

-17-

### DEFERRED TAX ASSETS

The Company is required to assess the ultimate realization of deferred tax assets generated from net operating loss carryforwards. This assessment takes into consideration of the availability and character of future taxable income. As management estimates that there will be no taxable income generated for the foreseeable future, no deferred tax assets are recognized in the financial statements.

### REVENUE RECOGNITION

Revenue from product sales is recognized at the point of sale for retail sales and upon the delivery of goods for other sales, when all performance obligations have been completed and is reasonably assured collectibility. Rental income is recognized on the straight-line basis over the lease terms. Dividend income is recognized upon the establishment of the right to receive such payment.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's and its subsidiaries' primary liquidity needs are to fund inventories and operating expenses, and to expand business operations. The Company has financed its working capital requirements through internally generated cash and advances from a former vice president.

Net cash provided by/(used in) operating activities was (Rmb42 million) (US\$5.1 million), Rmb2.6 million (US\$314,000) and Rmb12 million (US\$1.4 million) in fiscal 1999, 2000 and 2001, respectively. Net cash flows from the Company's operating activities are attributable to the Company's income and changes in operating assets and liabilities, Net cash provided by operating activities in 2001 included approximately Rmb57 million (US\$6.9 million) of cash proceeds from the disposal of marketable securities.

The Company had a working capital surplus of approximately Rmb18 million (US\$2.2 million) as of December 31, 2001, compared to that of approximately of Rmb79 million (US\$9.6 million) as of December 31, 2000. The decrease was mainly attributable to the Company paying approximately Rmb36 million (US\$4.3 million) cash and foregoing approximately Rmb14 million (US\$1.7 million) in receivables due from the Farming Bureau as partial consideration for

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

the minority interest of HARC. Net cash used in investing activities in 2001 mainly attributable to the consideration paid for the minority interest of HARC as stated above and Rmb22 million (US\$2.6 million) loans advanced to third parties, of which Rmb6 million (US\$725,000) was repaid before December 31, 2001.

Except as disclosed above, there have been no significant change in the financial condition and liquidity during the year. The Company believes that internally generated funds will be sufficient to satisfy its anticipated working capital needs for at least the next 12 months.

### FACTORS RELATING TO FORWARD-LOOKING STATEMENTS

Factors that could cause our actual results of operations to differ materially from those contained in forward looking statements include the following:

-18-

### RISKS ASSOCIATED WITH FOREIGN OPERATIONS

- o Our principal subsidiaries operate in the People's Republic of China, and are, by law, subject to administrative review by various national, provincial and local agencies of the Chinese government - governmental oversight and/or changes to existing rules and regulations could adversely affect our results of operations.
- o The Company's operations and financial results could be adversely affected by economic conditions and changes in the policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof), including measures which may be introduced to regulate or stimulate the rate of economic growth. The rate of deflation of the PRC economy, based on published consumer price information, was 2.6 percent for 1998, 3.0 percent for 1999 and 0.4 percent for 2000. The PRC government has taken certain measures to stimulate domestic demand and consumption. There can be no assurance that these measures will be successful.
- o All of the Company's sales and purchases are made domestically and are denominated in Renminbi. Accordingly, the Company and its subsidiaries do not have material market risk with respect to currency fluctuation. As the reporting currency of the Company's consolidated financial statements is also Renminbi, there is no significant translation difference arising on consolidation. However, the Company may suffer exchange loss when it converts Renminbi to other currencies, such as Hong Kong dollars or United States dollars.
- o The Company's interest income is sensitive to changes in the general level of Renminbi and Hong Kong dollars interest rates. In this regard, changes in interest rates affect the interest earned on the Company's cash equivalents. As of December 31, 2001, the Company's cash equivalents are mainly Renminbi and Hong Kong Dollar deposits with financial institutions, bearing market interest rates without fixed term.
- o While we are a Nevada corporation, our officers and directors are non-residents of the United States, our assets are located in the PRC and our operations are conducted in the PRC; therefore, it may not be

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

possible to effect service of process on such persons in the United States, and it may be difficult to enforce any judgments rendered against us or such persons.

### GENERAL RISKS OF OPERATIONS

- o We have discontinued many of our operations and we are currently dependent upon the success of one line of business - our supermarket operations; while our supermarket operations generate operating revenues, those revenues are not sufficient to offset expenses, resulting in continued losses from operations.
- o Unless we are able to reduce expenses, increase our profit margins and/or acquire profitable operations, we will likely continue to incur losses and investors in our shares may be unable to recoup their investment.
- o We intend to investigate and evaluate potential acquisition candidates; however, we may be unable to acquire business operations that prove to be profitable; we will continue to incur administrative and professional expenses in connection with our evaluation and acquisition of business operations, without corresponding revenues from those operations prior to acquisition.
- o As of December 31, 2001, the Company had short-term investments in marketable securities in the Hong Kong stock market and Nasdaq market with a total market value of Rmb5.7 million (US\$694,000). These investments expose the Company to market risks that may cause the future value of these investments to be lower than the original cost of such investments at the time of purchase.
- o The market for our common stock is not active and the limited trading volume in our shares could result in substantial market volatility in the price for our shares.
- o Our supermarket operations face competition from larger, more capitalized companies than ours and we may be unable to compete successfully.

-19-

- o We do not intend to pay dividends for the foreseeable future - we intend to reinvest earnings from operations, if any, back into our operations.

### QUARTERLY RESULTS OF OPERATIONS

The following is a summary of the quarterly results of operations for the years ended December 31, 2001 and 2000. The following data was extracted from the financial information contained in the Company's quarterly reports on Form 10Qs. However, as the Company did not recognize the loss on disposition of assets amounted to Rmb16 million (US\$1.9 million) in the second quarter of 2001, the Company will restate the quarterly results of operations by filing amendments to the quarterly reports on Form 10Qs for the quarters ended June 30, 2001 and September 30, 2001.

-----  
(In thousands, except share and

March 31      June 30      September 30      December 31

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

per share data)	(Rmb)	(Rmb)	(Rmb)	(Rmb)
-----				
2001:				
Net sales	4,528	1,499	2,750	1,315
Cost of sales	4,199	1,149	2,483	2,001
Net income/(loss)				
Income from continuing operations	5,138	(5,775)	(7,026)	(22,457)
Income from discontinued operations	(24)	--	--	--
	-----	-----	-----	-----
	5,114	(5,775)	(7,026)	(22,457)
	-----	-----	-----	-----
Earnings/(loss) per common share:				
Basic and diluted				
Income from continuing operations	6.2	(6.9)	(8.4)	(26.8)
Income from discontinued operations	(0.1)	--	--	--
	-----	-----	-----	-----
	6.1	(6.9)	(8.4)	(26.8)
	-----	-----	-----	-----
2000:				
Net sales	1,397	2,316	1,445	1,796
Cost of sales	1,296	2,548	1,135	1,423
Net income/(loss)				
Income from continuing operations	2,232	(1,876)	(8,781)	(14,066)
Income from discontinued operations	(95)	(308)	(32)	(274)
	-----	-----	-----	-----
	2,137	(2,184)	(8,813)	(14,340)
	-----	-----	-----	-----
Earnings/(loss) per common share:				
Basic and diluted				
Income from continuing operations	3.8	(3.2)	(10.8)	(21.2)
Income from discontinued operations	(0.2)	(0.5)	(0.1)	(0.3)
	-----	-----	-----	-----
	3.6	(3.7)	(10.9)	(21.5)
	-----	-----	-----	-----

The computation of diluted earnings/(loss) per share did not assume the conversion of the stock options in 2001 and 2000 because their inclusion would have been antidilutive.

[Item 8] FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Financial Statements for the three fiscal years ended December 31, 2001, 2000 and 1999 are included herewith as Appendix A and incorporated herein by reference.

[Item 9] CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.



## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

[Item 10] DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

### IDENTIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the current directors and executive officers of the Company as of March 29, 2001, and the ages of and positions with the Company held by each of such persons:

	Age	Position
	---	-----
Ching Lung Po	55	Chairman of the Board of Directors, President and Chief Executive Officer
Tam Cheuk Ho	39	Director and Chief Financial Officer
Wong Wah On	38	Director, Secretary and Financial Controller
Wan Ying Lin	53	Director
Ng Kin Sing	40	Director
Lo Kin Cheung	37	Director

Mr. Ching Lung Po has been a director of the Company since February 4, 1998. He was appointed Chairman of the Board of Directors on January 25, 1999, Chief Executive Officer and President of the Company on February 1, 1999 and June 1, 1999, respectively. Mr. Ching has also been the Chairman of the Board of Directors and President of OVM International Holding Corp. (OTC Bulletin Board: OVMI), which is included on the OTC Bulletin Board operated by the Nasdaq, since September 1996, and the Chairman and Chief Executive Officer of Asia Fiber Holdings Limited (OTC Bulletin Board: AFBR), which is included on the OTC Bulletin Board operated by the Nasdaq, since January 2000 and June 2000, respectively. Mr. Ching has been involved for more than 20 years in the management of production and technology for industrial enterprises in PRC. He worked in Heilongjiang Suihua Electronic Factory as an engineer from 1969 to 1976 and was the Head of the Heilongjiang Suihua Industrial Science & Technology Research Institute from 1975 to 1976. Mr. Ching joined the Heilongjiang Qingan Factory in 1976 and has been the General Manager since 1976. In 1988, Mr. Ching started his own business and established the Shenzhen Hongda Science & Technology Company Limited in Shenzhen, which manufactures electronic products. Mr. Ching graduated from the Harbin Military and Engineering Institute and holds the title of Senior Engineer.

Mr. Tam Cheuk Ho has been a director and the Chief Financial Officer of the Company since December, 1994. Prior to joining the Company, from July 1984 through January 1992, he worked as Audit Manager at Ernst & Young, Hong Kong, and from February 1992 through September 1992, as Financial Controller at Tack Hsin Holdings Limited, a listed company in Hong Kong, where he was responsible for accounting and financial functions. From October 1992, through December, 1994, Mr. Tam was Finance Director of Hong Wah (Holdings) Limited. He is a fellow of both the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. He is also a certified public accountant in Hong Kong. He holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong. Mr. Tam is also a director of Anka Capital Limited, a privately-held corporation, through which he is a principal shareholder of the Company.

Mr. Wong Wah On has been a director of the Company since December 30, 1997. Mr. Wong is also the Financial Controller and Secretary of the Company. He

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

is responsible for assisting the Chief Financial Officer with the Company's treasury, accounting and secretarial functions. From October 1992 through December 1994, Mr.

-21-

Wong was the Deputy Finance Director of Hong Wah (Holdings) Limited. From July 1988 through October 1992, he was the audit supervisor at Ernst & Young, Hong Kong. Mr. Wong is also a director of Anka Capital Limited, a privately-held corporation, through which he is a principal shareholder of the Company. He received a professional diploma in Company Secretaryship and Administration from the Hong Kong Polytechnic University. He is a fellow of both the Chartered Association of Certified Accountants and the Hong Kong Society of Accountants, and an associate of the Institute of Chartered Secretaries and Administrators. He is also a certified public accountant in Hong Kong.

