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CHINA RESOURCES DEVELOPMENT INC  
Form 10-K  
April 17, 2001

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, 2000

CHINA RESOURCES DEVELOPMENT, INC.  
(Exact name of Registrant as specified in its Charter)

Nevada	0-26046	87-02623643
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(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  
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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  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.): \$1,735,000 as of April 4, 2001.

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. 837,797 shares of Common Stock, \$.001 par value (as of March 30, 2000).

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DOCUMENTS INCORPORATED BY REFERENCE: Definitive Proxy Statement for 2000 Annual Meeting of Shareholders (Schedule 14A) is incorporated by reference in Part I, Item 4, hereof.

### CONVENTIONS

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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, 2000, 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, 2000, 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.

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

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 is owned 58% by HARC and 42% by Haikou Mechanical Factory, a PRC entity which is owned and controlled by the Farming Bureau.

References to "HARC" are to Hainan Zhongwei Agricultural Resources Company Limited (formerly known as Hainan Agricultural Resources Company Limited), a Sino-foreign joint stock company organized in the PRC, whose capital is owned 56% by Billion Luck, 39% by the Farming Bureau and 5% by China Resources Development, Inc.

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.

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References to "Medi-China" are to Zhongwei Medi-China.com Limited, a Hong Kong company and is 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

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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.

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 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.

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### PART I

[Item 1]

### BUSINESS

#### GENERAL

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%

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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. It conducts its activities through its 56% interest in HARC. 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."

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). Following the acquisition, the Company's effective interest in HARC became 61%. The remaining interest in HARC of 39% is held by the Farming Bureau.

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. In the view of management, the performance of natural rubber distribution and the materials and supplies procurement business had been unsatisfactory for some time since 1998. Management estimated that the poor operating environment of these businesses persisted for the foreseeable future. Management 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 and improve operating and management efficiency, allowing management to focus on exploring other investment opportunities.

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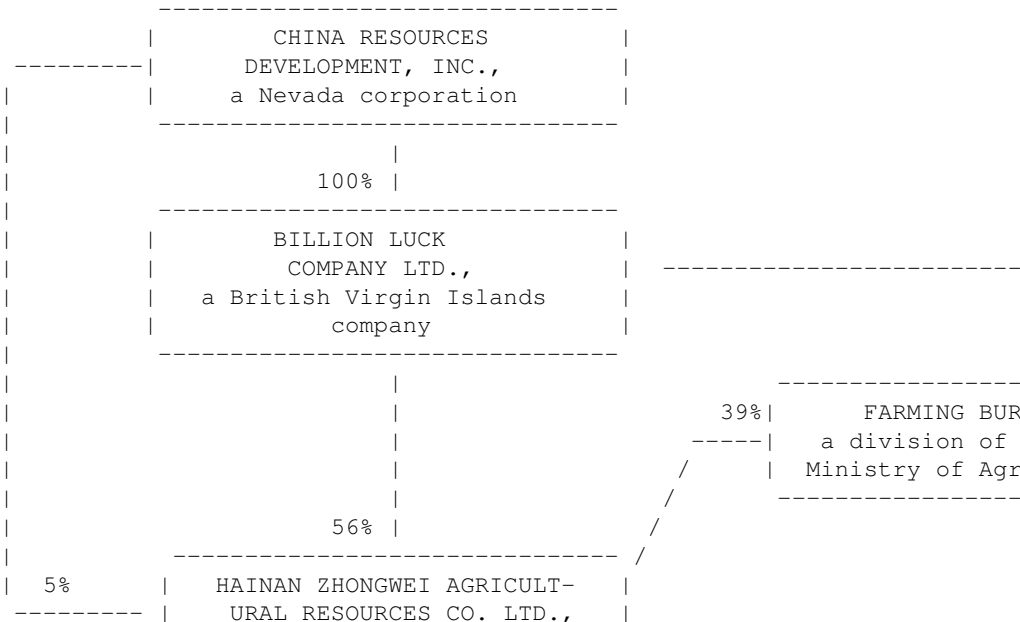
Zhongwei Trading was incorporated on September 28, 1998, with a registered capital of Rmb5 million (US\$0.60 million). Zhongwei Trading is owned 95% by HARC and 5% by Billion Luck. Since its commencement of operation in 1999, Zhongwei Trading has invested in the marketable securities in the China Stock Market as short-term investments. As opportunities arise, Zhongwei Trading shall expand its business in the trading of 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 mainly engaged in the operation of a supermarket in Zhuhai, PRC, which sells food and daily products.

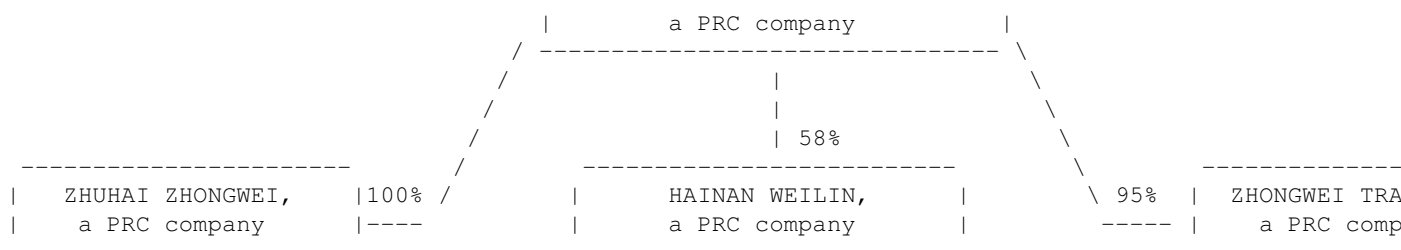
Hainan Weilin was incorporated on June 22, 1999, with a registered capital of Rmb8.56 million (US\$1.03 million). Hainan Weilin is owned 58% by HARC and 42% by Haikou Mechanical Factory, a PRC entity which is owned and controlled by the Farming Bureau, and is mainly engaged in the sale of processed timber wooden blocks.

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 the provision of online Internet healthcare content, through its website, 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. For the year ended December 31, 2000, neither Silver Moon nor Medi-China has revenue contribution to the Company.

The following chart illustrates the equity ownership by percentage of each of the Company's principal operating subsidiaries as of December 31, 2000:



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### Organizational and Management Structure of HARC

During the first quarter of 2000, HARC undertook a restructuring plan, designed to cease the operations of its two primary businesses, the marketing and distribution of natural rubber and the procurement of production materials, supplies and other agricultural products, which were originally conducted by First Supply, Second Supply and Sales Centre. Under the restructuring plan, the operations of First Supply, Second Supply and Sales Centre were ceased and the assets, liabilities and staff related thereto were transferred 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. The restructuring plan reduces selling and administrative expenses as the two businesses are ceased and improve operating and management efficiency as non-profitable assets are sold, allowing management to focus on exploring other investment opportunities. After the restructuring plan, First Supply, Second Supply and Sales Centre have become dormant.

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As part of the restructuring, HARC has set up several new lines of businesses, including supermarket operations (through Zhuhai Zhongwei) and sale of processed timber wooden blocks (through Hainan Weilin). However, the scale of operation of the new businesses remained relatively small during 2000, and timber processing operations have been temporarily suspended.

HARC has a two-tier structure with 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. As of December 31, 2000, the board of directors was made up of 5 members, of which two were nominated by the Farming Bureau and three were nominated by Billion Luck. The Chairman of HARC was nominated by the Farming Bureau, and the Vice-Chairman was nominated by Billion Luck.

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, 2000, the supervisory board was made up of three members, one of which was nominated by Billion Luck, the Farming Bureau and the employees of HARC, respectively.

