

CHINA RESOURCES DEVELOPMENT INC  
Form 10-Q  
August 20, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarter period ended June 30, 2001  
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Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

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

CHINA RESOURCES DEVELOPMENT, INC.  
(Exact Name of registrant as Specified in Charter)

Nevada	0-26046	87-02623643
(State or other Jurisdiction of incorporation)	(Commission File Number)	(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)

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 requirements for the past 90 days.

Yes    X            No  
-----            -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 837,797 shares of common stock, \$0.001 par value, as of August 14, 2001.

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 June 30, 2001, which was approximately 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 June 30, 2001, which was approximately 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 "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 "Hainan" are to Hainan Province of the PRC.

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

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.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000  
(Amounts in thousands, except share and per share data)

	Three Months Ended June 30,			
	2001	2000	2001	
	RMB	RMB	US\$	
NET SALES	1,499	1,280	181	6
COST OF SALES	(1,149)	(1,056)	(139)	(5)
GROSS PROFIT	350	224	42	
DEPRECIATION	(232)	(351)	(28)	
AMORTIZATION	(2,813)	--	(340)	(4)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(4,173)	(3,712)	(504)	(8)
FINANCIAL INCOME, NET	618	3,668	75	
OTHER INCOME/(EXPENSES), NET	330	(2,483)	40	10
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(5,920)	(2,654)	(715)	
INCOME TAXES	--	187	--	(1)
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS	(5,920)	(2,467)	(715)	(1)
MINORITY INTERESTS	145	591	18	1
INCOME/(LOSS) FROM CONTINUING OPERATIONS	(5,775)	(1,876)	(697)	
DISCONTINUED OPERATIONS Loss on continuing operations of discontinued timber segment	--	(308)	--	
NET LOSS	(5,775)	(2,184)	(697)	
BASIC AND DILUTED EARNINGS/ (LOSS) PER SHARE				
Continuing operations	(6.89)	(3.16)	(0.83)	(
Discontinued operations	--	(0.52)	--	(
Net loss per share - basic and diluted	(6.89)	(3.68)	(0.83)	(
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	837,797	592,900	837,797	837

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See notes to condensed consolidated financial statements.

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CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2001 AND DECEMBER 31, 2000  
(Amounts in thousands, except share and per share data)

	Notes	June 30, 2001 RMB (Unaudited)	December 31, 2000 RMB (Note)
	-----	-----	-----
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		34,846	37,546
Marketable securities	3	959	62,384
Inventories - finished goods		1,617	598
Other receivables, deposits and prepayments		10,884	10,585
Amount due from Farming Bureau		--	13,509
Amounts due from related companies		636	636
Income taxes recoverable		309	225
Net assets of discontinued operations	2	--	2,388
		-----	-----
<b>TOTAL CURRENT ASSETS</b>		<b>49,251</b>	<b>127,871</b>
<b>PROPERTY AND EQUIPMENT</b>	4	<b>7,078</b>	<b>9,044</b>
<b>PROPERTY, PLANT AND EQUIPMENT OF DISCONTINUED OPERATIONS</b>	2	<b>--</b>	<b>4,260</b>
<b>INVESTMENTS</b>		<b>109,615</b>	<b>184,374</b>
<b>INTANGIBLE ASSETS</b>		<b>22,604</b>	<b>7,860</b>
		-----	-----
<b>TOTAL ASSETS</b>		<b>188,548</b>	<b>333,409</b>
		=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable		234	269
Other payables and accrued liabilities	5	5,732	16,477
Margin loan payable	6	--	18,572
Due to investment adviser		12,253	12,253
Amount due to Farming Bureau		617	--
Amounts due to related companies		666	666
		-----	-----
<b>TOTAL CURRENT LIABILITIES</b>		<b>19,502</b>	<b>48,237</b>
<b>MINORITY INTERESTS</b>		<b>--</b>	<b>115,480</b>
		-----	-----
<b>TOTAL LIABILITIES AND MINORITY INTERESTS</b>		<b>19,502</b>	<b>163,717</b>
		-----	-----
<b>SHAREHOLDERS' EQUITY Common stock, US\$0.001 par value:</b>			
Authorized - 200,000,000 shares in 2001 and 2000			
Issued and outstanding - 837,797 shares in 2001			

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and 2000	7	7
Preferred stock, authorized - 10,000,000 shares in 2001 and 2000		
Series B preferred stock, US\$0.001 par value:		
Authorized - 320,000 shares in 2001 and 2000		
Issued and outstanding - 320,000 shares in 2001 and 2000	3	3
Additional paid-in capital	169,052	169,052
Reserves	28,028	28,028
Accumulated deficits	(28,077)	(27,416)
Accumulated other comprehensive income	33	18
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	169,046	169,692
	-----	-----
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 188,548	 333,409
	=====	=====

Note: The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to condensed consolidated financial statements.