Mr. Wan Ying Lin has been a director of the Company since February 4, 1998, and also serves as a member of the Audit Committee. Mr. Wan graduated from the Guangxi Liuzhou Institute of Medical Specialty specializing in administration and management. From January 1986 through December 1987, he was the manager of Lam Ko Mould Company in charge of the China marketing and development division in Hong Kong. Then in January 1988 through February 1993, he worked as the marketing manager of Wai Tong Trading Company in Hong Kong. In 1993, he joined the Hong Kong Prestressing Concrete Engineering Company Limited, where he serves as manager.

Mr. Ng Kin Sing has been a director of the Company since February 1, 1999, and also serves as a member of the Audit Committee. From April 1998 to the present, Mr. Ng has been the managing director of Action Plan Limited, a securities investment company. From November 1995 until March 1998, Mr. Ng was sales and dealing director for NatWest Markets (Asia) Limited; and from May 1985 until October 1996, he was the dealing director of BZW Asia Limited, an international securities brokerage house. Mr. Ng holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong.

Mr. Lo Kin Cheung has been a director of the Company since May 30, 2000, and also serves as a member of the Audit Committee. From September 2001 to present, Mr. Lo has been the chief financial officer of Lee Fung - Asco Printers Holdings Limited, a Hong Kong listed company, where he is responsible for the overall corporate financial operations. From March 1998 to August 2001, Mr. Lo was the executive director of Wiltec Holdings Limited, a Hong Kong listed company, where he was responsible for corporate development and day-to-day operations. From July 1986 until March 1998, Mr. Lo was the principal at Ernst & Young, Hong Kong. He is a fellow of both the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. He holds a Bachelor's degree of Science from the University of Hong Kong.

At the annual meeting of shareholders on December 12, 2001, Messrs. Ching Lung Po and Ng Kin Sing were elected to serve as Class II Directors until the annual meeting to be held in 2004 and until their successors have been duly elected and qualified. Messrs. Wan Ying Lin and Lo Kin Cheung serve in Class III until the annual meeting to be held in 2002 and until their successors have been duly elected and qualified; and Messrs. Tam Cheuk Ho and Wong Wah On serve in Class I until the annual meeting to be held in 2003 and until their successors have been duly elected and qualified.

The officers of the Company are elected annually at the first Board of Directors meeting following the annual meeting of shareholders, and hold office

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

until their respective successors are duly elected and qualified, unless sooner displaced.

### COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Based solely upon a review of Forms 3, 4 and 5 furnished to the Company for the fiscal year ended December 31, 2001, the Company notes that director Lo Kin Cheung filed a Form 3 on May 21, 2001 to report his status as a director, which commenced on May 30, 2000; and that directors Tam Cheuk Ho and Wong Wah On each filed a Form 4 on May 21, 2001 to report his indirect beneficial ownership of the 244,897 shares of common stock acquired by Anka Capital Limited.

-22-

[Item 11]

### EXECUTIVE COMPENSATION

#### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long Term Compensation
		Salary (US\$)	Bonus (US\$)	Other Annual Compensation (US\$)	Securities Underlying Options (1)
Ching Lung Po, President and Chief Executive Officer	2001	276,923	-0-	-0-	40,000
	2000	276,923	-0-	-0-	-0-
	1999	253,846	-0-	-0-	-0-
Tam Cheuk Ho, Director and Chief Financial Officer	2001	230,769	-0-	-0-	40,000
	2000	230,769	-0-	-0-	60
	1999	212,538	-0-	-0-	60
Wong Wah On, Director, Secretary and Financial Controller	2001	153,846	-0-	-0-	40,000
	2000	153,846	-0-	-0-	60
	1999	141,026	-0-	-0-	60

#### OPTION/SAR GRANTS IN LAST FISCAL YEAR

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Potential Realizable V  
Annual Rates of Stock Pr  
for Optio

Name	Individual Grants				Annual Rates of Stock Pr for Optio	
	Number of Securities Underlying Options Granted (#) (1)	% of Total Options Granted to Employees in Fiscal Year (1)	Exercise Price (2) (US\$/Sh)	Expiration Date	0%	5%
Ching Lung Po	40,000	24.54%	2.95	06/15/04	-0-	\$18,600
Tam Cheuk Ho	40,000	24.54%	2.95	06/15/04	-0-	\$18,600
Wong Wah On	40,000	24.54%	2.95	06/15/04	-0-	\$18,600

(1) The Company has granted no Stock Appreciation Rights ("SARs"). For information regarding stock options issued pursuant to the Company's Stock Option Plan, see "Stock Options," hereinbelow.

(2) As of December 31, 2001, none of the stock options held by Mr. Ching, Mr. Tam and Mr. Wong were exercisable. None of such options was "in-the-money" at such date, as the fair market value (as defined in the Company stock option plan) of the common stock on December 31, 2001, was US\$2.78 per share.

On February 1, 1999, the Company entered into a Service Agreement with Ching Lung Po. In accordance with the terms of the Service Agreement, Mr. Ching has been employed by the Company as an Chief Executive Officer and to perform such duties as the Board of Directors shall from time to time determine. Mr. Ching shall receive a base salary of HK\$2,160,000 (US\$276,923) annually, which base salary shall be adjusted on each anniversary of the Employment Agreement to reflect a change in the applicable consumer price index or such greater amount as the Company's Board of Directors may determine. The Employment Agreement has a term of two years and shall be automatically renewed unless earlier terminated as provided therein.

-23-

On February 1, 1999, the Company entered into an Employment Agreement with Tam Cheuk Ho. In accordance with the terms of the Employment Agreement, Mr. Tam has been employed by the Company as the Chief Financial Officer and to perform such duties as the Board of Directors shall from time to time determine. Mr. Tam shall receive a base salary of HK\$1,800,000 (US\$230,769) annually, which base salary shall be adjusted on each anniversary of the Employment Agreement to reflect a change in the applicable consumer price index or such greater amount as the Company's Board of Directors may determine. The Employment Agreement has a term of two years and shall be automatically renewed unless earlier terminated as provided therein.

On February 1, 1999, the Company entered into an Employment Agreement with Wong Wah On. In accordance with the terms of the Employment Agreement, Mr. Wong has been employed by the Company as the Financial Controller and Corporate Secretary and to perform such duties as the Board of Directors shall from time

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

to time determine. Mr. Wong shall receive a base salary of HK\$1,200,000 (US\$153,846) annually, which base salary shall be adjusted on each anniversary of the Employment Agreement to reflect a change in the applicable consumer price index or such greater amount as the Company's Board of Directors may determine. The Employment Agreement has a term of two years and shall be automatically renewed unless earlier terminated as provided therein.

Except for the foregoing, the Company has no employment contracts with any of its officers or directors and maintains no retirement, fringe benefit or similar plans for the benefit of its officers or directors. The Company may, however, enter into employment contracts with its officers and key employees, adopt various benefit plans and begin paying compensation to its officers and directors as it deems appropriate to attract and retain the services of such persons.

The Company does not pay fees to directors for their attendance at meetings of the Board of Directors or of committees; however, the Company may adopt a policy of making such payments in the future. The Company will reimburse out-of-pocket expenses incurred by directors in attending Board and committee meetings.

During the fiscal year ended December 31, 2001, no holder of stock options exercised such options. All stock options granted on July 1, 1995 either lapsed due to termination of employment or were cancelled, and all options granted on June 15, 2001 remained outstanding. Also during such fiscal year, no long-term incentive plans or pension plans were in effect with respect to any of the Company's officers, directors or employees.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company's Board of Directors did not have a compensation committee or a committee performing similar functions during the year ended December 31, 2001, and no other relationship existed during such year for which disclosure is required pursuant to Item 401(j) of Regulation S-K.

### [Item 12] SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

#### BENEFICIAL OWNERS OF MORE THAN 5% OF THE COMPANY'S COMMON STOCK

The following table sets forth, to the knowledge of management, each person or entity who is the beneficial owner of more than 5% of the outstanding shares of the Company's Common Stock or Series B Preferred Stock outstanding as of March 29, 2002 the number of shares owned by each such person and the percentage of the outstanding shares and vote represented thereby.

-24-

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership (1) -----	Percent of Class -----	Percent of Vote -----
Winsland Capital Limited	33,480 Common Stock	4.00%	30.53%
TrustNet Chambers	320,000 Series B Preferred	100%	

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

P.O. Box 3444, Road Town  
Tortola, British Virgin Islands

Worlder International Company Limited (2) 21/F., Great Eagle Centre No. 23 Harbour Road Hong Kong	48,600 Common Stock	5.80%	4.20%
Anka Capital Limited Room 2105, West Tower Shun Tak Centre, 200 Connaught Rd. C Hong Kong	244,897 Common Stock	29.23%	21.15%

(1) The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of these shares.

(2) Of the 48,600 shares of Common Stock indicated, Worlder International Company Limited ("Worlder") directly owns 35,100 shares, and the remaining 13,500 shares are owned by Silverich Limited, which is wholly-owned by Worlder.

### SHARE OWNERSHIP OF OFFICERS AND DIRECTORS

The following table sets forth certain information with respect to the beneficial ownership and voting power of Common Stock or Series B Preferred Stock as of March 29, 2002, by (i) each director of the Company, (ii) each executive officer of the Company named in the summary compensation table, and (iii) all directors and executive officers of the Company as a group. All information with respect to beneficial ownership has been furnished by the respective director or executive officer (in the case of shares beneficially owned by each of them). Unless otherwise indicated in a footnote, each stockholder possesses sole voting and investment power with respect to the shares indicated as beneficially owned.

Name of Beneficial Owner -----	Amount and Nature of Beneficial Ownership (1) -----	Percent of Class -----
Ching Lung Po	73,480 Common Stock (2) 320,000 Series B Preferred	4.00% 100.00%
Tam Cheuk Ho	284,897 Common Stock (3)	29.23%
Wong Wah On	289,217 Common Stock (4)	29.75%
Wan Ying Lin	-0-	N/A
Ng Kin Sing	-0-	N/A
Lo Kin Cheung	-0-	N/A
All executive officers and directors as a group	402,697 Common Stock 320,000 Series B Preferred	33.74% 100.00%

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

(1) The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of these shares.

(2) Winsland Capital Limited owns 33,480 shares of Common Stock and 320,000 shares of Series B Preferred Stock. Winsland Capital Limited is beneficially owned by Ching Lung Po. The table includes 40,000 shares of Common Stock issuable upon exercise of options granted under the Company's Stock Option Plan as described under "Stock Options," below.

(3) Anka Capital Limited ("Anka") owns 244,897 shares of Common Stock. Anka is 50% owned by Tam Cheuk Ho and 50% owned by Wong Wah On. Tam Cheuk Ho disclaims beneficial ownership of the securities held by Anka, except to the extent of his pecuniary interest in the shares. The table includes 40,000 shares of Common Stock issuable upon exercise of options granted under the Company's Stock Option Plan as described under "Stock Options," below.