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## 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 years ended December 31, 1999 and 1998, the Company had two 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. See Financial Statements and Notes included therein attached as Appendix A hereto.

	Year Ended December 31,			
	1998	1999	2000	2000
	-----	-----	-----	-----
	(Rmb)	(Rmb)	(Rmb)	(US\$)
Net sales to external customers:				
Natural rubber:				
Net sales to unaffiliated customers	453,952	442,841	--	--
Net sales to affiliates	16,121	--	--	--
	-----	-----	-----	-----
	470,073	442,841	--	--
	-----	-----	-----	-----
Materials, supplies and other agricultural products:				
Net sales to unaffiliated customers	43,367	9,120	306	37
Net sales to affiliates	14,252	23,718	--	--
	-----	-----	-----	-----
	57,619	32,838	306	37
	-----	-----	-----	-----
Supermarket operations:				
Net sales to unaffiliated customers	--	688	5,253	634
Net sales to affiliates	--	--	--	--
	-----	-----	-----	-----
	--	688	5,253	634
	-----	-----	-----	-----
Processed timber:				
Net sales to unaffiliated customers	--	--	1,395	169
Net sales to affiliates	--	--	--	--
	-----	-----	-----	-----
	--	--	1,395	169
	-----	-----	-----	-----
 Total consolidated net sales	 527,692	 476,367	 6,954	 840
	=====	=====	=====	=====



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	Year Ended December 31,			
	1998	1999	2000	2000
	-----	-----	-----	-----
	(Rmb)	(Rmb)	(Rmb)	(US\$)
Depreciation and amortization expenses:				
Natural rubber	1,287	723	--	--
Materials, supplies and other agricultural products	45	333	280	34
Supermarket operations	--	7	119	14
Processed timber	--	--	317	38
	-----	-----	-----	-----
Total segment depreciation and amortization expenses	1,332	1,063	716	86
Reconciling item:				
Depreciation and amortization expenses attributable to corporate assets	38	28	3,134	379
	-----	-----	-----	-----
Total consolidated depreciation and amortization expenses	1,370	1,091	3,850	465
	=====	=====	=====	=====
Segment profit/(loss):				
Natural rubber	3,465	5,634	--	--
Materials, supplies and other agricultural product	(7,967)	3,040	10	1
Supermarket operations	--	117	1,045	126
Processed timber	--	--	(503)	(60)
	-----	-----	-----	-----
Total segment profit/(loss)	(4,502)	8,791	552	67
Reconciling items:				
Corporate expenses	(15,852)	(15,056)	(28,416)	(3,432)
Loss on impairment of an investment	(49,969)	--	--	--
Interest income	6,862	944	11,749	1,419
Interest expenses	(289)	(1)	--	--
	-----	-----	-----	-----
Total consolidated loss before income taxes	(63,750)	(5,322)	(16,115)	(1,946)
	=====	=====	=====	=====
Segment assets:				
Natural rubber	258,090	115,651	--	--
Materials, supplies and other agricultural product	16,298	105,631	--	--
Supermarket operations	--	6,290	6,416	775
Processed timber	--	4,281	7,303	882
	-----	-----	-----	-----

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Total segment assets	274,388	231,853	13,719	1,657
Reconciling item:				
Corporate assets	8,046	53,912	135,746	16,394
Investments	119,301	117,808	184,374	22,268
Intersegment receivables	(31,009)	(26,477)	--	--
	-----	-----	-----	-----
Total consolidated assets	370,726	377,096	333,839	40,319
	=====	=====	=====	=====

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Year Ended December 31,

	1998	1999	2000	2000
	----	----	----	----
	(Rmb)	(Rmb)	(Rmb)	(US\$)
Expenditure for additions to long-lived assets:				
Natural rubber	332	--	--	--
Materials, supplies and other agricultural products	58	54	--	--
Supermarket operations	--	4,223	387	47
Processed timber	--	1,326	3,250	392
	-----	-----	-----	-----
Total segment expenditure for additions to long-lived assets	390	5,603	3,637	439
Reconciling item:				
Corporate assets	700	557	2,718	328
	-----	-----	-----	-----
Total consolidated expenditure for additions to long-lived assets	1,090	6,160	6,355	767
	=====	=====	=====	=====

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 food and 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 either 1999 or 2000. The value of total purchases of consumer products was approximately Rmb1.1 million (US\$133,000) and Rmb4.3 million (US\$519,000) in 1999 and 2000, respectively. The top five suppliers accounted for approximately 28% and 24% of total purchases in 1999 and 2000, respectively. All purchases were made in Renminbi on either cash basis or open account basis payable within 7 to 30 days.

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

### PROCESSED TIMBER

The Company, through Hainan Weilin, has been engaged in the processing and sale of timber with an annual production capacity of 5,000 cubic meters. The processing factory has been operated from early 2000 through October 2000 at one third of its 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 has decided to temporarily suspend processed timber operations.

### PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

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The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or any national laws. In the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations, and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws

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passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretations of the regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

The people's courts are the judicial organs of the PRC. Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC, the People's Courts are comprised of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may, before the taking effect of a judgment or order, appeal the judgment or order first to a local people's court, then to the people's court at the next higher level. Judgments or orders at the next higher level are final and binding. Judgments or orders of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the PRC (the "Civil Procedure Law") adopted on April 9, 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction to the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

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A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country which provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC and its sovereignty, security or social or public interest.

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

The China International Economic and Trade Arbitration Commission ("CIETAC"), established in Beijing under the auspices of the China Council for the Promotion of International Trade with branches in Shenzhen and Shanghai, is one of two domestic arbitration organizations in the PRC charged with arbitrating foreign-related disputes. Under the new CIETAC arbitration rules, which came into effect on June 1, 1994, CIETAC has jurisdiction over any dispute arising from "international or external economic and trade transactions" with respect to which an arbitration agreement selecting CIETAC arbitration has been reached. The other arbitration organization exclusively arbitrates foreign-related maritime disputes.

The CIETAC rules provide that an award rendered by a CIETAC tribunal shall be final and binding on the parties. The Civil Procedure Law also provides that a PRC court may only refuse to enforce a CIETAC final award in the event of procedural errors relating to the jurisdiction of CIETAC over a given dispute or the failure by an arbitration tribunal to abide by CIETAC rules, and may also deny execution of the award in the event that it determines that doing so would be against the "public interest".

In deciding the substantive aspects of a dispute, the CIETAC arbitration tribunal must look to the governing law of the contract. PRC foreign economic contract law permits the parties to choose foreign or PRC law as the governing law in most cases. In the event that the parties have not chosen a governing law, PRC choice of law rules provide for the selection of the law which has the closest connection to the subject matter of the dispute.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for

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enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. In respect to contractual and non-contractual commercial-law-related disputes which are recognized as such for the purposes of the PRC laws, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

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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. While China has promulgated an Administrative Procedure Law permitting redress to the courts with respect to certain administrative actions, this law appears to be largely untested in this context. Although the Company believes that the support of local, provincial, and national governmental entities benefits the Company's operations in connection with administrative reviews and receiving approvals, there can be no assurance that such approvals, when necessary or advisable, will be forthcoming.

[Item 2]

### PROPERTIES

The office space, supermarket, timber processing factory and other facilities of HARC and its principal subsidiaries are located in Hainan, Zhuhai and Shenzhen in the PRC. HARC, First Supply and Second Supply previously used warehouse and other facilities consisting of a total gross area of approximately 11,000 square meters for their distribution of natural rubber business and procurement of materials and supplies business, which were transferred to the Farming Bureau pursuant to the Restructuring Agreements effective as of January 1, 2000. The structure and building in respect of the supermarket which the Company operates is owned by Zhuhai Zhongwei 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. The total rental was Rmb400,000 (US\$48,000).

