

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

CHINA RESOURCES DEVELOPMENT INC  
Form 10-Q  
November 19, 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 September 30, 2001  
-----

☐ 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  
(State or other Jurisdiction  
of incorporation)

0-26046  
(Commission File Number)

87-02623643  
(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: 837,823 shares of common stock, \$0.001 par value, as of November 14, 2001.

CONVENTIONS

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

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 September 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 September 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

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

## CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

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

	Three Months Ended September 30,			Nine Months Ended September 30,
	2001	2000	2001	2000
	RMB	RMB	US\$	RMB
NET SALES	2,750	1,445	332	8,777
COST OF SALES	(2,483)	(1,135)	(300)	(7,831)
GROSS PROFIT	267	310	32	946
DEPRECIATION	(249)	(234)	(30)	(654)
AMORTIZATION	(2,342)	(1,337)	(283)	(6,493)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(4,007)	(4,408)	(484)	(12,128)
FINANCIAL INCOME/ (EXPENSES), NET	308	(3,088)	37	856
OTHER INCOME/(EXPENSES), NET	(1,003)	(136)	(121)	9,874
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(7,026)	(8,893)	(849)	(7,599)
INCOME TAXES	--	(79)	--	(1,262)
LOSS FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS	(7,026)	(8,972)	(849)	(8,861)
MINORITY INTERESTS	--	191	--	1,198
LOSS FROM CONTINUING OPERATIONS	(7,026)	(8,781)	(849)	(7,663)
DISCONTINUED OPERATIONS				
Loss on continuing operations of discontinued timber segment	--	(32)	--	(24)
NET LOSS	(7,026)	(8,813)	(849)	(7,687)
BASIC AND DILUTED LOSS PER SHARE				
Continuing operations	(8.39)	(10.86)	(1.01)	(9.15)
Discontinued operations	--	(0.04)	--	(0.03)
NET LOSS PER SHARE - BASIC AND DILUTED	(8.39)	(10.90)	(1.01)	(9.18)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	837,797	808,516	837,797	837,797

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

See notes to condensed consolidated financial statements.

3

CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30, 2001 AND DECEMBER 31, 2000

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

		September 30, 2001 RMB (Unaudited)	December 31, 2000 RMB (Not Audited)
	Notes		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		13,173	37,500
Marketable securities	3	3,239	62,300
Inventories - finished goods		597	5,000
Other receivables, deposits and prepayments		10,494	10,500
Short term loans receivable	4	20,140	
Amount due from Farming Bureau		--	13,500
Amounts due from related companies		636	6,000
Income taxes recoverable		175	2,000
Net assets of discontinued operations	2	--	2,300
		-----	-----
TOTAL CURRENT ASSETS		48,454	127,800
PROPERTY AND EQUIPMENT	5	6,917	9,000
PROPERTY, PLANT AND EQUIPMENT OF DISCONTINUED OPERATIONS	2	--	4,200
INVESTMENTS		109,615	184,300
INTANGIBLE ASSETS		20,262	7,800
		-----	-----
TOTAL ASSETS		185,248	333,400
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		262	2,000
Other payables and accrued liabilities	6	9,430	16,400
Margin loan payable	7	--	18,500
Due to investment adviser		12,253	12,200
Amount due to Farming Bureau		617	
Amounts due to related companies		666	6,000
		-----	-----
TOTAL CURRENT LIABILITIES		23,228	48,200
MINORITY INTERESTS		--	115,400
		-----	-----
TOTAL LIABILITIES AND MINORITY INTERESTS		23,228	163,700
		-----	-----
SHAREHOLDERS' EQUITY Common stock, US\$0.001 par value:			
Authorized - 200,000,000 shares in 2001 and 2000			

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

Issued and outstanding - 837,797 shares in 2001 and 2000		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	
Additional paid-in capital	169,052		169,0
Reserves	28,028		28,0
Accumulated deficits	(35,103)		(27,4
Accumulated other comprehensive income	33		
	-----		-----
TOTAL SHAREHOLDERS' EQUITY	162,020		169,6
	-----		-----
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			
	185,248		333,4
	=====		=====

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.