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CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2001  
(Amounts in thousands)

	Common stock RMB	Series B preferred stock RMB	Additional paid-in capital RMB	Reserves RMB	Accumulated deficits RMB	Accumulated other comprehensive income RMB	Total RMB
	-----	-----	-----	-----	-----	-----	-----
Balance at January 1, 2001	7	3	169,052	28,028	(27,416)	18	169,692
Net loss	--	--	--	--	(661)	--	(661)
Currency translation Adjustments	--	--	--	--	--	15	15
Comprehensive loss	--	--	--	--	--	--	(646)
	-----	-----	-----	-----	-----	-----	-----
Balance at June 30, 2001	7	3	169,052	28,028	(28,077)	33	169,083
	=====	=====	=====	=====	=====	=====	=====

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See notes to condensed consolidated financial statements.

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CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
 FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000  
 (Amounts in thousands)

	2001	Six months ended J 2000
	-----	-----
	RMB	RMB
Net cash provided by/(used in) operating activities	(27,612)	71,533
INVESTING ACTIVITIES		
Purchases of property and equipment	(36)	(1,084)
Proceeds from disposal of investments	61,425	928
Proceeds from disposal of property and equipment	--	1,547
Acquisition of additional interest in a subsidiary	(36,478)	--
	-----	-----
Net cash provided by investing activities	24,911	1,391
	-----	-----
FINANCING ACTIVITY		
Reduction in minority interests	--	(1,373)
	-----	-----
Net cash provided by/(used in) continuing operations	(2,701)	71,551
Net cash provided by discontinued operations	--	74
	-----	-----
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,701)	71,625
Cash and cash equivalents, at beginning of period	37,547	38,138
	-----	-----
Cash and cash equivalents, at end of period	34,846	109,763
	=====	=====

See notes to condensed consolidated financial statements.

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CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL  
 STATEMENTS (UNAUDITED) (Amounts in thousands,  
 except per share data)

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### 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months period ended June 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

### 2. ACQUISITION AND DISPOSITION OF ASSETS

On April 30, 2001, the Company's wholly-owned subsidiary, Billion Luck, through its nominees, acquired a 39% equity interest in its 61%-owned subsidiary, HARC, from the Farming Bureau, for a total consideration of RMB129,405 (US\$15,629) (the "Purchase Consideration"). Following the acquisition, HARC has become 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 24,877,008 shares of Hainan Sundiro Motorcycle Co. Ltd., a 13% equity interest in Xilian Timber Mill and a 58% equity interest in Hainan Weilin Timber Limited Liability Company ("Hainan Weilin"), valued in the aggregate at RMB78,800 (US\$9,517). The Company has ceased the timber processing operations following the disposition of its 58% interest in Hainan Weilin.

Net sales of the timber processing operations included in discontinued operations totaled RMB1,282 (US\$155) and nil for the six months ended June 30, 2000 and 2001, respectively. Loss from discontinued operations of timber processing operations of RMB695 (US\$84) and RMB41 (US\$5) for the six months ended June 30, 2000 and 2001, respectively, is reported without set-off of any income tax expenses.

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The net assets of the timber processing operations were as follows:

Current assets  
Property and equipment, net

Decemb

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Current liabilities

Net assets of discontinued operations

The allocation of purchase price of the 39% equity interest in HARC reflected in the June 30, 2001 condensed consolidated balance sheet is tentative pending the completion of the valuations of the certain assets and liabilities acquired. The allocation may change with the completion of these valuations.

### 3. MARKETABLE SECURITIES

	June 30, 2001 RMB	Decemb
Trading securities listed on the Hong Kong Stock Exchange		
At cost	2,846	
Less: unrealized loss	(1,887)	(
	-----	----
Fair value	959	
	=====	====

### 4. PROPERTY AND EQUIPMENT, NET

	June 30, 2001 RMB	Decemb
At cost:		
Buildings and leasehold improvements	3,274	
Machinery, equipment and motor vehicles	4,644	
	-----	----
	7,918	
Accumulated depreciation:	(840)	
	-----	----
Net book value	7,078	
	=====	====

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### 5. OTHER PAYABLES AND ACCRUED LIABILITIES

	June 30, 2001 RMB	Decemb
--	-------------------------	--------

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Other payables	2,958
Accrued liabilities	2,774
Call options written, at fair value (premium received RMB3,182)	-
	-----
	5,732
	=====

6. MARGIN LOAN PAYABLE

The Company 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. The margin loan was repaid as the securities were sold in the first quarter of 2001.