The Farming Bureau has also entered into a rental agreement with HARC with respect to the rental of a portion consisting of 532 square meters of a building located in Haikou City, PRC, in which HARC's offices 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. The rental agreement further provides that HARC shall be responsible for certain costs and expenses in connection with its use of the property. On August 9, 1996, an additional rental agreement was entered into between HARC and the Hainan Farming Bureau Testing Center, an affiliate of the Farming Bureau, covering additional portions of the same building. The term of the lease is for a period of eight years (through September 30, 2004), and it covers an area of approximately 314 square meters at an annual rental rate of Rmb72,000 (US\$8,696). On July 1, 2000,

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pursuant to mutual agreement, both parties agreed to terminate the additional rental agreement.

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 material legal proceedings pending or threatened against the Company or any of its subsidiaries as of December 31, 2000.

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

On October 12, 2000, the Company held its annual meeting of shareholders, at which a quorum of shares held of record on September 14, 2000 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. ratification of the issuance of 244,897 shares of the Company's unregistered restricted common stock, \$0.001 par value (496,808 votes for, 14,371 votes withheld, 10 abstentions); and
2. approval of an amendment to the Amended and Restated 1995 Stock Option Plan to modify the pricing procedure for the exercise of nonqualified stock options and to eliminate the requirement for shareholder approval of any modification of the Plan that would materially increase the benefits accruing to participants in the Plan (729,140 votes for, 26,926 votes withheld, 20 abstentions); and
3. the election of Tam Cheuk Ho and Wong Wah On to serve as directors in Class I (745,133 votes for, 10,953 abstentions); and
4. the ratification of the appointment of Ernst & Young as the Company's independent accountants for the fiscal year ending December 31, 2000 (748,471 votes for, 7,615 votes against).

The proxy materials sent to the shareholders of the Company, which included the notice to shareholders and the full text of each of the above proposals as proposed and adopted, are incorporated herein by reference.

### [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. The Company's Common Stock has been traded since August 7, 1995, on The Nasdaq Stock Market under the symbol "CHRB." Prior to such date, the Company's Common Stock was traded in the over-the-counter market on the OTC Bulletin Board (the "Bulletin Board")

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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 1999 and 2000. 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
1999 Fiscal Year, quarter ended:		
March 31, 1999.....	\$8.1	\$3.4
June 30, 1999.....	6.3	3.5
September 30, 1999.....	7.1	4.1
December 31, 1999.....	24.5	3.9

On March 30, 2001, there were 2,449 holders of record of the Company's Common Stock.

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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 the HARC'S board of directors based upon HARC's business performance and development needs, subject to the approval of HARC's shareholders. Distributions of profits by HARC to Billion Luck are required to be pro rata in proportion to such party's investment in such company. 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



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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, 1996, 1997, 1998, 1999 and 2000, are derived from the consolidated financial statements elsewhere herein. The data should be read in conjunction with, and qualified in their 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.

	In Thousands, Except Per Share Amounts			
	Year Ended December 31,			
	1996	1997	1998	1999
	(Rmb)	(Rmb)	(Rmb)	(Rmb)
<b>Income Statement Data</b>				
Net sales	1,827,499	1,149,171	527,692	476,367
Cost of sales	(1,677,056)	(1,092,972)	(510,631)	(467,936)
Gross Profit	150,443	56,199	17,061	8,431
Depreciation	(1,813)	(1,429)	(1,343)	(1,091)
Amortization	--	--	--	--
Provision for doubtful accounts	--	--	(4,740)	--
Loss on impairment of an investment	--	--	(49,969)	--
Selling, general and administrative expenses	(50,488)	(32,934)	(35,419)	(23,864)
Financial income/(expense), net	(19,870)	145	6,590	864
Other income/(expenses), net	6,054	30,580	4,070	10,338
Income/(loss) before income taxes	84,326	52,561	(63,750)	(5,322)
Income taxes	(13,991)	(9,798)	--	--
Income/(loss) before minority interests	70,335	42,763	(63,750)	(5,322)
Minority interests	(34,513)	(24,563)	11,079	(1,674)
Net income/(loss)	35,822	18,200	(52,671)	(6,996)

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	In Thousands, Except Per Share Amounts			
	Year Ended December 31,			
	1996	1997	1998	1999
	(Rmb)	(Rmb)	(Rmb)	(Rmb)

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Earnings/(loss) per share*				
Basic	101.4	30.55	(87.91)	(11.80)
	=====	=====	=====	=====
Diluted	100.2	30.46	(87.91)	(11.80)
	=====	=====	=====	=====
Other financial data				
Income/(loss) before				
income taxes, minority				
interests, depreciation				
and amortization	86,166	53,990	(62,407)	(4,231)
	=====	=====	=====	=====
Balance sheet data				
Current assets	685,216	281,692	243,188	248,052
Working capital	301,474	217,927	167,851	162,789
Total assets	705,113	437,880	370,726	377,096
Current liabilities	383,742	63,765	75,337	85,263
Minority interests	108,580	133,143	107,945	111,399
Total liabilities and				
minority interests	492,322	196,908	183,282	196,662
Shareholders' equity	212,791	240,972	187,444	180,434

\* The computation of diluted earnings/(loss) per share did not assume the conversion of the stock option in 2000, 1999, 1998 and 1997 because their inclusion would have been antidilutive.

[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.

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OVERVIEW

The Company

The Company is a Nevada holding company which controls a 61% interest in HARC (56% interest of HARC is owned by Billion Luck and a 5% interest of HARC is owned by the Company), a limited liability joint stock company organized in the PRC. 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 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

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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. Processed timber operations were suspended in October 2000. Because of the restructuring undertaken 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, 1998, 1999 and 2000. 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:

(In thousands)	Year Ended December 31,			
	1998 (Rmb)	1999 (Rmb)	2000 (Rmb)	2000 (US\$)
Net sales:				
Natural rubber	470,073	442,841	--	--
Materials and supplies and other agricultural products	57,619	32,838	306	
Supermarket operations	--	688	5,253	6
Processed timber	--	--	1,395	1
	-----	-----	-----	-----
	527,692	476,367	6,954	8
Gross profit	17,061	8,431	552	
Gross profit margin	3.2%	1.8%	7.9%	7
Loss before income taxes	(63,750)	(5,322)	(16,115)	(1,9
Income taxes	--	--	(2,887)	(3
	-----	-----	-----	-----
Loss before minority interests	(63,750)	(5,322)	(19,002)	(2,2
Minority interests	11,079	(1,674)	(4,198)	(5
	-----	-----	-----	-----
Net loss	(52,671)	(6,996)	(23,200)	(2,8
	=====	=====	=====	=====

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Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

### Sales - Materials, Supplies and Other Agricultural Products

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

### Sales - 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

### Sales - Processed Timber

Processed timber operations were set up in early 2000 and, therefore, there was no sales in 1999.

### Gross Profit and Gross Profit Margin

Supermarket operations had gross profit and gross profit margin of Rmb1.0 million (US\$121,000) and 19.9%, respectively, for the year ended December 31, 2000. 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 Rmb4.4 million (US\$536,000) or 18.6% to Rmb19.4 million (US\$2.3 million) in 2000 from Rmb23.9 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 Rmb11.6 million (US\$1.4 million) to net expenses of Rmb1.3 million (US\$153,000) 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), net loss on write-off of inventories of Rmb1.1 million (US\$133,000) and loss on disposal of property and equipment of Rmb1 million (US\$121,000).