(4) Of the shares of Common Stock indicated, Brender Services Limited, which is beneficially owned by Wong Wah On, owns 4,320 shares of Common Stock. The remaining 244,897 shares represent shares of Common Stock owned by Anka which is 50% owned by Wong Wah On. Wong Wah On disclaims beneficial ownership of the securities held by Anka, except to the extent of his pecuniary interest in the shares. The table includes 40,000 shares of Common Stock issuable upon exercise of options granted under the Company's Stock Option Plan as described under "Stock Options," below.

### STOCK OPTIONS

The Company adopted a Stock Option Plan (the "Plan") as of March 31, 1995. The Plan allows the Board of Directors, or a committee thereof at the Board's discretion, to grant stock options to officers, directors, key employees, consultants and affiliates of the Company. Initially, 24,000 shares of common stock could be issued and sold pursuant to options granted under the Plan. "Incentive Stock Options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), may be granted to employees, including officers, whether or not they are members of the Board of Directors, and nonqualified stock options may be granted to any such employee or officer and to directors, consultants, and affiliates who perform substantial services for or on behalf of the Company or its subsidiaries.

The Board of Directors, or a committee appointed by the Board (the "Committee"), is vested with authority to (i) select persons to participate in the Plan; (ii) determine the form and substance of grants made under the Plan to each participant, and the conditions and restrictions, if any, subject to which grants will be made; (iii) interpret the Plan; and (iv) adopt, amend, or rescind such rules and regulations for carrying out the Plan as it may deem appropriate. The Board of Directors has the power to modify or terminate the Plan and from time to time may suspend, and if suspended may reinstate, any or all of the provisions of the Plan except that (i) no modification, suspension, or termination of the Plan may, without the consent of the grantee affected, alter or impair any grant previously made under the Plan; and (ii) no modification shall become effective without prior consent of the shareholders of the Company that would (a) increase the maximum number of shares reserved for issuance under the Plan, except for certain adjustments allowed by the Plan; or (b) change the classes of employees eligible to participate in the Plan.

The Plan provides that the price per share deliverable upon the exercise of each Incentive Stock Option shall not be less than 100% of the fair market value of the shares on the date the option is granted, as the Committee determines. In the case of the grant of any Incentive Stock Option to an

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

employee who, at the time of the grant, owns more than 10% of the total combined voting power of all classes of stock of the Company or any of its subsidiaries, such price per share, if required by the Code at the time of grant, shall not be less than 110% of the fair market value of the shares on the date the option is granted. The price per share deliverable upon the exercise of each nonqualified stock option shall not be less than 80% of the fair market value of the shares on the date the option is granted, as the Committee determines.

-26-

Options may be exercised in whole or in part upon payment of the exercise price of the shares to be acquired. Payment shall be made in cash or, in the discretion of the Committee, in shares previously acquired by the participant or in a combination of cash and shares of Common Stock. The fair market value of shares of Common Stock tendered on exercise of options shall be determined on the date of exercise.

As of July 1, 1995, pursuant to the recommendation of a committee of disinterested persons appointed by the board of directors in accordance with the terms of the Plan, the board of directors granted options to certain officers, directors, employees and consultant to purchase 24,000 shares of the Company's Common Stock: All of the stock options were issued in accordance with the terms of the Plan at an exercise price of US\$378 (the fair market value of the Common Stock as of July 1, 1995) and would have been exercisable beginning on July 1, 1996, and until July 1, 2005.

As of May 20, 1996, the board of directors, in accordance with the recommendation, with respect to stock options granted to directors and officers, of a committee of disinterested persons appointed by the board of directors in accordance with the terms of the Plan, reduced the exercise prices of all of the outstanding options to US\$42 (the fair market value of the Common Stock as of May 20, 1996). By virtue of this action, the outstanding options would have been exercisable beginning on May 20, 1997, and until May 20, 2006.

On December 30, 1996, the shareholders of the Company adopted an amendment to the Plan (a) to change the number of shares of Common Stock subject to the Plan to that number of shares which would, in the aggregate and if deemed outstanding, constitute 20% of the Company's then-outstanding shares of Common Stock, as determined at the time of granting stock options, and (b) to allow Nonqualified Stock Options, as defined in the Plan, to be exercisable in less than one year.

As of June 15, 2001, the board of directors adopted the recommendations of the committee of disinterested persons appointed by the board of directors in accordance with the terms of the Plan and granted stock options to purchase shares of the Company's Common Stock to the following officers, directors and employees:

Ching Lung Po	40,000 shares
Tam Cheuk Ho	40,000 shares
Wong Wah On	40,000 shares
Ma Sin Ling	30,000 shares
Tse Chi Kai	10,000 shares
Fu Yang Guang	1,000 shares
Lin Jia Ping	1,000 shares
Yu Jing Song	1,000 shares

On the same date, all stock options previously granted were cancelled.



## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

[Item 13]

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On January 31, 1994, the Farming Bureau, Guilinyang Farm, and Billion Luck entered into a Contract On Investment For The Setting Up Of Hainan Agricultural Resources Company Ltd. pursuant to which such parties agreed to establish HARC as a limited liability joint stock company under the Rules for Standardized Incorporated Companies in the PRC and the regulations of Hainan Province. The agreement provided that HARC's total initial capitalization of Rmb100 million (US\$12 million) in assets and cash was to be contributed as follows: the Farming Bureau (39%), Guilinyang Farm (5%) and Billion Luck (56%).

On July 7, 1994, HARC entered into a Contract of Investment in the Xilian Timber Mill with the Xilian State Rubber Farm, a subsidiary farm owned and controlled by the Farming Bureau, pursuant to which HARC subscribed for a 12.64% equity interest in the Xilian Farm Timber Mill ("Xilian Mill"), a timber factory in Hainan, PRC, for consideration of Rmb5.21 million (US\$629,227). According to the agreement, HARC will be entitled to a fixed 20% return on its investment in Xilian Mill for a three-year period from the date of subscription. Thereafter,

-27-

HARC will be entitled to Xilian Mill's profit in proportion to its percentage ownership of shares therein, subject to a minimum return of 20% on its investment. On December 24, 1994, the parties entered into a supplementary agreement reducing the amount of HARC's investment to Rmb5 million (US\$603,865) but keeping unchanged HARC's percentage ownership of Xilian Mill at 12.64%. HARC disposed of its 12.64% equity interest in Xilian Mill to the Farming Bureau for consideration of Rmb5 million (US\$603,865) pursuant to an Agreement for the Sale and Purchase of Shares in Xilian Timber Mill dated April 27, 2001.

On July 15, 1994, the Farming Bureau and HARC entered into a Rental Agreement for the rental of 532 square meters of a building located in Haikou City, PRC, in which HARC's corporate headquarters are located. Such rental agreement is for a period of 10 years at an annual rental of Rmb170,240 (US\$20,560) payable in equal semi-annual installments. On July 1, 2001, pursuant to mutual agreement, both parties agreed to terminate the rental agreement. For each of the two years ended December 31, 2000 and 2001, HARC paid rental of Rmb170,240 (US\$20,560) and Rmb85,000 (US\$10,266), respectively, to Farming Bureau.

As of March 31, 1995, the Company entered into an Exchange Agreement with several of its shareholders whereby the Company's outstanding indebtedness to those shareholders, in the amount of approximately US\$6,400,000, was exchanged for 6,400,000 shares of Series A Preferred Stock, which was authorized and issued by the Company as of that date. The shares of Series A Preferred Stock were issued pursuant to the Exchange Agreement to the shareholders as follows: Hong Wah Investment Holdings Limited (2,432,000 shares), China Everbright Financial Holdings Limited. (formerly known as "Everbright Finance and Investment Co. Ltd.") (1,184,000 shares), Worlder International Company Limited (1,184,000 shares), and Silverich Limited (1,600,000 shares).

On July 22, 1996, the Company entered into an Exchange Agreement with China Everbright Financial Holdings Limited ("Everbright"), pursuant to which all 6,400,000 outstanding shares of the Company's Series A Preferred Stock held by Everbright were exchanged for 320,000 shares of Common Stock, which were

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

subject to substantial restrictions. Such restrictions included a waiver for seven years of rights to dividends and distributions upon dissolution and liquidation of the Company, and a waiver for eight years of the ability to have the shares included in any registration statement filed by the Company.

As of December 31, 1996, the Company entered into another Exchange Agreement with Everbright, pursuant to which the 320,000 shares of restricted Common Stock were exchanged for 320,000 shares of the Company's Series B Preferred stock. The terms of the Series B Preferred stock were amended by the Board of Directors in connection with the new Exchange Agreement, and such Series B Preferred stock is not convertible and has no dividend rights or rights to receive distributions upon dissolution and liquidation of the Company. The Series B Preferred stock also may not be included in any registration statement filed by the Company, and the Company will not take any action to facilitate the registration of the Series B Preferred stock, until after July 22, 2000.

As of April 30, 1998, the Company entered into an agreement with Guilinyang Farm pursuant to which Guilinyang Farm agreed to sell and the Company agreed to buy 5,000,000 shares, representing 5% of the total issued and outstanding share capital of HARC, for consideration of Rmb7 million (US\$845,411).

On March 3, 2000, the Company, the Farming Bureau and Billion Luck entered into a Shareholders' Agreement of Business Restructuring where they, as the shareholders of HARC, approved the cessation of the natural rubber distribution business and the procurement of materials and supplies business, effective as of January 1, 2000.

On March 3, 2000, the Farming Bureau, HARC, First Supply, Second Supply and Sales Centre entered into an Assets and Staff Transfer Agreement, by which the Farming Bureau purchased assets and assumed liabilities and staff related to the ceased businesses, effective as of January 1, 2000. The purchase price was the book value or the fair value of net assets transferred, as determined by an independent professional valuer, as of December 31, 1999, whichever was lower. Based on the valuation, there were no material differences between the fair value and the net book value of those assets and liabilities as of December 31, 1999 and the purchase price was Rmb70,527,000 (US\$8,518,000). There was no gain or loss recognized by the Company.

-28-

On September 1, 2000, the Company and Anka Consultants Limited, a private Hong Kong company which is owned by certain directors of the Company, entered into an office sharing agreement, from which the Company's head office in Hong Kong is shared on an equal basis between the two parties. The lease is for a period of 2 years from September 1, 2000 to August 31, 2002. The office sharing agreement also provides that the Company shall share certain costs and expenses in connection with its use of the office. For the years ended December 31, 2000 and 2001, the Company paid rental expenses to Anka Consultants Limited amounted to HK\$46,000 (US\$6,000) and HK\$276,000 (US\$35,000), respectively.

On April 30, 2001, Billion Luck, through its nominees, acquired 39% minority equity interest in HARC from the Farming Bureau, for total consideration of Rmb129,405,000 (US\$15,629,000). Concurrent with the acquisition, HARC entered into several agreements with the Farming Bureau to dispose of its certain assets, including 24,877,008 shares of Hainan Sundiro Motorcycle Co. Ltd., for consideration of Rmb70 million (US\$8,454,000), a 12.64% equity interest in Xilian Mill for consideration of Rmb5 million (US\$603,865)

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

and 58% interest in Hainan Weilin for consideration of Rmb3.8 million (US\$459,000).

Other related party transactions are disclosed elsewhere in this Report under "Stock Options" and "Executive Compensation".