7. SEGMENT FINANCIAL INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
	-----	-----	-----	-----
Net sales to external customers:				
Supermarket operations, net sales to unaffiliated customers	1,499	1,280	2,842	2,431
Natural rubber, net sales to unaffiliated customers	--	--	3,185	--
	-----	-----	-----	-----
Consolidated net sales from continuing operations	1,499	1,280	6,027	2,431
	=====	=====	=====	=====
Segment profit/(loss):				
Supermarket operations	125	(13)	214	(53)
Natural rubber	(517)	--	(1,018)	--
	-----	-----	-----	-----
Total segment loss	(392)	(13)	(804)	(53)
Reconciling items:				
Corporate expenses	(6,236)	(3,831)	(10,795)	(8,119)
Gain/(loss) on trading of marketable securities	90	(2,497)	7,298	10,486
Premium earned on written call options	--	--	3,180	--
Interest income	618	4,553	777	4,573
Interest expense	--	--	(229)	--
Exchange losses, net	--	(866)	--	(866)
	-----	-----	-----	-----
Consolidated income/(loss) from continuing operations before income taxes	(5,920)	(2,654)	(573)	6,021
	=====	=====	=====	=====

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	June 30, 2001 RMB	Decembe 2000
Segment assets:		
Supermarket operations	6,592	6,592
Natural rubber	7,690	7,690
	-----	-----
Total segment assets	14,282	14,282
Reconciling items:		
Corporate assets	64,651	64,651
Investments	109,615	109,615
	-----	-----
Total consolidated assets	188,548	188,548
	=====	=====

The natural rubber segment's assets decreased by more than RMB55 million at June 30, 2001 as compared to the amount at December 31, 2000 because the natural rubber segment exchanged certain of its assets as part of the consideration for the additional 39% interest in HARC in the second quarter of 2001 (see Note 2).

The processed timber segment which was reported in the Company's annual report on Form 10-K for the year ended December 31, 2000 was discontinued in the second quarter of 2001, as a result of the disposal of Hainan Weilin as detailed in Note 2.

8. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of RMB3.4 million (RMB4.10 per share) per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will have on the earnings and financial position of the Company.

9. COMPREHENSIVE LOSS

Three months ended

Six months

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	2001	June 30, 2000	2001
	RMB	RMB	RMB
Total comprehensive loss	(5,776)	(2,182)	(646)
	=====	=====	=====

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

RESULTS OF OPERATIONS

The following table shows the selected unaudited condensed consolidated income statement data of the Company and its subsidiaries for the three months and six months ended June 30, 2001 and 2000. The data should be read in conjunction with the unaudited Condensed Consolidated Financial Statements of the Company and related notes thereto.

The discussions below are presented in the Company's primary operating currency, which is the Renminbi Yuan ("RMB"). For information purposes only, the amounts may be translated into U.S. dollars at an exchange rate of \$1.00 = RMB8.28, which represents the approximate single rate of exchange as quoted by the People's Bank of China on June 30, 2001. No representation is made that RMB amounts could have been, or could be, converted into U.S. dollars at that rate or any other rate.

(Amounts in thousands)	Three months ended June 30,		Six months ended J
	2001	2000	2001
	RMB	RMB	RMB
Net sales:			
Supermarket operations	1,499	1,280	2,842
Natural rubber	-	-	3,185
	-----	-----	-----
	1,499	1,280	6,027
	-----	-----	-----
Gross profit	350	224	679
Gross profit margin (%)	23.35	17.50	11.27
Income/(loss) from continuing operations before income taxes	(5,920)	(2,654)	(573)
Income taxes	-	187	(1,262)
	-----	-----	-----
Income/(loss) from continuing operations before minority interests	(5,920)	(2,467)	(1,835)
Minority interests	145	591	1,198
	-----	-----	-----
Income/(loss) from continuing operations	(5,775)	(1,876)	(637)
Discontinued operations			
Loss on continuing operations of discontinued timber segment	--	(308)	(24)

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Net loss	----- (5,775) =====	----- (2,184) =====	----- (661) =====
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### NET SALES AND GROSS PROFIT

Supermarket operations were established by the Company in the fourth quarter of 1999. Net sales from supermarket operations increased by 16.9% from RMB2.4 million (US\$294,000) for the first half of 2000 to RMB2.8 million (US\$343,000) for the first half of 2001. For the first half of 2001, supermarket operations had gross profit and gross profit margin of RMB675,000 (US\$82,000) and 23.8%, respectively. For the first half of 2000, supermarket operations had gross profit and gross profit margin of RMB420,000 (US\$51,000) and 17.3%, respectively.