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

### Sales - Natural Rubber

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Total net sales for the year ended December 31, 1999, decreased by Rmb27 million (US\$3.3 million) or 5.8% to Rmb443 million (US\$53.5 million), compared to Rmb470 million (US\$56.8 million) for the corresponding period in 1998. Although the average selling price of natural rubber increased from Rmb7,000 (US\$845) per ton in 1998 to Rmb8,300 (US\$1,002) per ton in 1999, the sales volume decreased by approximately 20% in 1999 compared to that of 1998. The decrease in sales volume was mainly due to the closure of China Commodity Futures Exchange ("CCFE") in Hainan, which was engaged in the trading of natural rubber commodity futures. This affected the overall demand for natural rubber as speculators in the futures market purchased a substantial quantity of natural rubber to hedge their exposure in the futures market in the past. The increase in selling price was mainly due to the stabilization of most Asian currencies in 1999. Therefore, the domestic natural rubber has become more competitive compared to imported natural rubber in terms of selling price (including VAT and import tariff).

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### Sales - Materials, Supplies and Other Agricultural Products

Net sales decreased by Rmb24.8 million (US\$3.0 million) or 43.0% to Rmb32.8 million (US\$4.0 million) in 1999 from Rmb57.6 million (US\$7.0 million) in 1998. The decrease was mainly due to sales of barley that amounted to Rmb29 million (US\$3.5 million) in 1998, which was a one-off transaction. As this product was unprofitable, management decided to suspend the trading of this product.

### Sales - Supermarket Operations

Supermarket operations were commenced during the fourth quarter of 1999 and, therefore, there was no revenue contribution for 1998.

### Gross Profit and Gross Profit Margin

Gross profit decreased by Rmb8.6 million (US\$1.0 million) or 50.6% to Rmb8.4 million (US\$1.0 million) in 1999 from Rmb17.1 million (US\$2.1 million) in 1998. The gross profit margin decreased from 3.2% in 1998 to 1.8% in 1999. The reason for the decline in gross profit margin was due to the fact that the Company was previously guaranteed a minimum gross profit margin of 3.5% on natural rubber purchased from the Hainan State Farms by the Farming Bureau, the guarantee was subsequently changed to 1.5% in view of the prevailing market conditions pursuant to an agreement effective as of April 1, 1999.

### Loss on Impairment of an Investment

For the year ended December 31, 1998, the Company wrote down, in the aggregate, Rmb50 million (US\$6.0 million) against a long-term investment and an investment purchase deposit in a PRC listed company, due to an adverse change in the business environment in the PRC.

### Selling, General and Administrative Expenses

Selling and administrative expenses decreased by Rmb11.6 million (US\$1.4 million) or 32.6% to Rmb23.9 million (US\$2.9 million) in 1999 from Rmb35.4 million (US\$4.3 million) in 1998. The decrease was mainly due to the reduction of sales activities by approximately 20% in 1999, better cost control on expenses, such as reduction of legal and professional fees, public relations and salaries expenses, and the write-off of margin deposits paid to two futures brokers amounted to Rmb4 million (US\$483,000) in 1998.

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### Financial Income, Net

Net financial income decreased from Rmb6.6 million (US\$797,000) in 1998 to Rmb864,000 (US\$104,000) in 1999. The significant decrease was mainly due to the decrease in average cash and cash equivalents as funds were shifted to short-term investments. In addition, part of the cash and cash equivalent was deposited to two securities companies in the PRC in 1998, which offered a better interest rate than that of other financial institutions.

### Other Income, Net

Other income increased by Rmb6.3 million (US\$757,000) or 154% to Rmb10.3 million (US\$1.2 million) in 1999 from Rmb4.1 million (US\$492,000) in 1998. 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. Other income in 1998 represented the net gain on trading of commodity futures contracts, compensation received from an insurance company and the recovery of bad debts written-off in prior years.

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### LIQUIDITY AND CAPITAL RESOURCES

The Company's and its subsidiaries' primary liquidity needs are to fund inventories, trade receivable and operating expenses, and to expand business operations. The Company has financed its working capital requirements through the internally generated cash.

Net cash provided by/(used in) operating activities was Rmb35 million, (Rmb42 million) and Rmb175,000 (US\$21,000) in fiscal 1998, 1999 and 2000, respectively. Net cash flows from the Company's operating activities are attributable to the Company's income and changes in operating assets and liabilities.

Pursuant to an Assets and Staff Transfer Agreement dated March 3, 2000, 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 fair value of the net assets transferred (which was not differ materially from the book value), determined as of January 1, 2000, which amounted to Rmb70,527,000 (US\$8,518,000).

The Company believes that the internally generated funds will be sufficient to satisfy its anticipated working capital needs for at least the next 12 months.

### Inflation

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 and 3.0 percent for 1999. The PRC government has taken certain measures to stimulate domestic demand and consumption. There can be no assurance that these measures will be successful.

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### Market Risk and Risk Management Policies

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

The Company's interest income is most sensitive to changes in the general level of Renminbi interest rates. In this regard, changes in Renminbi interest rates affect the interest earned on the Company's cash equivalents. As of December 31, 2000, the Company's cash equivalents are mainly Renminbi, Hong Kong Dollar and United States Dollar deposits with financial institutions, bearing market interest rates without fixed term.

As of December 31, 2000, the Company had short-term investments in marketable securities in the Hong Kong stock market with a total market value of Rmb62 million (US\$7.5 million). 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.

The Company wrote a call option to purchase certain marketable securities in Hong Kong on December 11, 2000 with an expiry date on February 11, 2001, which exposed the Company to market risk of an unfavourable change in the price of the security underlying the written option. The call option was subsequently left unexercised upon the expiry date.

The Company has a margin loan payable balance of Rmb19 million (US\$2.2 million) as at December 31, 2000 which was used to purchase marketable securities listed on the Hong Kong Stock Exchange. This margin loan bears interest at 12% as of December 31, 2000. The margin loan is due and repaid as the securities are sold.

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### Quarterly Results of Operations

The following is a summary of the quarterly results of operations for the years ended December 31, 2000 and 1999.

(In thousands, except share and per share data)	March 31 (Rmb)	June 30 (Rmb)	September 30 (Rmb)	Dec
2000:				
Net sales	1,397	2,316	1,445	
Cost of sales	1,296	2,548	1,135	
Net income/(loss)	2,137	(2,184)	(8,813)	
Earnings/(loss) per common share:				
Basic	3.6	(3.7)	(13.2)	
Diluted	3.6	(3.7)	(13.2)	
1999:				
Net sales	21,355	83,960	190,190	

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Cost of sales	21,140	81,928	186,900
Net income/(loss)	(4,349)	228	(826)
Earnings/(loss) per common share:			
Basic	(7.3)	0.4	(1.4)
Diluted	(7.3)	0.4	(1.4)

The computation of diluted earnings/(loss) per share did not assume the conversion of the stock options in 2000 and 1999 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, 2000, 1999 and 1998 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.