4

## CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 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
Balance at January 1, 2001	7	3	169,052	28,028	(27,416)	18
Net loss	--	--	--	--	(7,687)	--
Currency translation adjustments	--	--	--	--	--	15
Comprehensive loss						
	-----	-----	-----	-----	-----	-----
Balance at September 30, 2001	7	3	169,052	28,028	(35,103)	33
	=====	=====	=====	=====	=====	=====

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

See notes to condensed consolidated financial statements.

5

## CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000 (Amounts in thousands)

	Nine months ended September 30	
	2001	2000
	-----	-----
	RMB	RMB
Net cash provided by/(used in) operating activities	(29,957)	46,898
INVESTING ACTIVITIES		
Purchases of property and equipment	(123)	(2,739)
Proceeds from disposal of investments	59,145	928
Proceeds from disposal of property and equipment	--	1,547
Acquisition of additional interest in a subsidiary	(36,478)	--
Advances of short term loans to third parties	(20,140)	--
	-----	-----
Net cash provided by/(used in) investing activities	2,404	(264)
	-----	-----
FINANCING ACTIVITIES		
Advance of short term loan from a third party	3,180	--
Reduction in minority interests	--	(3,075)
	-----	-----
Net cash provided by/(used in) financing activities	3,180	(3,075)
	-----	-----
Net cash provided by/(used in) continuing operations	(24,373)	43,559
Net cash used in discontinued operations	--	(115)
	-----	-----
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(24,373)	43,444
Cash and cash equivalents, at beginning of period	37,546	38,138
	-----	-----
Cash and cash equivalents, at end of period	13,173	81,582
	=====	=====

See notes to condensed consolidated financial statements.

6

## CHINA RESOURCES DEVELOPMENT, INC., AND SUBSIDIARIES

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

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

#### 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 nine months period ended September 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") comprised of cash, amount due from Farming Bureau and the Company's interest in certain assets described below. 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 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 ceased timber processing operations following 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 nine months ended September 30, 2000 and 2001, respectively. Loss from discontinued operations of timber processing operations of RMB750 (US\$91) and RMB41 (US\$5) for the nine months ended September 30, 2000 and 2001, respectively, is reported without set-off of any income tax expenses.

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

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

Current assets  
Current liabilities

Net current assets of discontinued operations  
Property, plant and equipment of discontinued operations

Net assets of discontinued operations

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

## 3. MARKETABLE SECURITIES

	September 30, 2001 RMB	December 31, 2000 RMB
Trading securities listed on the Hong Kong Stock Exchange		
At cost	3,748	
Less: unrealized losses	(2,614)	
Fair value	1,134	
Trading securities listed on the United States Stock Exchange		
At cost	2,480	
Less: unrealized losses	(375)	
Fair value	2,105	
	3,239	

## 4. SHORT TERM LOANS RECEIVABLE

During 2001, the Company advanced short term loans to three unaffiliated third parties of RMB5,300, RMB8,480 and RMB6,360 at annual interest rates of 8%, 12% and Hong Kong prime lending rate (6% at September 30, 2001) plus 2%, respectively. These loans receivable are due at various dates through January 2, 2002.



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

## 5. PROPERTY AND EQUIPMENT, NET

	September 30, 2001 RMB	December 31, 2000 RMB
At cost:		
Buildings and leasehold improvements	3,274	
Machinery, equipment and motor vehicles	4,732	
	-----	-----
	8,006	
Accumulated depreciation:	(1,089)	(1,089)
	-----	-----
Net book value	6,917	6,917
	=====	=====

## 6. OTHER PAYABLES AND ACCRUED LIABILITIES

	September 30, 2001 RMB	December 31, 2000 RMB
Other payables	6,457	
Accrued liabilities	2,973	
Call options written, at fair value (premium received RMB3,182)	-	
	-----	-----
	9,430	
	=====	=====

During 2001, the Company repaid a RMB6,890 advance from an unaffiliated third party and obtained a new advance from another unaffiliated third party in the amount of RMB3,180. The RMB3,180 advance is due upon demand and bears interest at an annual interest rate of Hong Kong prime lending rate (6% at September 30, 2001) plus 2%.