Net sales from supermarket operations increased by 17.1% from RMB1.3 million (US\$155,000) for the second quarter of 2000 to RMB1.5 million (US\$181,000) for the second quarter of 2001. For the second quarter of 2001, supermarket operations had gross profit and gross profit margin of RMB350,000 (US\$42,000) and 23.4%, respectively. For the second quarter of 2000, supermarket operations had gross profit and gross profit margin of RMB224,000 (US\$27,000) and 17.5%, respectively. The increase in net sales and gross profit margin were due to increased sales volume resulting from the successful marketing efforts of the Company and its ability to source less expensive and better quality products from suppliers.

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Notwithstanding the cessation of natural rubber operations in early 2000, the Company engages in trading of natural rubber occasionally when a profit is anticipated. During the first quarter of 2001, the Company had sales of RMB3.2 million (US\$385,000), gross profit of RMB4,000 (US\$483) and gross profit margin of 0.1%. The natural rubber market remained relatively stable in 2000 and 2001 and management anticipates that natural rubber prices will continue to remain stable for the foreseeable future. Therefore, the Company has decided to trade natural rubber again in the first quarter of 2001.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The selling, general and administrative expenses for the first half of 2001 is comparable to that for the first half of 2000. The increase in legal and professional fees and traveling expenses in relation to the exploring of investment opportunities for the first half of 2001 was offset by a bad debt recovery of RMB297,000 (US\$36,000) in the first half of 2001 and the decrease in professional and registration expenses for establishing new subsidiaries for its supermarket and timber operations in the first quarter of 2000.

Selling, general and administrative expenses for the second quarter of 2001 increased by 12.4% to RMB4.2 million (US\$504,000) from RMB3.7 million (US\$448,000) for the first half of 2000. The increase was mainly due to the increase in legal and professional fees and traveling expenses in relation to the exploring of investment opportunities, net of bad debt recovery of RMB297,000 (US\$36,000).

### AMORTIZATION

Expenses for the first half of 2001 represented amortization of acquired website technology on June 30, 2000 on the straight-line basis over two years and amortization of goodwill arising from the acquisition of the 39%

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equity interest in HARC from the Farming Bureau on April 30, 2001 on the straight-line basis over five years.

### FINANCIAL INCOME, NET

Net financial income for the first half of 2000 was RMB3.7 million (US\$448,000), which was comprised of interest income of RMB4.6 million (US\$556,000) and exchange loss of RMB866,000 (US\$105,000). Net financial income for the first half of 2001 was RMB548,000 (US\$66,000), which was comprised of interest income of RMB777,000 (US\$94,000) and interest expenses of RMB229,000 (US\$28,000). The decrease in financial income was mainly attributable to the interest received in the second quarter of 2000 on a RMB45.0 million (US\$5.4 million) short-term loan to an unaffiliated third party, which amounted to RMB4.2 million (US\$507,000). The exchange loss incurred in the first half of 2000 arose from the conversion of RMB to Hong Kong dollars. The financial expenses incurred in the first half of 2001 arose from a margin loan which was repaid in the first quarter of 2001.

Net financial income for the second quarter of 2000 was RMB3.7 million (US\$447,000), which was comprised of financial income of RMB4.5 million (US\$543,000) and exchange loss of RMB866,000 (US\$105,000). Financial income for the second quarter of 2001 was RMB618,000 (US\$75,000). The decrease in financial income was mainly attributable to the interest received in the second quarter of 2000 on a RMB45 million (US\$5.4 million) short-term loan to an unaffiliated third party, which amounted to RMB4.2 million (US\$507,000).