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[PART III]

[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 30, 2001, and the ages of and positions with the Company held by each of such persons:

Name	Age	Position
----	---	-----
Ching Lung Po	54	Chairman of the Board of Directors, President and Chief Executive Officer
Lin Yu Quan	53	Vice Chairman of the Board of Directors
Tam Cheuk Ho	38	Director and Chief Financial Officer
Wong Wah On	37	Director, Secretary and Financial Controller
Wan Ying Lin	52	Director
Ng Kin Sing	39	Director
Lo Kin Cheung	36	Director
Li Fei Lie	34	Vice President



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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 of Asia Fiber Holdings Limited (OTC Bulletin Board: AFBR), which is included on the OTC Bulletin Board operated by the Nasdaq, since January 2000. 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. Lin Yu Quan has been a director and the Vice Chairman of the Company since July 20, 1998. He is also the Chairman of HARC. Mr. Lin is a graduate of the School of Central Communist Party with a major in economic development. From July 1984 to July 1989, he was the Deputy Mayor of Dan County of the Hainan Province. From August 1989 to July 1996, Mr. Lin was the Mayor and Secretary of the Communist Party of Wanning County. From July 1996 to December 1997, he served as the Mayor of the Wanning City. In January 1998, Mr. Lin was appointed Director of the Hainan Farming Bureau.

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.

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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 is responsible for assisting the Chief Financial Officer with the Company's treasury, accounting and secretarial functions. From October 1992 through December 1994, Mr. 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. 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 was graduated from the Guangxi Liuzhou Institute of Medical Specialty specializing in administration and management. From January 1986 through December 1987, he was

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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 March 1998 to the present, Mr. Lo has been the executive director of Wiltec Holdings Limited, a Hong Kong listed company, where he is responsible for the corporate development and day-to-day operations. From July 1986 until March 1998, Mr. Lo was the audit manager 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.

Mr. Li Fei Lie is the Vice President of the Company. He is also the president and a director of HARC, where he is responsible to oversee the management and operation of HARC. In 1987, he obtained a Bachelor's degree in Economics from the Beijing University. In 1990, he obtained a Master's degree in Economics from the same university. From 1990 through April 1991, he was the Vice Chairman of the Beijing Agency of Guangxi Wuzhou Boiler Factory. From April, 1991 through October, 1992, he was the General Manager of the Development Department of Shenzhen Hong Wah Industrial and Commerce Company Ltd., a Sino-foreign limited liability joint stock company. In October, 1992, Mr. Li became Assistant to the General Manager of Hong Wah (Holdings) Limited and was responsible for the preparatory work relative to the incorporation of HARC.

At the annual meeting of shareholders on October 12, 2000, Messrs. Tam Cheuk Ho and Wong Wah On were elected to serve as Class I Directors until the annual meeting to be held in 2003 and until their successors have been duly elected and qualified. Messrs. Wan Ying Lin, Ng Kin Sing 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. Ching Lung Po and Lin Yu Quan serve in Class II until the annual meeting to be held in 2001 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 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, 2000, Mr. Lo Kin Cheung failed to timely file Form 3 to report his appointment as a director.

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[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	2000	276,923	-0-	-0-	-0-
	1999	253,846	-0-	-0-	-0-
	1998	-0-	-0-	-0-	-0-
Li Fei Lie, Vice President, President of HARC	2000	69,231	-0-	-0-	1,000
	1999	69,231	-0-	-0-	1,000
	1998	46,795	-0-	22,436	1,000
Tam Cheuk Ho, Director and Chief Financial Officer	2000	230,769	-0-	-0-	60
	1999	212,538	-0-	-0-	60
	1998	-0-	-0-	-0-	60
Wong Wah On, Director, Secretary and Financial Controller	2000	153,846	-0-	-0-	60
	1999	141,026	-0-	-0-	60
	1998	-0-	-0-	-0-	60

(1) As of December 31, 2000, none of the stock options held by Mr. Li, 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 and adjusted as a result of the one-for-ten reverse stock split) of the common stock on December 31, 2000, was US\$2.94 per share.

Li Fie Lie, Vice President of the Company and President and a director of HARC, was paid annual compensation of HK\$540,000 (US\$69,231) for each of the three years ended December 31, 1998, 1999 and 2000. As of August 1, 1995, Billion Luck entered into an Employment Agreement with Li Fei Lie. In accordance with the terms of the Employment Agreement, Mr. Li was employed by Billion Luck to perform such duties with respect to Billion Luck as Billion Luck's Board of Directors shall from time to time determine. Mr. Li received a base salary of HK\$240,000 (US\$30,769) plus allowances of HK\$300,000 (US\$38,462) annually. The Employment Agreement had a term of three (3) years and was terminated on July 31, 1998. As of August 1, 1998, the Company entered into an Employment Agreement with Mr. Li. In accordance with the terms of the Employment Agreement, Mr. Li has been employed by the Company to perform such duties as the Board of Directors shall from time to time determine. Mr. Li shall receive a base salary of HK\$540,000 (US\$69,231) 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

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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 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 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.

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.

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, 2000, no holder of stock options exercised such options, and all stock options granted 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.

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The Company's Board of Directors did not have a compensation committee or a committee performing similar functions during the year ended December 31, 2000, 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 shares of the Company's Common Stock or Series B Preferred Stock outstanding as of March 30, 2001 the number of shares owned by each such person and the percentage of the outstanding shares and vote represented thereby.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership (1) -----	Perc C -
Winsland Capital Limited TrustNet Chambers P.O. Box 3444, Road Town Tortola, British Virgin Islands	33,480 Common Stock 320,000 Series B Preferred	10
Worlder International Company Limited (2) 21/F., Great Eagle Centre No. 23 Harbour Road Hong Kong	48,600 Common Stock	
Anka Capital Limited Room 2105, West Tower Shun Tak Centre, 200 Connaught Rd. C. Hong Kong	244,897 Common Stock	2

(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 represent shares of Common Stock 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 30, 2001, 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

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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	33,480 Common Stock (5) 320,000 Series B Preferred	4.00% 100.00%
Lin Yu Quan	-0-	N/A
Tam Cheuk Ho	244,957 Common Stock (2)	29.24%
Li Fei Lie	1,000 Common Stock (3)	*
Wong Wah On	250,277 Common Stock (4)	29.84%
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	284,817 Common Stock 320,000 Series B Preferred	33.91% 100.00%

\* Less than 1.0%.

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

(2) 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. In addition, Tam Cheuk Ho was granted options to purchase 60 shares of Common Stock under the Company's Stock Option Plan as described under "Stock Options," below.

(3) Li Fei Lie was granted options to purchase 1,000 shares of Common Stock 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. In addition, Brender Services Limited was granted options to purchase 1,000 shares of Common Stock under the Company's Stock Option Plan, and Wong Wah On was granted options to purchase 60 shares of Common Stock under the Plan, as described under "Stock Options," below.

(5) Winsland Capital Limited owns 33,480 shares of Common Stock and 320,000 shares of Series B Preferred Stock. Winsland Capital Limited is beneficially

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owned by Ching Lung Po.

### 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.

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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; (b) change the classes of employees eligible to participate in the Plan; or (c) materially increase the benefits accruing to participants in the Plan. On October 12, 2000, by virtue of an amendment adopted by the shareholders of the Company, the requirement of shareholder approval of any modification of the Plan that would materially increase the benefits accruing to participants in the Plan was eliminated.

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 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 the higher of (i) the net tangible assets per share of the Company as of the end of the fiscal year immediately preceding the date of such granting; or (ii) 80% of the fair market value of the shares on the date the option is granted, as the Committee determines. On October 12, 2000, by virtue of an amendment adopted by the shareholders of the Company to modify the pricing procedure for the exercise of nonqualified stock options, 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 of the date the option is granted, as the Committee determines.