## 7. 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.

## 8. SEGMENT FINANCIAL INFORMATION

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

	Three months ended September 30,		Nine months ended September 30,
	2001	2000	2001
	RMB	RMB	RMB
Net sales to external customers:			
Supermarket operations, net sales to unaffiliated customers	1,860	1,445	4,702
Natural rubber, net sales to unaffiliated customers	890	--	4,075
	-----	-----	-----
Consolidated net sales from continuing operations	2,750	1,445	8,777
	=====	=====	=====
Segment profit/(loss):			
Supermarket operations	121	71	335
Natural rubber	(681)	--	(1,699)
	-----	-----	-----
Total segment income/(loss)	(560)	71	(1,364)
Reconciling items:			
Corporate expenses	(5,744)	(5,709)	(16,539)
Gain/(loss) on trading of marketable securities	(1,030)	(168)	6,268
Premium earned on written call options	--	--	3,180
Interest income	379	227	1,156
Interest expense	(71)	--	(300)
Exchange losses, net	--	(3,314)	--
	-----	-----	-----
Consolidated loss from continuing operations before income taxes	(7,026)	(8,893)	(7,599)
	=====	=====	=====
			September 30, 2001 RMB
Segment assets:			
Supermarket operations			6,763
Natural rubber			5,723
			-----
Total segment assets			12,486
Reconciling items:			
Corporate assets			63,147
Investments			109,615
			-----
Total consolidated assets			185,248
			=====

The natural rubber segment's assets decreased by more than RMB57,089 at September 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 acquired by the Company in the second quarter of 2001 (see Note 2).

The processed timber segment which was reported in the Company's

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

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.

10

### 9. 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.

### 10. COMPREHENSIVE LOSS

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Total comprehensive loss	(7,026)	(8,813)	(7,672)	(8,813)
	=====	=====	=====	=====

11

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

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

## 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 nine months ended September 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 September 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 September 30,		Nine months ended Sep	
	2001 RMB	2000 RMB	2001 RMB	2000 RMB
Net sales:				
Supermarket operations	1,860	1,445	4,702	3,860
Natural rubber	890	--	4,075	--
	-----	-----	-----	-----
	2,750	1,445	8,777	3,860
	-----	-----	-----	-----
Gross profit	267	310	946	730
Gross profit margin (%)	9.71	21.45	10.78	18.8%
Loss from continuing operations				
before income taxes	(7,026)	(8,893)	(7,599)	(2,860)
Income taxes	--	(79)	(1,262)	(1,860)
	-----	-----	-----	-----
Loss from continuing operations				
before minority interests	(7,026)	(8,972)	(8,861)	(4,720)
Minority interests	--	191	1,198	(3,720)
	-----	-----	-----	-----
Loss from continuing operations	(7,026)	(8,781)	(7,663)	(8,440)
Discontinued operations				
Loss on continuing operations of				
discontinued timber segment	--	(32)	(24)	(4)
	-----	-----	-----	-----
Net loss	(7,026)	(8,813)	(7,687)	(8,844)
	=====	=====	=====	=====

## 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 21.3% from RMB3.9 million (US\$468,000) for the nine months ended September 30, 2000 to RMB4.7 million (US\$568,000) for the nine months ended September 30, 2001. For the nine months ended September 30, 2001, supermarket operations had gross profit and gross profit margin of RMB1,121,000 (US\$135,000) and 23.8%, respectively. For the nine months ended September 30, 2000, supermarket operations had gross profit and gross profit margin of RMB730,000 (US\$88,000) and 18.8%, respectively.

Net sales from supermarket operations increased by 28.7% from RMB1.4

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

million (US\$174,000) for the third quarter of 2000 to RMB1.9 million (US\$225,000) for the third quarter of 2001. For the third quarter of 2001, supermarket operations had gross profit and gross profit margin of RMB446,000 (US\$54,000) and 24.0%, respectively. For the third quarter of 2000, supermarket operations had gross profit and gross profit margin of RMB310,000 (US\$37,000) and 21.5%, 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.