-29-

### PART IV

[Item 14] EXHIBITS, FINANCIAL STATEMENT SCHEDULES,  
AND REPORTS ON FORM 8-K

The following financial statements are filed as a part of this Form 10-K in Appendix A hereto:

Independent auditors' report, together with consolidated financial statements for the Company and subsidiaries, including:

- a. Consolidated statements of operations for the three years ended December 31, 1999, 2000 and 2001
- b. Consolidated statements of changes in shareholders' equity for the three years ended December 31, 1999, 2000 and 2001
- c. Consolidated balance sheets as of December 31, 2000 and 2001
- d. Consolidated statements of cash flows for the three years ended December 31, 1999, 2000 and 2001
- e. Notes to consolidated financial statements.

The information required in Schedule 11 valuation and qualifying accounts is included in the notes to the consolidated financial statements on page F-7. All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are unapplicable and therefore have been omitted.

The following Exhibits are filed as part of this Form 10-K:

Exhibit No. -----	Exhibit Description -----
3.1	Articles of Incorporation of the Registrant, filed on January 15, 1986 (FILED WITH ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994, AND INCORPORATED HEREIN BY REFERENCE.)
3.2	By-laws of the Registrant (FILED WITH ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994, AND INCORPORATED HEREIN BY REFERENCE.)
3.3	Certificate of Amendment of Articles of Incorporation of the Registrant, filed on November 18, 1994 (FILED WITH ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31,

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

1994, AND INCORPORATED HEREIN BY REFERENCE.)

- 3.4 Certificate of Amendment of Articles of Incorporation of the Registrant, filed on November 18, 1994 (FILED WITH ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994, AND INCORPORATED HEREIN BY REFERENCE.)
  - 3.5 Certificate of Amendment of Articles of Incorporation of the Registrant, effective March 31, 1995, and filed on June 19, 1995 (FILED WITH QUARTERLY REPORT ON FORM 10-Q/A FOR THE FISCAL QUARTER ENDED MARCH 31, 1995, AND WITH CURRENT REPORT ON FORM 8-K DATED JUNE 19, 1995, AND INCORPORATED HEREIN BY REFERENCE.)
- 30-
- 3.6 Certificate of Amendment of Articles of Incorporation of the Registrant, effective December 30, 1996 (FILED WITH ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996, AND INCORPORATED HEREIN BY REFERENCE.)
  - 3.7 Amended and Restated By-laws of the Registrant, as amended on December 30, 1996 (FILED WITH ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996, AND INCORPORATED HEREIN BY REFERENCE.)
  - 4.1 Certificate of Designation of Series B Convertible Preferred Stock, filed on December 13, 1995 (FILED WITH CURRENT REPORT ON FORM 8-K DATED MARCH 8, 1996, AND INCORPORATED HEREIN BY REFERENCE.)
  - 4.2 Certificate of Amendment of Certificate of Designation of Series B Convertible Preferred Stock, effective December 31, 1997 (FILED WITH ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.1 Rental Agreement, by and between the Farming Bureau and HARC (ORIGINAL CHINESE VERSION WITH ENGLISH TRANSLATION FILED AS EXHIBIT 10.14 TO ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.2 China Resources Development, Inc., 1995 Stock Option Plan, adopted as of March 31, 1995 (FILED AS EXHIBIT 10.18 TO QUARTERLY REPORT ON FORM 10-Q/A FOR THE FISCAL QUARTER ENDED MARCH 31, 1995, AND THE CURRENT REPORT ON FORM 8-K DATED JUNE 19, 1995, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.3 Contract on Investment in the Xilian Timber Mill between HARC and the State-Run Xilian Farm of Hainan Province dated July 7, 1994, and Supplementary Agreement dated December 24, 1994 (ORIGINAL CHINESE VERSION WITH ENGLISH TRANSLATION FILED AS EXHIBIT 10.26 TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.4 China Resources Development, Inc., Amended and Restated 1995

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Stock Option Plan, as amended on December 30, 1996 (FILED AS EXHIBIT 10.34 TO ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996, AND INCORPORATED HEREIN BY REFERENCE.)

- 10.5 Stock Purchase Agreement, by and between HARC and Guilinyang Farm, dated December 29, 1997. (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.39 TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.6 Agreement for the Sale and Purchase of Share in HARC, dated April 30, 1998, by and between Guilinyang Farm and the Company (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.41 TO QUARTERLY REPORT ON FORM 10-Q FOR THE FISCAL QUARTER ENDED JUNE 30, 1998, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.7 Employment Agreement between the Company and Li Feilie, dated August 1, 1998 (FILED AS EXHIBIT 10.42 TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.8 Employment Agreement between the Company and Tam Cheuk Ho, dated February 1, 1999 (FILED AS EXHIBIT 10.43 TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.9 Employment Agreement between the Company and Wong Wah On, dated February 1, 1999 (FILED AS EXHIBIT 10.44 TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998, AND INCORPORATED HEREIN BY REFERENCE.)
- 31-
- 10.10 Service Agreement between the Company and Ching Lung Po, dated February 1, 1999 (FILED AS EXHIBIT 10.45 TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.11 Assets and Staff Transfer Agreement by and among the Farming Bureau, HARC, First Supply, Second Supply and Sales Centre dated March 3, 2000 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.23 TO CURRENT REPORT ON FORM 8-K DATED MARCH 18, 2000, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.12 Shareholders' Agreement on Business Restructuring by and among the Farming Bureau, the Registrant and Billion Luck dated March 3, 2000 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.24 TO CURRENT REPORT ON FORM 8-K DATED MARCH 18, 2000, AND INCORPORATED HEREIN BY REFERENCE.)
  - 10.13 Acquisition Agreement among the Registrant, E-link Investment Limited and Silver Moon Technologies Limited, dated June 30, 2000 (FILED AS EXHIBIT 10.25 TO CURRENT REPORT ON FORM 8-K DATED JUNE 30, 2000, AND INCORPORATED HEREIN BY REFERENCE.)

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

- 10.14 Stock Purchase Agreement by and between HARC and Guilinyang Farm dated July 28, 2000 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.26 TO CURRENT REPORT ON FORM 8-K DATED JULY 28, 2000, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.15 Agreement for the Sale and Purchase of Shares in HARC by and between the Farming Bureau and Shenzhen Shenhua Investment Co. Ltd. dated April 17, 2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.27 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.16 Agreement for the Sale and Purchase of Shares in HARC by and between the Farming Bureau and Shenzhen Fengsun Development Co. Ltd. dated April 17, 2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.28 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.17 Agreement for the Sale and Purchase of Shares in HARC by and between the Farming Bureau and Hainan Zhongwei Trading Co. Ltd. dated April 17, 2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.29 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.18 Agreement for the Sale and Purchase of Shares in HARC by and between the Farming Bureau and Shenzhen Chaopeng Investment Co. Ltd. dated April 17, 2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.30 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.19 Agreement for the Sale and Purchase of Shares in HARC by and between the Farming Bureau and Shenzhen Feishang Development Co. Ltd. dated April 17, 2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.31 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.20 Form of Declaration of Trust (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.32 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.21 Agreement for the Sale and Purchase of Shares in Xilian Timber Mill by and between HARC and the Farming Bureau dated April 17, 2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION
- 32-
- FILED AS EXHIBIT 10.33 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 10.22 Agreement for the Sale and Purchase of Shares in Hainan Weilin by and between HARC and the Farming Bureau dated April 17,

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.34 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)

- 10.23 Agreement for the Sale and Purchase of Shares in Hainan Sundiro Motorcycle Co. Ltd. by and between HARC and the Farming Bureau dated April 17, 2001 (CERTIFIED ENGLISH TRANSLATION OF ORIGINAL CHINESE VERSION FILED AS EXHIBIT 10.35 TO CURRENT REPORT ON FORM 8-K FILED MAY 17, 2001, AND INCORPORATED HEREIN BY REFERENCE.)
- 11.3 Computation of Earnings Per Share for Fiscal Year ended December 31, 2001 (CONTAINED IN FINANCIAL STATEMENTS FILED HEREWITH.)
- 21 Subsidiaries of the Registrant (FILED HEREWITH.)

During the last quarter of the fiscal year ended December 31, 2001, the Company filed no reports on Form 8-K.

-33-

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA RESOURCES DEVELOPMENT, INC.

By: /s/ Ching Lung Po

-----  
Ching Lung Po, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ Ching Lung Po ----- Ching Lung Po	President, Chairman of the Board of Directors, Chief Executive Officer	Apr
/s/ Tam Cheuk Ho ----- Tam Cheuk Ho	Chief Financial Officer/ Director	Apr
/s/ Wong Wah On ----- Wong Wah On	Financial Controller/ Director/Secretary	Apr
/s/ Wan Ying Lin	Director	Apr

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

-----  
Wan Ying Lin

/s/ Ng Kin Sing

Director

Apr

-----  
Ng Kin Sing

/s/ Lo Kin Cheung

Director

Apr

-----  
Lo Kin Cheung

-34-

Consolidated Financial Statements

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

Years ended December 31, 2000 and 2001

with report of independent auditors

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Pages
Report of independent auditors	F-1
Consolidated statements of operations	F-2 - F-3
Consolidated balance sheets	F-4 - F-5
Consolidated statements of shareholders' equity	F-6
Consolidated statements of cash flows	F-7
Notes to consolidated financial statements	F-8 - F-32



# Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

China Resources Development, Inc.

We have audited the accompanying consolidated balance sheets of China Resources Development, Inc. and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Resources Development, Inc. and subsidiaries at December 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Ernst & Young  
Hong Kong  
March 28, 2002

F-1

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 1999, 2000 and 2001

(Amounts in thousands, except share and per share data)

		Year ended December 31,			
Notes	1999	2000	2001	200	
	RMB	RMB	RMB	US	

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

NET SALES*	3	476,367	5,559	10,092	1,2
COST OF SALES*	3	(468,021)	(5,096)	(9,832)	(1,1
		-----	-----	-----	-----
GROSS PROFIT		8,346	463	260	
DEPRECIATION		(1,085)	(942)	(815)	(
AMORTIZATION	4	--	(2,841)	(6,628)	(8
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES*		(23,785)	(18,608)	(15,219)	(1,8
FINANCIAL INCOME, NET	5	864	7,871	1,318	1
LOSS ON DISPOSITION OF ASSETS	4	--	--	(16,001)	(1,9
OTHER INCOME/(EXPENSE), NET*	6	10,338	(145)	7,346	8
		-----	-----	-----	-----
LOSS FROM CONTINUED OPERATIONS BEFORE INCOME TAXES		(5,322)	(14,202)	(29,739)	(3,5
INCOME TAXES	7	--	(2,887)	(1,579)	(1
		-----	-----	-----	-----
LOSS FROM CONTINUED OPERATIONS BEFORE MINORITY INTERESTS		(5,322)	(17,089)	(31,318)	(3,7
MINORITY INTERESTS		(1,674)	(4,634)	1,198	1
		-----	-----	-----	-----
LOSS FROM CONTINUED OPERATIONS		(6,996)	(21,723)	(30,120)	(3,6
DISCONTINUED OPERATIONS					
Loss on continuing operations of discontinued timber segment	4	--	(1,477)	(24)	
		-----	-----	-----	-----
NET LOSS		(6,996)	(23,200)	(30,144)	(3,6
		=====	=====	=====	=====
LOSS PER SHARE:	8				
Basic and diluted					
Continuing operations		(11.80)	(30.37)	(35.95)	(4.
Discontinued operations		--	(2.06)	(0.03)	
		-----	-----	-----	-----
		(11.80)	(32.43)	(35.98)	(4.
		=====	=====	=====	=====

# Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 1999, 2000 and 2001

(Amounts in thousands, except share and per share data)

\* Including the following amounts resulting from transactions with related parties (note 18):

	Year ended December 31,			
	1999	2000	2001	2001
	RMB	RMB	RMB	US\$
NET SALES	23,718	--	--	--
COST OF SALES	(453,071)	(100)	--	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(1,028)	(393)	(306)	(37)
OTHER INCOME, NET	--	1,354	--	--

The accompanying notes are an integral part of these consolidated financial statements.