### OTHER INCOME/(EXPENSES), NET

Other income for the first half of 2000 represented a net gain on trading of marketable securities. Other income for the first half of 2001 represented a net gain on trading of marketable securities of RMB7.3 million (US\$882,000) and a premium earned on written call options of RMB3.2 million (US\$386,000)

Other expenses for the second quarter of 2000 represented a net loss on trading of marketable securities. Other income for the second quarter of 2001 represented a net gain on trading of marketable securities of RMB90,000 (US\$11,000).

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### 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.

### DISCONTINUED OPERATIONS

Discontinued operations represent the operating loss from the operations of the discontinued processed timber business resulting from the exchange of the Company's 58% interest in Hainan Weilin Timber Limited Liability Company as partial consideration for the minority interest of HARC.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity needs are to fund inventories, trade

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receivables and operating expenses, and to expand business operations. The Company has financed its working capital requirements primarily through internally generated cash.

The Company had a working capital surplus of approximately RMB29.7 million (US\$3.6 million) as of June 30, 2001, compared to that of approximately RMB79.6 million (US\$9.6 million) as of December 31, 2000. The decrease was mainly attributable to the Company paying approximately RMB36 million cash and foregoing approximately RMB14 million amount due from the Farming Bureau as partial consideration for the minority interest of HARC. Net cash used by operating activities for the six months ended June 30, 2001 was approximately RMB27.6 million (US\$3.3 million), as compared to net cash provided by operating activities of RMB71.5 million (US\$8.6 million) for the corresponding period in 2000. Net cash inflows/outflows from the Company's operating activities are attributable to the Company's net loss and changes in operating assets and liabilities. Net cash provided by investing activities for the six months ended June 30, 2001 was mainly attributable to the cash proceeds from the disposal of marketable securities, net of the cash consideration paid for the minority interest of HARC as stated above.

Except as disclosed above, there has been no other significant change in financial condition and liquidity since the fiscal year ended December 31, 2000. The Company believes that internally generated funds will be sufficient to satisfy its anticipated working capital needs for at least the next twelve months.

### MARKET RISK AND RISK MANAGEMENT POLICIES

All of the Company's sales and purchases are made domestically and are denominated in RMB. 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 RMB, there is no significant translation difference arising on consolidation. However, the Company may suffer exchange loss when it converts RMB to other currencies, such as Hong Kong Dollar or United States Dollar.

The Company's interest income is most sensitive to changes in the general level of RMB interest rates. In this regard, changes in RMB interest rates affect the interest earned on the Company's cash equivalents. As at June 30, 2001, the Company's cash equivalents are mainly RMB, Hong Kong Dollar and United States Dollar deposits with financial institutions, bearing market interest rates without fixed term.

As at June 30, 2001, the Company had short-term investments in marketable securities in the Hong Kong stock market with a total market value of RMB959,000 (US\$116,000). 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.

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### FINANCIAL POSITION

#### Marketable Securities

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Marketable securities decreased by 98% from December 31, 2000 to June 30, 2001 due to the sale of part of the securities in the first quarter of 2001.

#### Margin Loan Payable

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The margin loan payable at December 31, 2000 was used to purchase marketable securities. The margin loan was repaid when the securities were sold in the first quarter of 2001.

### Other Payables and Accrued Liabilities

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In the first half of 2001, the Company recognized the call option premium of RMB3.2 million (US\$384,000) included in other payables and accrued liabilities. Also, the Company repaid a short term loan payable in the amount of RMB6.9 million (US\$832,000) in the first half of 2001.

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS:

NONE

### ITEM 2. CHANGES IN SECURITIES:

NONE

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

NONE

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:

NONE

### ITEM 5. OTHER INFORMATION:

NONE

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) None.

(b) During the three months ended June 30, 2001, the Company filed (i) one current report on Form 8-K on May 17, 2001, that reported under Item 2, the acquisition of the 39% equity interest in HARC by Billion Luck, through its nominees, from the Farming Bureau for total consideration of Rmb129,405,000 (US\$15,629,000) and the Company's disposition of certain assets to the Farming Bureau, including 24,877,008 shares of Hainan Sundiro Motorcycle Co. Ltd., a 13% equity interest in Xilian Timber Mill and a 58% equity interest in Hainan Weilin, for total consideration of RMB78,800,000 (US\$9,517,000), and (ii) Amendment No.1 to such Current Report on June 5, 2001, including financial statements required by Regulation S-X.

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SIGNATURES

Pursuant to the requirements 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.

August 20, 2001

By:/s/ Ching Lung Po

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Ching Lung Po, Chairman

By:/s/ Tam Cheuk Ho

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Tam Cheuk Ho, Chief Financial Officer