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

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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 the following officers and directors to purchase shares of the Company's Common Stock:

Yiu Yat Hung (former director)	60 shares
Tam Cheuk Ho	60 shares
Han Jian Zhun (former director)	60 shares
Wong Wah On	60 shares
Li Fei Lie	1,000 shares

In addition, the board of directors granted options to the following employees and consultant to purchase shares of the Company's Common Stock:

Brender Services Limited	1,000 shares
Cheung Yu Shum	5,000 shares
Tse Chi Kai	3,000 shares
Ma Sin Ling	5,000 shares
Cheung Siu Yin	100 shares
Woo Pui Yan	100 shares
Kwok Kwan Hung	3,860 shares
Fu Yang Guang	2,000 shares
Lin Jia Ping	2,700 shares

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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 are now 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 (no currently outstanding options were changed by such amendment).

### [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



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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, 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%.

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. The rental agreement further provides that HARC shall be responsible for certain costs and expenses in connection with its use of the property. For each of the two years ended December 31, 1999 and 2000, HARC paid rental of Rmb170,240 (US\$20,560) to Farming Bureau.

On November 5, 1994, the Farming Bureau, HARC, First Supply and Second Supply entered into a Sale and Purchase Agreement. With respect to the natural rubber segment, the Farming Bureau agreed to direct the Hainan State Farms to sell to HARC, First Supply and Second Supply on a priority basis, and HARC, First Supply and Second Supply agreed to purchase from the Hainan State Farms under the same terms and conditions as are offered to other purchasers. If HARC, First Supply or Second Supply was offered the same quantity and same price for natural rubber from a Hainan State Farm and a non-state farm, HARC, First Supply or Second Supply, as the case may be, were required to purchase from the Hainan State Farm. If the price offered by the Hainan State Farm was higher than that from a non-state farm, HARC, First Supply or Second Supply, as the case may be, were required to purchase from the non-state farm. Otherwise, there was no condition requiring the purchase of any particular quantity of raw natural rubber from the Hainan State Farms. For the years ended December 31, 1999 and

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2000, HARC, First Supply and Second Supply purchased natural rubber from the Hainan State Farms amounting to Rmb450,704,000 (US\$54,433,000) and nil, respectively. First Supply and Second Supply were also guaranteed a minimum gross profit margin of 3.5% for sales of natural rubber purchased from the Hainan State Farms. On May 21, 1999, by a Supplementary Agreement among the Farming Bureau, HARC, First Supply and Second Supply, the minimum gross profit margin of 3.5% earned by First Supply and Second Supply on natural rubber sales had been reduced to 1.5% which was made effective on April 1, 1999. For the years ended December 31, 1999 and 2000, First Supply and Second Supply received guaranteed profit from Farming Bureau amounting to Rmb6,350,000 (US\$767,000) and nil, respectively.

With respect to the production materials segment, the Sale and Purchase Agreement provided that the Farming Bureau agreed to direct the Hainan State Farms to purchase all of their production materials and other commodities offered by HARC, First Supply and Second Supply under the same terms and conditions as were offered by other suppliers. In the case of production material and other commodities, a Hainan State Farm could request a price quote for a specified quantity of a particular item from HARC, First Supply or Second

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Supply. Upon receiving the price quote, the Hainan State Farm could obtain quotes from other suppliers based on the same quantity of the requested item. The Hainan State Farm were required to inform HARC, First Supply or Second Supply, as the case may be, of the amounts of the other quotes and, if any of the quotes were lower, HARC, First Supply or Second Supply had the right to lower its quote to the level of the competing quote. If HARC, First Supply or Second Supply matched the competing quote based upon the same quantity of item requested, the Hainan State Farm were required to purchase the item from HARC, First Supply or Second Supply. Otherwise, the Hainan State Farm could purchase the item from the competing supplier. The Sale and Purchase Agreement had a term of 15 years and, subject to applicable law, may not be terminated earlier except upon the agreement of the parties. Pursuant to the Restructuring Agreements, the Farming Bureau, HARC, First Supply and Second Supply agreed to terminate the Sale and Purchase Agreement effective as of January 1, 2000. For the years ended December 31, 1999 and 2000, HARC, First Supply and Second Supply sold production materials and other commodities to the Hainan State Farms amounting to Rmb23,718,000 (US\$2,864,000) and nil, respectively.

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. (1,184,000 shares), Worlder International Company Limited (1,184,000 shares), and Silverich Limited (1,600,000 shares).

On March 25, 1996, HARC entered into a Loan Agreement with the Farming Bureau by which HARC borrowed Rmb35,867,857 (US\$4,331,867) in order to more effectively utilize capital raised and to enable HARC to more effectively plan for its production operations and new investment projects. The loan is interest-free and is to be repaid by conversion of the loan into registered capital of HARC upon the approval for such conversion by relevant government authorities. On December 31, 1996, a supplementary agreement was entered into between the same parties by which a new article was created to impose a right of set off against the loan or any additional loan made by the Farming Bureau to HARC against any amounts due to HARC by the Farming Bureau and/or its subsidiary companies and affiliates.

On March 25, 1996, HARC entered into a Loan Agreement with the Company by which HARC borrowed Rmb45,650,000 (US\$5,513,285) in order to more effectively utilize capital raised and to enable HARC to more effectively plan for its production operations and new investment projects. The loan is interest-free, and it is to be repaid by conversion of the loan into registered capital of HARC upon the approval for such conversion by relevant government authorities.

On July 22, 1996, the Company entered into an Exchange Agreement with China Everbright Financial Holdings Limited (formerly known as "Everbright Finance and Investment Co. Ltd."), pursuant to which all 640,000 outstanding shares of the Company's Series A Preferred Stock held by Everbright were exchanged for 3,200,000 shares of Common Stock, which were 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.

On August 9, 1996, HARC entered into a rental agreement with the Hainan Farming Bureau Testing Center, an affiliate of the Farming Bureau located on the

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same floor of the building where HARC's headquarters is located. The term of the lease is for a period of eight years (through September 30, 2004) at an annual rental of Rmb72,000 (US\$8,696), and it covers an area of approximately 314 square meters.

As of December 31, 1996, the Company entered into another Exchange Agreement with China Everbright Financial Holdings Limited (formerly known as "Everbright Finance and Investment Co. Ltd."), pursuant to which the 3,200,000 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.

In addition to these transactions, the following business relationships existed during the fiscal year ended December 31, 2000, for which disclosure is required:

As disclosed in "Management and Certain Security Holders," hereinabove, Lin Yu Quan, the Vice Chairman of the Board of Directors of the Company, also serves as the Director of the Farming Bureau. The nature and scope of the relationship between the Company and the Farming Bureau is set forth in "Business" and elsewhere hereinabove.

As disclosed in "Stock Options" hereinabove, the Company has adopted a Stock Option Plan to grant stock option to officers, directors, key employees, consultants and affiliates of the Company.

As disclosed in "Executive Compensation" hereinabove, Li Fie Lie, Ching Lung Po, Tam Cheuk Ho and Wong Wah On are parties to employment agreements with the Company.

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## [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 income for the three years ended December 31, 1998, 1999 and 2000
- b. Consolidated statements of changes in shareholders' equity for the three years ended December 31, 1998, 1999 and 2000
- c. Consolidated balance sheets as of December 31, 1999 and 2000
- d. Consolidated statements of cash flows for the three years ended December 31, 1998, 1999 and 2000
- 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, 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.)

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- 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.)
- 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 Long-Term Sale and Purchase Agreement dated November 5, 1994, by and among Hainan Province Agricultural Reclamation General Company (the Farming Bureau), Hainan Agricultural Resources Company Ltd., Hainan Province Agricultural Reclamation No. 1 Materials Supply & Marketing Company (First Supply), and Hainan Province Agricultural Reclamation No. 2 Materials Supply & Marketing Company (Second Supply) (Original Chinese version with English translation filed as Exhibit 10.12 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1994, and incorporated herein by reference.)
- 10.2 Rental Agreement, by and between General Bureau of Hainan State Farms (the Farming Bureau) and Hainan Agricultural Resources Company Limited (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.)
- 10.3 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.)
- 10.4 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.)