F-3

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2000 and 2001

(Amounts in thousands, except share and per share data)

	Notes	December 31,		2001
		2000	2001	
		----- RMB	----- RMB	----- US\$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		36,924	7,627	922
Marketable securities	9	62,384	5,744	694
Inventories - Finished goods		598	610	74
Other receivables, deposits and prepayments		10,585	4,635	560
Short term loans receivable	10	--	15,488	1,871
Amount due from Farming Bureau	18	13,509	--	--
Amounts due from related companies	18	636	636	77
Amounts due from employees	18	622	896	108
Net assets of discontinued operations	4	2,388	--	--

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

TOTAL CURRENT ASSETS		127,646	35,636	4,306
PROPERTY AND EQUIPMENT	11	9,044	7,279	879
PROPERTY, PLANT AND EQUIPMENT OF DISCONTINUED OPERATIONS	4	4,260	--	--
INVESTMENTS	12	184,374	109,615	13,244
INTANGIBLE ASSETS	4	7,860	--	--
VALUE-ADDED TAX RECEIVABLE		--	4,687	566
TOTAL ASSETS		333,184	157,217	18,995

F-4

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)

As of December 31, 2000 and 2001

(Amounts in thousands, except share and per share data)

	Notes	2000	December 31, 2001
		RMB	RMB
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		269	247
Other payables and accrued liabilities	13	16,477	16,569
Margin loan payable	14	18,572	--
Due to investment adviser		12,253	--
Income taxes payable/(recoverable)		(225)	454
Amounts due to related companies	18	666	366
TOTAL CURRENT LIABILITIES		48,012	17,636
MINORITY INTERESTS		115,480	--
TOTAL LIABILITIES AND MINORITY INTERESTS		163,492	17,636

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

COMMITMENTS		24	
SHAREHOLDERS' EQUITY			
Common stock, US\$0.001 par value:			
Authorized - 200,000,000 shares			
Issued and outstanding - 837,797 shares			
in 2000 and 2001		7	7
Preferred stock, authorized -			
10,000,000 shares in 2001 and 2000:			
Series B preferred stock, US\$0.001 par value:	17		
Authorized - 320,000 shares			
Issued and outstanding - 320,000 shares in			
2000 and 2001		3	3
Additional paid-in capital		169,052	169,052
Reserves	22	28,028	28,028
Accumulated deficit	22	(27,416)	(57,560)
Accumulated other comprehensive gains	23	18	51
		-----	-----
TOTAL SHAREHOLDERS' EQUITY		169,692	139,581
		-----	-----
TOTAL LIABILITIES AND			
SHAREHOLDERS' EQUITY		333,184	157,217
		=====	=====

The accompanying notes are an integral part of these consolidated financial statements

F-5

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 1999, 2000 and 2001

(Amounts in thousands, except share and per share data)

	Notes	Common stock ----- RMB	Series B preferred stock ----- RMB	Additional paid-in capital ----- RMB	Reserves ----- RMB	Retai earnin (accumula defic ----- RMB
Balance at January						
1, 1999		5	3	156,632	26,274	4,5
Net loss						(6,9
Currency translation						
adjustments	23					
Comprehensive loss						

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Transfer to reserves	22	-----	-----	-----	556	(5
Balance at December 31, 1999		5	3	156,632	26,830	(3,0
Issuance of 244,897 shares of common stock	4	2		12,420		
Net loss						(23,2
Currency translation adjustments	23					
Comprehensive loss						
Transfer to reserves	22	-----	-----	-----	1,198	(1,1
Balance at December 31, 2000		7	3	169,052	28,028	(27,4
Net loss						(30,1
Currency translation adjustments	23					
Comprehensive loss		-----	-----	-----	-----	-----
Balance at December 31, 2001		7	3	169,052	28,028	(57,5
		=====	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

F-6

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 1999, 2000 and 2001

(Amounts in thousands, except share and per share data)

	1999	Year ended December 31,	
	-----	2000	2001
	RMB	RMB	RMB
OPERATING ACTIVITIES			
Net loss	(6,996)	(23,200)	(30,144)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:			
Depreciation and amortization	1,091	3,850	7,510
Write off of intangible asset	--	--	2,936
Loss on disposition of assets	--	--	16,001

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Provision for inventory write-downs	--	1,129	--
Stock-based compensation issued to non-employees	983	279	--
Minority interests	1,674	4,198	(1,215)
Loss on disposal of property and equipment, net	910	1,000	466
Loss on disposal of an equity method investment	662	--	--
Write-off of goodwill	994	--	--
Changes in operating assets and liabilities:			
Marketable securities	(57,035)	(5,349)	56,640
Trade receivables	4,844	3,531	--
Inventories	2,453	5,103	(12)
Other receivables, deposits and prepayments	17,308	1,790	1,682
Amount due from Farming Bureau	(13,346)	10,889	(1,096)
Amounts due from related companies	(5,188)	34,822	31
Amounts due from employees	--	(622)	(274)
Accounts payable	3,049	(14,505)	(22)
Other payables and accrued liabilities	9,153	24,671	(41,323)
Income taxes payable	--	(16,591)	679
Amounts due to related companies	(2,276)	(28,349)	(300)
	-----	-----	-----
Net cash provided by/(used in) operating activities	(41,720)	2,646	11,559
	-----	-----	-----
INVESTING ACTIVITIES			
Purchases of property and equipment	(6,160)	(6,355)	(665)
Proceeds from disposal of investments	--	883	--
Acquisition of subsidiaries	--	25	--
Acquisition of minority interest in a subsidiary	--	--	(36,000)
Disposal of a subsidiary	--	--	(1)
Short term loans advanced to third parties	(45,000)	--	(21,852)
Repayment of a short term loan from a third party	--	--	6,364
	-----	-----	-----
Net cash used in investing activities	(51,160)	(5,447)	(52,154)
	-----	-----	-----
FINANCING ACTIVITIES			
Advance from minority interest	1,780	1,587	--
Advances from a former vice president	--	--	11,298
	-----	-----	-----
Net cash provided by financing activities	1,780	1,587	11,298
	-----	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(91,100)	(1,214)	(29,297)
Cash and cash equivalents, at beginning of year	129,238	38,138	36,924
	-----	-----	-----
Cash and cash equivalents, at end of year	38,138	36,924	7,627
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

F-7

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

(Amounts in thousands, except share and per share data)

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Resources Development, Inc. (the "Company") and its subsidiaries (collectively the "Group") were principally engaged in the distribution of natural rubber, procurement of materials and supplies and the distribution of other agricultural products in the People's Republic of China (the "PRC") through December 31, 1999.

Pursuant to a business restructuring as detailed in note 3 to the consolidated financial statements, the Group discontinued all the above operations effective on January 1, 2000. In the fourth quarter of 1999, the Group established several new lines of business, including the operation of a supermarket and processed timber operations in the PRC. In addition, as described in note 4, during 2000, the Group acquired an 80% interest in an entity which provides health care information through an Internet website.

Notwithstanding the cessation of natural rubber operations in early 2000, the Group was engaged in trading of natural rubber occasionally during 2001, depending on market conditions. Pursuant to the business acquisitions and disposition of assets as detailed in note 4 to the consolidated financial statements, the Group discontinued the timber processing operations effective on April 30, 2001. The Group continues to consider other new investment opportunities.

Information on the Group's operations by segment are included in note 28 to the consolidated financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation

-----  
The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated on consolidation.

### (b) Use of estimates

-----  
The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### (c) Cash and cash equivalents

-----  
The Group considers all highly liquid investments and cash deposits with financial institutions with original maturities of three months or less to be cash equivalents.

At December 31, 2000 and 2001, cash and cash equivalents included foreign currency deposits equivalent to RMB5,872 (US\$223 and HK\$3,799) and RMB5,418 (US\$65 and HK\$4,601), respectively.



CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Marketable securities

-----  
 Equity securities that are bought and held principally for the purpose of selling them in near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in current operations.

(e) Inventories

-----  
 Inventories are primarily comprised of finished goods and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

(f) Property and equipment

-----  
 Property and equipment are stated at cost less accumulated depreciation. Expenditures for routine repairs and maintenance are expensed as incurred.

Depreciation is calculated on the straight-line basis to write-off the cost less estimated residual value of each asset over its estimated useful life. Estimated useful lives used for this purpose are as follows:

Buildings	
Leasehold improvements	Over the terms of
Machinery, equipment and motor vehicles	10 -
Fixtures and furnitures	10 -

(g) Investments

-----  
 Investments in companies that are 20% to 50% owned, and over which the Group is in a position to exercise significant influence but does not control the financial and operating decisions, are accounted for by the equity method.

All other equity investments, not being a subsidiary and which do not have a readily determinable fair value, are accounted for by the cost method, unless there has been an other-than-temporary impairment in value, in which event they are written-down to their net realizable value.

(h) Intangible assets

-----  
 Intangible assets consist of acquired website technology which are amortized on the straight-line basis over two years.

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Intangible assets are periodically reviewed for impairment based on an assessment of future operations. Accumulated amortization was RMB2,841 and RMB9,469 at December 31, 2000 and 2001, respectively.

(i) Retirement benefits

-----  
The contributions to the retirement plans of employees under defined contribution retirement plans are charged to earnings as services are provided.

F-9

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Stock-based compensation

-----  
The Group has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its employee stock options, because the Group believes the alternative fair value accounting provided for under Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Group's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. For disclosure purposes, pro forma information in accordance with SFAS 123 has been included in note 16.

In accordance with SFAS 123, except for transactions with employees that are within the scope of APB 25, all transactions in which services are received and the consideration given is the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued. The cost of such services is charged to the consolidated statement of operations over the respective service period.

(k) Revenue recognition

-----  
Revenue from product sales is recognized at the point of sale for retail sales and upon the delivery of goods for other sales, when all performance obligations have been completed and is reasonably assured of collectibility. Rental income is recognized on the straight-line basis over the lease terms. Dividend income is recognized upon the establishment of the right to receive such payment.

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

(l) Income taxes  
-----

The Group uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carry forwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(m) Loss per share  
-----

Basic and diluted loss per share are calculated in accordance with SFAS 128, "Earnings per Share".

(n) Advertising costs  
-----

All advertising costs are charged to the profit and loss account as incurred.