12

Notwithstanding the cessation of natural rubber operations in early 2000, the Company engages in trading of natural rubber occasionally, depending on market conditions. The Company had sales of RMB4.1 million (US\$495,000) and RMB890,000 (US\$107,000) for the nine months and three months ended September 30, 2001, respectively, with gross loss of RMB175,000 (US\$21,000) and RMB179,000 (US\$22,000) for the nine months and three months ended September 30, 2001, respectively. 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 the third quarter of 2001.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The selling, general and administrative expenses for the nine months ended September 30, 2001 decreased by RMB363,000 (US\$44,000) or 2.9% compared to that for the nine months ended September 30, 2000. The decrease resulted from a bad debt recovery in the amount of RMB629,000 (US\$76,000) in the nine months ended September 30, 2001. The decrease is offset by increases in legal, professional and travel expenses incurred in relation to the exploration of investment opportunities during 2001.

Selling, general and administrative expenses for the third quarter of 2001 decreased by 9.1% to RMB4.0 million (US\$484,000) from RMB4.4 million (US\$532,000) for the third quarter of 2000. The decrease was mainly due to a bad debt recovery of RMB332,000 (US\$40,000) in the third quarter of 2001.

### AMORTIZATION

Expenses for the three months and nine months ended September 30, 2000 represented amortization of website technology, acquired on June 30, 2000, which is being recorded on the straight-line basis over two years. Expenses for the three months and nine months ended September 30, 2001 represented amortization of the website technology and amortization of goodwill arising from the acquisition of the 39% 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 nine months ended September 30, 2000 was RMB619,000 (US\$75,000), which was comprised of interest income of RMB4.8 million (US\$580,000) and exchange loss of RMB4.2 million (US\$507,000). Net financial income for the nine months ended September 30, 2001 was RMB856,000 (US\$103,000), which was comprised of interest income of RMB1.2 million (US\$145,000) and interest expenses of RMB300,000 (US\$36,000). 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 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

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

repaid in the first quarter of 2001.

Net financial expenses for the third quarter of 2000 was RMB3.1 million (US\$374,000), which was comprised of interest income of RMB227,000 (US\$27,000) and exchange loss of RMB3.3 million (US\$398,000). Net financial income for the third quarter of 2001 was RMB308,000 (US\$37,000). The increase in financial income was mainly attributable to the interest received in the third quarter of 2001 on RMB20 million (US\$2.4 million) short-term loans to three unaffiliated third parties.

### OTHER INCOME/(EXPENSES), NET

Other income for the nine months ended September 30, 2000 represented a net gain on trading of marketable securities. Other income for the nine months ended September 30, 2001 represented a net gain on trading of marketable securities of RMB6.3 million (US\$760,000) and a premium earned on written call options of RMB3.2 million (US\$386,000).

Other expenses for the third quarter of 2000 and 2001 represented a net loss on trading of marketable securities.

13

### 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 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 RMB25.2 million (US\$3.0 million) as of September 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 (US\$4.3 million) cash and foregoing approximately RMB14 million (US\$1.7 million) due from the Farming Bureau as partial consideration for the minority interest of HARC. Net cash used by operating activities for the nine months ended September 30, 2001 was approximately RMB29.9 million (US\$3.6 million), as compared to net cash provided by operating activities of RMB46.9 million (US\$5.7 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 nine months ended September 30, 2001 was mainly attributable

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

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, and net of loans made to third parties. Net cash provided by financing activities for the nine months ended September 30, 2001 was attributable to the RMB3 million (US\$0.4 million) advance of short term loan from a third party.

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 September 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.

14

As at September 30, 2001, the Company had short-term investments in marketable securities in the Hong Kong and United States stock markets with a total market value of RMB3,239,000 (US\$391,000). 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.

### FINANCIAL POSITION

#### Marketable Securities

Marketable securities decreased by 95% from December 31, 2000 to September 30, 2001 due to the sale of part of the securities in 2001.

#### Margin Loan Payable

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 2001.

#### Other Payables and Accrued Liabilities

In 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 of RMB6.9 million (US\$832,000) and had a short term loan payable of RMB3.0 million (US\$362,000) in 2001.

15

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 September 30, 2001, the Company filed no Current Reports on Form 8-K.

16

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.



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

November 19, 2001

By:/s/ Ching Lung Po

-----  
Ching Lung Po, Chairman

By:/s/ Tam Cheuk Ho

-----  
Tam Cheuk Ho, Chief Financial Officer