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- 10.5 Loan Agreement between HARC and the Farming Bureau, dated March 25, 1996, and the supplementary agreement dated December 31, 1996 (Certified English translation of original Chinese version filed as Exhibit 10.28 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996, and incorporated herein by reference.)
- 10.6 Loan Agreement between HARC and the Registrant, dated March 25, 1996 (Certified English translation of original Chinese version filed as Exhibit 10.29 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996, and incorporated herein by reference.)
- 10.7 Rental Agreement between HARC and the Hainan Farming Bureau Testing Center, dated August 9, 1996 (Certified English translation of original Chinese version filed as Exhibit 10.30 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996, and incorporated herein by reference.)
- 10.8 China Resources Development, Inc., Amended and Restated 1995 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.)

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- 10.9 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.)
- 10.10 Agreement for the Sale and Purchase of Share in Hainan Zhongwei Agricultural Resources Company Ltd., 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.)
- 10.11 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.)
- 10.12 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.)
- 10.13 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.)
- 10.14 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.)

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- 10.15 Long-Term Sale and Purchase Supplementary Agreement No. 3 by and among Farming Bureau, HARC, First Supply and Second Supply, dated May 21, 1999 (Certified English translation of original Chinese version filed as Exhibit 10.22 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1999, and incorporated herein by reference.)
- 10.16 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.)
- 10.17 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.)
- 10.18 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.)
- 10.19 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.)
- 11.3 Computation of Earnings Per Share for Fiscal Year ended December 31, 2000 (Contained in Financial Statements filed herewith.)
- 21 Subsidiaries of the Registrant (Filed herewith.)
- 99.2 Notice of Annual Meeting, Proxy Statement and Proxy distributed to shareholders in advance of annual meeting held on October 12, 2000 (Filed with Schedule 14A dated October 2, 2000, and incorporated herein by reference.)

During the last quarter of the fiscal year ended December 31, 2000, the Company filed no reports on Form 8-K.

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### 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.

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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	April 13, 2001
/s/ Lin Yu Quan ----- Lin Yu Quan	Vice Chairman of the Board of Directors	April 13, 2001
/s/ Tam Cheuk Ho ----- Tam Cheuk Ho	Chief Financial Officer/ Director	April 13, 2001
/s/ Wong Wah On ----- Wong Wah On	Financial Controller/ Director/Secretary	April 13, 2001
/s/ Wan Ying Lin ----- Wan Ying Lin	Director	April 13, 2001
/s/ Ng Kin Sing ----- Ng Kin Sing	Director	April 13, 2001
/s/ Lo Kin Cheung ----- Lo Kin Cheung	Director	April 13, 2001

APPENDIX A

Financial Statements



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

- a. Consolidated statements of income for the three years ended December 31, 1998, 1999 and 2000
- b. Consolidated statements of changes in shareholders' equity for the three years ended December 31, 1998, 1999 and 2000
- c. Consolidated balance sheets as of December 31, 1999 and 2000
- d. Consolidated statements of cash flows for the three years ended December 31, 1998, 1999 and 2000
- e. Notes to consolidated financial statements.

### Consolidated Financial Statements

#### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of independent auditors	F-1
Consolidated statements of operations	F-2
Consolidated statements of shareholders' equity	F-3
Consolidated balance sheets	F-4 - F-5
Consolidated statements of cash flows	F-6

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 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Ernst & Young  
Hong Kong  
February 9, 2001

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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	Notes	1998 RMB	Year ended December 31, 1999 RMB	2000 RMB	2000 US\$
NET SALES*	3	527,692	476,367	6,954	84
COST OF SALES*	3	(510,631)	(467,936)	(6,402)	(77)
GROSS PROFIT		17,061	8,431	552	6
DEPRECIATION		(1,343)	(1,091)	(1,009)	(12)
AMORTIZATION		(27)	--	(2,841)	(34)
PROVISION FOR DOUBTFUL ACCOUNTS		(4,740)	--	--	--
LOSS ON IMPAIRMENT OF AN INVESTMENT*	11	(49,969)	--	--	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES*		(35,392)	(23,864)	(19,424)	(2,34)
FINANCIAL INCOME, NET*	5	6,590	864	7,871	95
OTHER INCOME/(EXPENSE), NET*	6	4,070	10,338	(1,264)	(15)
LOSS BEFORE INCOME TAXES		(63,750)	(5,322)	(16,115)	(1,94)
INCOME TAXES	7	--	--	(2,887)	(34)
LOSS BEFORE MINORITY INTERESTS		(3,750)	(5,322)	(19,002)	(2,29)
MINORITY INTERESTS		11,079	(1,674)	(4,198)	(50)
NET LOSS		(52,671)	(6,996)	(23,200)	(2,80)
LOSS PER SHARE:	8				
BASIC		(87.91)	(11.80)	(32.43)	(3.9)
Diluted		(87.91)	(11.80)	(32.43)	(3.9)

\* Including the following amounts resulting from transactions with related parties (note 15):

	1998 RMB	Year ended December 31, 1999 RMB	2000 RMB	2000 US\$
--	-------------	--	-------------	--------------

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Net sales	30,373	23,718	--	--
Cost of sales	(374,039)	(453,071)	(100)	(1)
LOSS ON IMPAIRMENT OF AN INVESTMENT	(28,718)	--	--	--
Selling, general and administrative expenses	(4,411)	(1,028)	(393)	(4)
Financial income, net	(235)	--	--	--
Other income, net	--	--	1,354	16

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

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Notes	Common stock	Series B preferred stock	Additional paid-in capital	Reserves	Retained earnings (accumulated deficit)
		RMB	RMB	RMB	RMB	RMB
Balance at December 31, 1997		5	3	157,485	25,514	57,000
Repurchase and retirement of 10,000 shares of common stock		--	--	(853)	--	--
Net loss		--	--	--	--	(52,000)
Currency translation adjustments	21	--	--	--	--	--
Comprehensive loss		--	--	--	--	--
Transfer to reserves	20	--	--	--	760	--
Balance at December 31, 1998		5	3	156,632	26,274	4,000
Net loss		--	--	--	--	(6,000)
Currency translation adjustments	21	--	--	--	--	--
Comprehensive loss		--	--	--	--	--
Transfer to reserves	20	--	--	--	556	--
Balance at December 31, 1999		5	3	156,632	26,830	(3,000)

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Issuance of 244,897 shares of common stock	4	2	--	12,420	--	--
Net loss		--	--	--	--	(23,000)
Currency translation adjustments	21	--	--	--	--	--
Comprehensive loss		--	--	--	--	--
Transfer to reserves	20	--	--	--	1,198	(1,198)
		-----	-----	-----	-----	-----
Balance at December 31, 2000		7	3	169,052	28,028	(27,000)
		=====	=====	=====	=====	=====

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

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	Notes	1999	December 2000
		-----	-----
		RMB	RMB
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		38,138	37,500
Marketable securities	9	57,035	62,300
Trade receivables, less allowance of RMB529 in 1999		3,619	
Inventories - finished goods		8,116	1,800
Other receivables, deposits and prepayments, less allowance of RMB1,309 in 1999		13,141	11,700
Short term loan receivable		45,000	
Amount due from Farming Bureau	16	47,013	13,500
Amounts due from related companies	16	35,990	1,100
		-----	-----
<b>TOTAL CURRENT ASSETS</b>		<b>248,052</b>	<b>128,300</b>
<b>PROPERTY AND EQUIPMENT</b>	10	<b>11,402</b>	<b>13,300</b>
<b>INVESTMENTS</b>	11	<b>117,642</b>	<b>184,300</b>