F-10

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Foreign currency translation  
-----

The functional currency of substantially all the operations of the Group is Renminbi ("RMB"), the national currency of the PRC. The financial statements of subsidiary operations with functional currency other than RMB have been translated into RMB in accordance with SFAS 52, "Foreign Currency Translation". All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts have been translated using the weighted average exchange rate for the year. Translation gains and losses are included as a component of stockholders' equity.

Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange prevailing at that date. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into RMB at the applicable rates of exchange at the balance sheet dates. The resulting exchange gains or losses are credited or charged to the consolidated statements of operations.

The financial statements are stated in Renminbi. The translation of amounts from RMB into US\$ is included solely for the convenience of the reader and has been made at the rate of exchange quoted by the People's Bank of China on December 31, 2001 of US\$1.00 = RMB8.28, and accordingly, differs from the underlying foreign currency amounts. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2001 or at any other date.

(p) Reverse stock split

-----  
On May 28, 1999, the Company's shareholders approved a ten-to-one reverse split of the Company's common stock (the "Reverse Stock Split"). With the par value unchanged at US\$0.001 per share, the Reverse Stock Split was effected by a transfer to the additional paid-in capital account. All references in the consolidated financial statements referring to share, stock option and per share amounts of the common stock of the Company have been adjusted retroactively for the Reverse Stock Split.

(q) Written call

-----  
Premiums on options written by the Group are recorded as liabilities and the option is adjusted to the current fair value at the balance sheet date. Premiums received from writing options that are treated by the Group on the expiration date as realized gains from investments. The difference between the premiums and the amount paid on effecting a closing purchase transaction, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. The Group as writer of options bears the market risk of an unfavorable change in the price of the security underlying the written option.

(r) Reclassifications

-----  
Certain amounts in prior years have been reclassified to conform to the current year presentation.

F-11

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

3. DISCONTINUED OPERATION AND BUSINESS RESTRUCTURING

In the fourth quarter of 1999, the Group initiated a plan to restructure its business in Hainan, the PRC. On March 3, 2000, the board of directors of the Company approved a business restructuring involving Hainan Zhongwei Agricultural Resources Company Limited ("HARC"), a 61%-owned subsidiary of the Company, and certain subsidiaries of HARC (the "Restructuring"). The Restructuring resulted

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

in the discontinuation of substantially all of the then existing operations of the Group as of December 31, 1999, including its two principal lines of business, the distribution of natural rubber and the procurement of materials, supplies and other agricultural products (collectively the "Operating Subsidiaries").

On March 3, 2000, HARC and certain of its subsidiaries (the "HARC Subsidiaries") entered into an Assets and Staff Transfer Agreement with the Hainan Farming Bureau (the "Farming Bureau"), a division of the Ministry of Agricultural of the PRC and a 39% minority shareholder of HARC, pursuant to which the HARC Subsidiaries would transfer all the assets, liabilities and staff related to the Rubber and Procurement Operations to the Farming Bureau, effective from January 1, 2000 (the "Transfer"). The consideration for the net assets transferred was determined based on the lower of their net book value or their fair value, as determined by an independent professional valuer, as of December 31, 1999. Based on the valuation, there were no material differences between the fair value and the net book value (as determined under US GAAP) of those assets and liabilities as of December 31, 1999, and, therefore, no gain or loss was recognized upon the Transfer.

F-12

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

#### 4. BUSINESS ACQUISITIONS AND DISPOSITION OF ASSETS

On June 30, 2000 the Group entered into an acquisition agreement ("Acquisition") to acquire an 80% equity interest in Silver Moon Technologies Limited ("Silver Moon"), a British Virgin Islands corporation which was incorporated on March 24, 2000, for a consideration of US\$1,500 (RMB12,420) by issuing 244,897 shares of the Company's unregistered restricted common stock of US\$0.001 par value to Silver Moon's former sole equity owner, E-link Investment Limited ("E-link"). The principal activities of Silver Moon and its wholly-owned subsidiary, Zhongwei Medi-China.com Limited (formerly known as Sky Creation Technology Limited), a Hong Kong company, is providing healthcare content on the Internet which focuses on Chinese herbal medicine and therapies.

The transaction was accounted for as a purchase; the cost of the acquisition exceeds the fair value of the net assets acquired by RMB12,405 which was classified as acquired website technology and was being amortized over two years. In the fourth quarter of 2001, management determined that the website's functionality was inadequate for the Company's intended purpose in view of the fact that no revenue was generated during 2001 from the site and none is anticipated in the foreseeable future. Consequently, an impairment charge was recorded for the entire unamortized balance in the amount of RMB2,936.

Silver Moon did not report any revenue through the date of acquisition by the Group. Pro forma net loss and net loss per share for the year ended December 31, 2000, assuming the acquisition had been consummated

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

as of January 1, 2000, are RMB30,286 and RMB36.15, respectively.

During 2001, the Group recognized a loss of RMB 16,001 on the exchange of: (i) cash of RMB36,000; (ii) its 13% equity interest in Xilian Timber Mill; (iii) its 58% equity interest in Hainan Weilin Timber Limited Liability Company ("Hainan Weilin"); and (iv) HARC's 5.3% interest in Hainan Sundiro Motorcycle Co. Ltd. for the Farming Bureau's 39% equity interest in HARC, computed based on the carrying value of assets exchanged. The results of operations and losses previously allocated to the minority shareholder of HARC have been included from the date of the exchange. In addition, as a result of this transaction, the Group ceased timber processing operations.

F-13

### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

#### 5. FINANCIAL INCOME, NET

Financial income, net represents:

	Year ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Interest income	948	11,749	1,537
Interest expense	(5)	(73)	(229)
Foreign exchange gains/(losses), net	(79)	(3,805)	10
	-----	-----	-----
	864	7,871	1,318
	=====	=====	=====

#### 6. OTHER INCOME/(EXPENSE), NET

Other income/(expense), net represents:

	Year ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Realized gain on call option written	--	--	3,182
Dividend income from cost method investments	6,664	--	--
Rental income	788	--	--
Net gain on trading of marketable securities	384	3,470	7,055
Loss on disposal of property and equipment, net	(910)	(1,000)	(466)
Net loss on write-off of an equity method investment	(659)	--	--
Recovery of bad debts written-off	2,902	--	1,664
Share of income received from joint investment	--	9,195	--

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Unrealized loss on marketable securities	--	(11,151)	(573)
Write off of acquired website technology	--	--	(2,936)
Others	1,169	(659)	(580)
	-----	-----	-----
	10,338	(145)	7,346
	=====	=====	=====

F-14

### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

#### 7. INCOME TAXES

Pre-tax loss from continuing operations for the years ended December 31 was taxed in the following jurisdictions:

	Year ended December 31,		
	1999	2000	2001
	-----	-----	-----
	RMB	RMB	RMB
PRC (excluding Hong Kong)	4,801	10,036	(6,728)
Other countries:			
USA	(651)	(15,122)	(23,748)
Hong Kong	(9,472)	(9,116)	737
	-----	-----	-----
	(5,322)	(14,202)	(29,739)
	=====	=====	=====

The provision for income tax for continuing operations consisted of the following:

	Year ended December 31,		
	1999	2000	2001
	-----	-----	-----
	RMB	RMB	RMB
Current:			
PRC federal income tax	-	2,887	1,579
	=====	=====	=====

It is management's intention to reinvest all the income attributable to the Group earned by its operations outside the United States of America (the "U.S."). Accordingly, no U.S. federal and state income taxes have been provided in these consolidated financial statements.

The reconciliation of income taxes/(tax benefit) for income tax computed at the PRC federal statutory tax rate applicable to foreign investment enterprises operating in Hainan, a Special Economic Zone in the PRC, to income tax expense is as follows:

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

	Year ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
PRC federal statutory tax rate	15%	15%	15%
Computed expected income taxes (tax benefit)	(798)	(2,131)	(4,461)
Higher effective income tax rates of other countries	(2,025)	(735)	(4,505)
Net increase in valuation allowance	373	2,866	8,966
Tax on foreign personal holding company income	2,450	--	--
Non-deductible expenses	--	--	1,263
Others	--	2,887	316
	-----	-----	-----
Income tax expense for the year	==	2,887	1,579
	=====	=====	=====

F-15

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

7. INCOME TAXES (continued)

The deferred tax asset of the Group is comprised of the following:

	December 31,	
	2000	2001
	RMB	RMB
Deferred tax asset:		
Net operating loss carry forwards	13,131	22,097
Less: Valuation allowance for deferred tax asset	(13,131)	(22,097)
	-----	-----
	-	-
	=====	=====

No undistributed earnings of the Group's foreign subsidiaries were available at December 31, 2000 and 2001. Upon distribution of those earnings in the form of dividends or otherwise, the Group would be subject to U.S. income taxes. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.



## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

At December 31, 2001, the Group had net operating loss carry forwards ("NOLs") of approximately RMB22 million for U.S. income tax purposes that expire in various years through 2021. At December 31, 2001, the Group's subsidiaries in the PRC had NOLs amounting to approximately RMB3 million for PRC income tax purposes that expire in 2006.

### 8. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	Year ended December 31,		
	1999	2000	2001
	----- RMB	----- RMB	----- RMB
Numerator			
-----			
Numerator for basic and diluted loss per share: Loss attributable to common shareholders	(6,996)	(23,200)	(30,144)
	=====	=====	=====
Denominator			
-----			
Denominator for basic loss per share: Weighted-average number of shares	592,900	715,349	837,797
	=====	=====	=====
Basic and diluted loss per share	(11.80)	(32.43)	(35.98)
	=====	=====	=====

F-16

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

### 8. LOSS PER SHARE (continued)

Details of the stock options of the Company are set out in note 16.

The computation of diluted loss per share did not assume the conversion of the stock options of the Company in 1999, 2000 and 2001 and the warrants of the Company in 1999 and 2000 because their inclusion would have been anti-dilutive.

### 9. MARKETABLE SECURITIES

	December 31,	
	2000	2001
	----- RMB	----- RMB
Trading securities listed on NASDAQ At cost	--	1,478

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Less: unrealized loss	--	(21)
	-----	-----
Fair value	--	1,457
	-----	-----
Trading securities listed on the Hong Kong Stock Exchange		
At cost	78,798	4,839
Add: unrealized gain	--	113
Less: unrealized loss	(16,414)	(665)
	-----	-----
Fair value	62,384	4,287
	-----	-----
	62,384	5,744
	=====	=====

10. SHORT TERM LOANS RECEIVABLE

As of December 31, 2001, the short term loans receivable represented advances to three unaffiliated parties of RMB5,304, RMB1,697 and RMB8,487 at annual interest rates of 8% (revised to 10% from February 8, 2002), 5% and 12% (revised to 8% from January 1, 2002), respectively. These loans receivable are due at various dates through December 30, 2002. Except for the loan of RMB8,487 which is secured by a corporate guarantee granted by the holding company of the debtor, the remaining loans are unsecured.

F-17

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

11. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	December 31,	
	2000	2001
	-----	-----
	RMB	RMB
At cost:		
Buildings	3,414	4,260
Leasehold improvements	1,429	--
Machinery, equipment and motor vehicles	6,128	4,124
Fixtures and furniture	208	208
	-----	-----
	11,179	8,592
Accumulated depreciation	(2,135)	(1,313)
	-----	-----
	9,044	7,279
	=====	=====

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

12. INVESTMENTS

Cost method investments comprise:

	December 31,	
	2000	2001
	-----	-----
	RMB	RMB
Investments in:		
Hainan Sundiro Motorcycle Co., Ltd. ("Sundiro")	179,615	109,615
PRC joint venture	4,759	--
	-----	-----
	184,374	109,615
	=====	=====

Cost method investments are interests in unlisted shares/equity of PRC companies in which the Group does not have a significant influence over their operating and financial policies.

At December 31, 2000, the Group owned an equity interest of 8.7% of Sundiro. During 2001, pursuant to the exchange of assets as described in note 4, the Group disposed of 24,877,008 corporate shares of Sundiro to the Farming Bureau. As a result, the Group owns an equity interest of 5.3% of Sundiro as at December 31, 2001.

F-18

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

13. OTHER PAYABLES AND ACCRUED LIABILITIES

	December 31,	
	2000	2001
	-----	-----
	RMB	RMB
Advances from a former vice president	864	11,298
Accrued salaries of a director	735	1,106
Other payables	2,110	1,368
Accrued liabilities	2,675	2,797
Advances from an unaffiliated third party	6,911	--
Call options written, at fair value (premium received RMB3,182)	3,182	--
	-----	-----
	16,477	16,569
	=====	=====

The advances from a former vice president are unsecured, interest-free and have no fixed terms of repayment. The advances were repaid in full as at January 10, 2002.

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

### 14. MARGIN LOAN PAYABLE

The Group had a margin loan payable balance of RMB18,572 as of December 31, 2000 which was used to purchase marketable securities listed on the Hong Kong Stock Exchange. This margin loan bore interest at a variable rate. The rate was 12% as of December 31, 2000. Interest expense on the margin loan for the years ended December 31, 2000 and 2001 was approximately RMB73 and RMB229, respectively. The margin loan was repaid as the securities were sold during 2001.

### 15. DUE TO INVESTMENT ADVISER

According to an agreement made between the Group and Sanya Zhongya Trust and Investment Company ("SZTI") in 2000, SZTI would use the Group's deposits (approximately RMB45 million) for the trading of securities on behalf of the Group and guarantee a minimum return. The excess of the actual return over the minimum return is shared between both parties on an agreed proportion. During the year ended December 31, 2000, the balance of the deposit was fully withdrawn and the actual return exceeded the guaranteed return by RMB12,253, which was fully repaid in 2001.

F-19

## CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

### 16. STOCK OPTIONS

The Group adopted a stock option plan (the "Plan") as of March 31, 1995. The Plan allows the Board of Directors, or a committee thereof at the Board's discretion, to grant stock options to officers, directors, key employees, consultants and affiliates of the Group. Initially, 24,000 shares of common stock of the Group, after adjusting for the Reverse Stock Split in 1999, were permitted to be issued and sold pursuant to options granted under the Plan. All of the stock options were issued in accordance with the terms of the Plan on July 1, 1995 to certain officers, directors, employees and consultants of the Group at an exercise price of US\$37.8 (RMB314.5) per share (the fair market value of the common stock as of July 1, 1995) and are exercisable from July 1, 1996 to July 1, 2005. On May 20, 1996, pursuant to a "Unanimous Written Consent" of the committee appointed pursuant to the Plan and a resolution of a special meeting of the Board of Directors of the Group, the exercise price was changed to US\$42.0 (RMB348.6) per share (the fair market value of the common stock as of May 20, 1996), after adjusting for the Reverse Stock Split in 1999 and 1996. By virtue of that action, the outstanding options were then exercisable beginning on May 20, 1997 until May 20, 2006.

On December 30, 1996, the Plan was amended to increase the number of shares of common stock issuable under the Plan to 20% of the Group's outstanding common stock, as determined at the time of granting of the stock options. Such shares may represent authorized but unissued shares as well as repurchased or forfeited shares for any grant under the Plan

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

that was expired or unexercised. Further amendments were made to give the Board of Directors the ability to set a holding period of less than one year for non-qualified stock options.

Pursuant to a special resolution of the Board of Directors on June 15, 2001, all stock options outstanding as of June 15, 2001 were canceled and 163,000 new stock options were granted to officers, directors and key employees of the Group at an exercise price of US\$2.95 (RMB24.4) per share (the fair market value of the common stock as of June 15, 2001). The options are exercisable from December 15, 2001 to June 14, 2004.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Group had accounted for its stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 1995, 1996 and 2001, respectively: risk-free interest rates of 6.50%, 6.78% and 4%; no dividend yield; volatility factors of the expected market price of the Company's common stock of 141.38%, 42.13% and 129.6%; and a weighted average expected life of the options of 6 years, 6 years and 3 years, respectively.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

F-20

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

### 16. STOCK OPTIONS (continued)

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

	Year ended December 31,		
	1999	2000	2001
	-----	-----	-----
	RMB	RMB	RMB
Pro forma net loss	(14,426)	(30,630)	(30,677)
	=====	=====	=====

Pro forma loss per share:

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Basic and diluted	(24.33)	(42.82)	(36.62)
	=====	=====	=====

The Company's stock option activities and related information for the years ended December 31, 1999, 2000 and 2001 are summarized as follows:

	1999		2000		2001	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
	----- `000 -----	----- US\$ -----	----- `000 -----	----- US\$ -----	----- `000 -----	----- US\$ -----
Outstanding at beginning of year	24	42	24	42	24	42
Canceled	--	--	--	--	(24)	(42)
Granted	--	--	--	--	163	2.95
	-----	-----	-----	-----	-----	-----
Outstanding at end of year	24	42	24	42	163	2.95
	=====	=====	=====	=====	=====	=====

All options outstanding as of December 31, 2001 have an aggregate exercise price of US\$481 (RMB3,981). The weighted average remaining contractual life of those options is 3 years.

Shares of common stock reserved for future issuance at December 31, 2001 are 163,000.

17. PREFERRED STOCK

The preferred stock entitles the holders to voting rights to the same extent and in the same manner as shares of common stock; has no preemptive or other subscription rights and is not subject to any future calls or assessments. There are no redemption or sinking fund provisions applicable to the preferred stock and they have no rights to dividends or to distribution upon liquidation or dissolution of the Company.

F-21

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

18. RELATED PARTY BALANCES AND TRANSACTIONS

In addition to those transactions set out in notes 3, 4, 12 and 26, the Group had the following transactions with the Farming Bureau, certain related companies controlled by the Farming Bureau and certain shareholders/directors of the Company.

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

	Notes	Year ended December 31,		
		1999	2000	2001
		----- RMB	----- RMB	----- RMB
Farming Bureau and related companies controlled by the Farming Bureau:				
Purchase of natural rubber	(a)	(450,704) =====	-- =====	-- =====
Purchase of wood		-- =====	(100) =====	-- =====
Guaranteed gross profit received	(a)	6,350 =====	-- =====	-- =====
Net sales of materials, supplies and other agricultural products	(b)	23,718 =====	-- =====	-- =====
Rental expenses paid	(d)	(739) =====	(306) =====	(391) =====
Manufacturing expenses paid		-- =====	(87) =====	-- =====
Shareholders/directors of the Company:				
Consultancy fees paid	(c)	(289) =====	-- =====	-- =====

(a) Purchase of natural rubber  
Pursuant to a sales and purchase agreement dated November 5, 1994 and as subsequently amended (the "S&P Agreement") amongst HARC, First Goods And Materials Supply And Sales Corporation, Second Goods And Materials Supply And Sales Corporation (collectively the "Principal Subsidiaries") and the Farming Bureau, the Farming Bureau agreed to guarantee the supply of natural rubber to the Principal Subsidiaries for a period of 15 years from November 5, 1994, under the same terms and conditions as are offered to other purchasers of natural rubber with a first right of refusal to the Principal Subsidiaries. The Farming Bureau allows the Principal Subsidiaries to set the selling price of natural rubber according to market conditions and guarantees a minimum gross profit margin of 3.5% (the "Guaranteed Margin") earned by First Goods And Materials Supply And Sales Corporation and Second Goods And Materials Supply And Sales Corporation (collectively the "Operating Subsidiaries) on natural rubber purchased from farms controlled by the Farming Bureau.

# Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

### 18. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(a) Purchase of natural rubber (continued)

-----  
Pursuant to an amendment to the S&P Agreement, the Guaranteed Margin was reduced to 1.5% with effect from April 1, 1999. The Group neither purchased nor sold rubber under the terms of the S&P Agreement during 2000 and 2001.

As more fully described note 3, effective January 1, 2000, the Group transferred all of the assets, liabilities operations and staff of the Operating Subsidiaries to the Farming Bureau.

(b) Procurement of materials and supplies

-----  
Pursuant to the S&P Agreement, the Farming Bureau also agreed to purchase certain products sourced by the Principal Subsidiaries for a period of 15 years from November 5, 1994 at prices acceptable to all parties with a first right of refusal to the Principal Subsidiaries.

(c) Consultancy fees

-----  
Brender Services Limited ("Brender"), which is beneficially owned by a director of the Company, provided accountancy and consulting services to the Group through February 1, 1999 for HK\$270 (RMB289) per month.

(d) Leases

-----  
The Group leases its office space located in Hainan, the PRC from the Farming Bureau and the agreement expired on June 30, 2001. Also, the office spare in Hong Kong is leased from a company affiliated with one of the Group's directors. The lease expires on August 31, 2002.

As a result of the aforementioned transactions, the Group's amounts due from/to the Farming Bureau, employees and related companies controlled by the Farming Bureau or a shareholder of the Company consisted of:

	December 31,	
	2000	2001
	RMB	RMB
Due from Farming Bureau	13,509	--
Due from related companies	636	636
Due from employees	622	896
Due to related companies	666	366
	=====	=====

The balances with the Farming Bureau, employees and related companies are unsecured, interest-free and are repayable on demand.



## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

The balance with the employees represented bank accounts held by employees on behalf of the Group.

F-23

### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

#### 19. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Year ended December 31,		
	1999	2000	2001
	RMB	RMB	RMB
Cash paid during the year for:			
Interest expense	5	--	229
	====	=====	=====
Income tax	-	1,800	1,346
	====	=====	=====
Non-cash investing and financing activities:			
Addition of intangible assets	-	10,701	--
	====	=====	=====
Acquisition of minority interest in a subsidiary (note 4)	-	12,400	114,265
	====	=====	=====

#### 20. CONCENTRATION OF RISK

##### Concentration of credit risk:

Financial instruments that potentially subject the Group to significant concentration of credit risk consist principally of cash deposits, short term loans receivable, amounts due from the Farming Bureau and related companies and cost method investments.

##### (i) Cash and cash deposits

The Group maintains its cash and cash deposits primarily with various PRC government authorized financial institutions. The Group performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Group's investment strategy.

##### (ii) Short term loans receivable

One of the loans of RMB8,487 is secured by a corporate guarantee granted by the holding company of the debtor, which is a company listed on the Hong Kong Stock Exchange. The Group carefully assesses the recoverability of other loans not guaranteed or secured by collateral.

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

20. CONCENTRATION OF RISK (continued)

(iii) Amounts due from the Farming Bureau and related companies

The Farming Bureau has guaranteed the recoverability of a substantial portion of the amounts due from related companies, all of which are State-owned entities controlled by the Farming Bureau. The Group carefully assesses the recoverability of those balances not guaranteed by the Farming Bureau and generally does not require collateral. There were no receivables from the Farming Bureau at December 31, 2001.

(iv) Cost method investments

The Group's cost method investments consist of interests in unlisted shares/equity of PRC companies in which the Group does not have a significant influence over their operating and financial policies.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

(i) Cash and cash equivalents

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximate their fair value.

(ii) Marketable securities

The carrying amount reported in the consolidated balance sheets for marketable securities represents their fair values. The fair values for marketable securities are based on quoted market prices.

(iii) Short term loans receivable, accounts payable, other payables and margin loan

The carrying amounts reported in the balance sheet for short term loans receivable, accounts payable, other payables and margin loan approximate their fair values.

(iv) Amounts due from/to the Farming Bureau and related companies

The fair values of amounts due from/to the related companies cannot be determined due to their related party nature of those balances.

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

(v) Cost method investments

The Group believes that the carrying amounts represents the Group's best estimate of current economic values of these investments.

F-25

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(vi) Written call option

The fair value of written call options was estimated using the Black-Scholes option pricing model.

22. RESERVES AND DISTRIBUTION OF PROFITS

The movements in reserves during the years were as follows:

	Surplus reserve	Collective welfare fund	Total
	RMB	RMB	RMB
Balance at December 31, 1998	13,137	13,137	26,274
Appropriation for the year	278	278	556
	-----	-----	-----
Balance at December 31, 1999	13,415	13,415	26,830
Appropriation for the year	599	599	1,198
	-----	-----	-----
Balance at December 31, 2000 and 2001	14,014	14,014	28,028
	=====	=====	=====

In accordance with the relevant PRC regulations and the articles of association of HARC (the "Articles of Association"), appropriations representing 10% of the net income as reflected in its statutory financial statements will be allocated to each of surplus reserve and collective welfare fund.

Subject to certain restrictions set out in the relevant PRC regulations and the Articles of Association, the surplus reserve may be distributed in the form of share bonus issues.

In accordance with the relevant PRC regulations and the Articles of Association, the collective welfare fund must be used for capital expenditure on staff welfare facilities. Such facilities are for the use of the staff and are owned by HARC.

According to relevant laws and regulations in the PRC, distributable

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

reserves of HARC and its subsidiaries are determined in accordance with the relevant PRC accounting rules and regulations. The amount of retained earnings of HARC and its subsidiaries included in the consolidated balance sheet as of December 31, 1999 and available for distribution was RMB76,143. HARC had no retained earnings available for distribution as of December 31, 2000 and 2001.

F-26

### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

#### 23. ACCUMULATED OTHER COMPREHENSIVE GAINS/(LOSSES)

The component of other comprehensive gains/(losses) is as follows:

	Currency translation adjustments
	RMB
Balance at December 31, 1998	(4)
Currency translation adjustments	(14)
	---
Balance at December 31, 1999	(18)
Currency translation adjustments	36
	---
Balance at December 31, 2000	18
Currency translation adjustments	33
	---
Balance at December 31, 2001	51
	===

The earnings associated with the Group's investment in its foreign subsidiaries are considered to be permanently invested and no provision for U.S. federal and state income taxes on those earnings or translation adjustments has been provided.

#### 24. COMMITMENTS

##### (a) Lease commitments

At December 31, 2001, future minimum payments under non-cancelable operating leases for the leasing of buildings in the PRC and Hong Kong, including leases with related parties as describes in note 18, consist of the following:

	RMB
Payable in:	
2002	795

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

2003	510
2004	510
2005	510
2006	510
Thereafter	467
	-----
Total minimum lease payments	3,302
	=====

Rental expenses under operating leases for the years ended December 31, 1999, 2000 and 2001 amounted to RMB242, RMB242 and RMB1,254, respectively.

F-27

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

24. COMMITMENTS (continued)

(b) Machinery

Pursuant to a purchase agreement dated July 10, 1999, the Group was obligated to purchase machinery totaling RMB2,600. A deposit of RMB1,560 was paid.

In January 2001, the purchase agreement was canceled and the related deposit was repaid in the form of 49% of interest in a subsidiary of the Group having a fair value of RMB901 and cash of RMB712.

25. FOREIGN CURRENCY EXCHANGE

The RMB is not freely convertible into foreign currencies.

Effective from January 1, 1994, a single rate of exchange is quoted daily by the People's Bank of China (the "Unified Exchange Rate"). However, the unification of the exchange rates does not imply convertibility of RMB into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China.

26. RETIREMENT BENEFITS

As stipulated by the PRC regulations, the Operating Subsidiaries participated in a defined contribution retirement plan (the "Retirement Plan") administered by a State-owned insurance company controlled by the Farming Bureau. The Operating Subsidiaries were required to make contributions to the Retirement Plan at a rate of 21% of the aggregate of basic salaries, allowances and bonuses of its existing staff. All staff of the Operating Subsidiaries were covered under the Retirement Plan and upon retirement, the retired staff are entitled to a monthly pension payment borne by the above-mentioned insurance company under

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

the Retirement Plan. The Operating Subsidiaries were not responsible for any payment beyond the contributions to the Retirement Plan as noted above.

The amount of contributions paid by the Group on behalf of the Operating Subsidiaries, which were charged to the consolidated statements of operations, amounted to RMB262 for the year ended December 31, 1999. As more fully described in note 3, effective January 1, 2000, the Group disposed of these operations and therefore the Group made no contributions to the Retirement Plan in 2000 and 2001.

F-28

### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

#### 27. VALUATION AND QUALIFYING ACCOUNTS

	Provision for doubtful accounts	Provision for inventory write-downs	Total
	RMB	RMB	RMB
Balance at December 31, 1998	4,740	1,554	6,294
Recovery of bad debts written-off	(2,902)	--	(2,902)
	-----	-----	-----
Balance at December 31, 1999	1,838	1,554	3,392
Charged to costs and expenses	--	1,129	1,129
	-----	-----	-----
Balance at December 31, 2000	1,838	2,683	4,521
	=====	=====	=====

No provisions was made during the year ended December 31, 2001

#### 28. SEGMENT FINANCIAL INFORMATION

The Group was principally engaged in the distribution of natural rubber, the procurement of materials and supplies, and the distribution of other agricultural products in the PRC for the year 1999 presented in the consolidated financial statements.

##### Description of products by segment

-----  
 In 1999, the Group had two reportable segments: (i) rubber and (ii) materials, supplies and other agricultural products. As more fully described in note 3, effective January 1, 2000, the Group disposed of

## Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

these operations. The reportable segments in 2000 were supermarket operations and processed timber. Accordingly, the segment results in 1999 were restated. The Group's materials, supplies and other agricultural products division primarily sold materials, supplies and other agricultural products to farms, manufacturers and other distributors in the PRC. The Group's supermarket division primarily sold foods and grocery products to customers in the PRC. And the Group's timber division primarily sold processed timber wooden blocks to manufacturers and other distributors in the PRC. As more fully described in note 4, effective April 30, 2001, the Group disposed of its timber processing operations.

### Measurement of segment profit or loss and segment assets

-----

The Group evaluates performance and allocates resources based on profit or loss from operations before interest, gains and losses on the Group's investment portfolio, and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers between reportable segments are not material to any period presented.

### Factors management used to identify the Group's reportable segments

-----

The Group's reportable segments are business units that offer different products. The reportable segments are each managed separately because they distribute distinct products.

F-29

## CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

#### 28. SEGMENT FINANCIAL INFORMATION (continued)

##### Operating segment information

-----

	1999	Year ended Decemb 2000
	RMB	RMB
Net sales:		
Natural rubber:		
Net sales to unaffiliated customers	442,841	--
	-----	-----
	442,841	--
	-----	-----
Materials, supplies and other agricultural products:		
Net sales to unaffiliated customers	9,120	306
Net sales to affiliates	23,718	--
	-----	-----

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

	32,838	306
	-----	-----
Supermarket operations:		
Net sales to unaffiliated customers	688	5,253
	-----	-----
	688	5,253
	-----	-----
Total consolidated net sales	476,367	5,559
	=====	=====
Depreciation and amortization expenses:		
Natural rubber	723	--
Materials, supplies and other agricultural products	333	280
Supermarket operations	7	119
	-----	-----
Total segment depreciation and amortization expenses	1,063	399
Reconciling item:		
Depreciation and amortization expenses attributable to corporate assets	28	3,451
	-----	-----
Total consolidated depreciation and amortization expenses	1,091	3,850
	=====	=====

F-30

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

28. SEGMENT FINANCIAL INFORMATION (continued)

Operating segment information (continued)

	Year ended December 31,		
	1999	2000	2001
	-----	-----	-----
	RMB	RMB	RMB
Segment profit/(loss):			
Natural rubber	5,634	--	(157)
Materials, supplies and other agricultural products	3,040	10	--
Supermarket operations	32	453	417
	-----	-----	-----
Total segment profit/(loss)	8,706	463	260



Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Reconciling items:			
Corporate expenses	(14,971)	(26,341)	(31,307)
Interest income	944	11,749	1,537
Interest expense	(1)	(73)	(229)
	-----	-----	-----
Total consolidated loss before income taxes and discontinued operations	(5,322)	(14,202)	(29,739)
	=====	=====	=====

	December 31,	
	2000	2001
	-----	-----
	RMB	RMB
Segment assets:		
Natural rubber	--	--
Materials, supplies and other agricultural products	--	--
Supermarket operations	6,416	6,895
	-----	-----
Total segment assets	6,416	6,895
Reconciling items:		
Corporate assets	135,091	40,707
Investments	184,374	109,615
Assets of discontinued timber segment	7,303	--
	-----	-----
Total consolidated assets	333,184	157,217
	=====	=====

31

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

28. SEGMENT FINANCIAL INFORMATION (continued)

Operating segment information (continued)

-----

Year ended December 31,		
1999	2000	2001
-----	-----	-----
RMB	RMB	RMB

Expenditure for additions to long-lived assets:

Edgar Filing: CHINA RESOURCES DEVELOPMENT INC - Form 10-K

Natural rubber	--	--	--
Materials, supplies and other agricultural products	54	--	--
Supermarket operations	4,223	387	79
	-----	-----	-----
Total segment expenditure for additions to long-lived assets	4,277	387	79
Reconciling item:			
Corporate assets	557	2,718	586
Discontinued timber segment	1,326	3,250	--
	-----	-----	-----
Total consolidated expenditure for additions to long-lived assets	6,160	6,355	665
	=====	=====	=====

Long-lived assets of reportable segments and corporate assets consisted of property and equipment located in the PRC and Hong Kong.

Major customers

-----

The Group did not have any major customers that represented more than 10% of the total consolidated net sales in 1999, 2000 and 2001.