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INTANGIBLE ASSETS	4	-	7,8
		-----	-----
TOTAL ASSETS		377,096	333,8
		=====	=====

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)

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

	Notes	1999	Decemb 20
		-----	-----
		RMB	R
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		15,253	7
Other payables and accrued liabilities	12	24,629	16,6
Margin loan payable	13	-	18,5
Due to investment adviser		-	12,2
Income taxes payable/(recoverable)		16,366	(2
Amounts due to related companies	16	29,015	6
		-----	-----
TOTAL CURRENT LIABILITIES		85,263	48,6
MINORITY INTERESTS		111,399	115,4
		-----	-----
TOTAL LIABILITIES AND MINORITY INTERESTS		196,662	164,1
		-----	-----
COMMITMENTS AND CONTINGENCIES	22		
SHAREHOLDERS' EQUITY Common stock, US\$0.001 par value:			
Authorized - 200,000,000 shares			
Issued and outstanding - 837,797 shares			
in 2000 and 592,900 shares in 1999		5	
Preferred stock, authorized -			
10,000,000 shares in 2000 and 1999:			
Series B preferred stock, US\$0.001 par value:			
Authorized - 320,000 shares in 2000 and 1999			
Issued and outstanding - 320,000 shares in			
2000 and 1999		3	
Additional paid-in capital		156,632	169,0
Reserves	20	26,830	28,0
Accumulated deficits	20	(3,018)	(27,4
Accumulated other comprehensive loss/(gain)	21	(18)	
		-----	-----

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TOTAL SHAREHOLDERS' EQUITY	180,434	169,6
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	377,096	333,8
	=====	=====

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

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	1998	Year ended December 1999	20
	-----	-----	-----
	RMB	RMB	R
OPERATING ACTIVITIES			
Net income/(loss)	(52,671)	(6,996)	(23,2
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	1,370	1,091	3,8
Provision for doubtful accounts	4,740	-	
Provision for inventory write-downs	1,554	-	1,1
Loss on impairment of an investment	49,969	-	
Stock-based compensation issued to non-employees	4,990	983	2
Minority interests	(11,079)	1,674	4,1
Loss on disposal of property and equipment, net	-	910	
Loss on disposal of an equity method investment	-	662	
Write-off of goodwill	-	994	
Changes in operating assets and liabilities:			
Marketable securities	-	(57,035)	(5,3
Trade receivables	2,257	4,844	3,5
Inventories	49,669	2,453	5,1
Other receivables, deposits and prepayments	(7,614)	17,308	1,1
Amount due from Farming Bureau	(18,750)	(13,346)	10,8
Amounts due from related companies	(655)	(5,188)	34,8
Accounts payable	(8,080)	3,049	(14,5
Other payables and accrued liabilities	(5,630)	9,153	22,8
Income taxes payable	(6,009)	-	(16,5
Amounts due to related companies	31,291	(2,276)	(28,3
	-----	-----	-----
Net cash provided by/(used in) operating activities	35,352	(41,720)	(1
	-----	-----	-----

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INVESTING ACTIVITIES			
Purchases of property and equipment	(1,090)	(6,160)	(2,9
Proceeds from disposal of investments	-	-	8
Acquisition of subsidiaries	-	-	
Deposit for the purchase of an investment	(28,718)	-	
Short term loan	-	(45,000)	
	-----	-----	-----
Net cash used in investing activities	(29,808)	(51,160)	(2,0
	-----	-----	-----
FINANCING ACTIVITIES			
Advance from minority interest	-	1,780	1,5
Purchases of common stock for retirement	(853)	-	
	-----	-----	-----
Net cash provided by/(used in) financing activities	(853)	1,780	1,5
	-----	-----	-----
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
	4,691	(91,100)	(5
Cash and cash equivalents, at beginning of year	124,547	129,238	38,1
	-----	-----	-----
Cash and cash equivalents, at end of year	129,238	38,138	37,5
	=====	=====	=====

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

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### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 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 supermarkets 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. The Group continues to consider other new investment opportunities.

Information on the Group's operations by segment are included in note 26 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 1999, cash and cash equivalents included foreign currency deposits equivalent to RMB5,418 (US\$65 and HK\$4,601) and RMB1,686 (US\$63 and HK\$1,088), respectively.

(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.

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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)

(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.

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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	25 y
Leasehold improvements	Over the terms of the le
Machinery, equipment and motor vehicles	10 - 12.5 y

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

(i) Retirement benefits

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

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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

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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 15.

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 upon the delivery of goods. Sales commission income is recognized when the services are rendered. 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.

(l) Income taxes

Income taxes have been provided using the liability method in accordance with SFAS 109, "Accounting for Income Taxes".

(m) Earnings/(loss) per share

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

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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)

(n) 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 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

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operations amounts have been translated using the average exchange rate for the year. The gains and losses resulting from the changes in exchange rates from year to year have been reported in other comprehensive income/loss.

Transactions and monetary assets and liabilities denominated in currencies other than RMB are translated into RMB at the respective applicable rates of exchange quoted by the People's Bank of China (the "Exchange Rate"). Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable Exchange Rate at the respective balance sheet dates. The resulting exchange gains or losses are credited or charged to the consolidated statements of operations.

The translation of amounts from RMB into US\$ for the convenience of the reader has been made at the rate of exchange quoted by the People's Bank of China on December 31, 2000 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, 2000 or at any other date.

(o) 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.

(p) Commodity futures contracts

-----  
In 1998, as part of its risk management strategy, the Group entered into natural rubber commodity futures contracts that were not specific hedges and gains or losses resulting from changes in the market value of these types of futures contracts on a mark to market basis were recognized as gains/losses in the period of the change. This transaction does not meet the definition of a hedge in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", and therefore, adoption of SFAS 133 would not have an effect on the Group's results of operations. The Group entered into no futures contracts during 1999 or 2000.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Short term loan receivable  
-----

The short term loan receivable outstanding in 1999 was secured by certain equity interest in an unlisted PRC company, which invests in Hainan Sundiro Motorcycle Co., Ltd. ("Sundiro"), and was repayable on demand. On July 28, 2000, the loan was exchanged for additional shares of Sundiro (note 11).

(r) 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 expire unexercised 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.

(s) Due to investment adviser  
-----

According to agreement made between the Group and Sanya Zhongya Trust and Investment Company ("SZTI"), 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 had been fully withdrawn and the actual return exceeded the guaranteed return by RMB12,253.

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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 when completed would result in the discontinuation of substantially all of the 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").

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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 Transfer.

#### 4. INVESTMENTS AND BUSINESS ACQUISITIONS

During 1998, the Group acquired an additional 5% equity interest in HARC from Guilinyang State Farm ("Guilinyang") for a consideration of RMB7,000. Guilinyang is controlled by the Farming Bureau. The purchase consideration of Hainan Agricultural was used to offset the amount due from Guilinyang. After the acquisition, the Group's equity interest in HARC increased from 56% to 61%. The transaction was accounted for as a purchase and the excess of fair value of the net assets acquired over cost ("negative goodwill"), amounting to RMB7,119, was allocated to reduce proportionately the values of long term non-monetary non-current assets. The impact of the increase in equity interest on the results of operations has been accounted for since the date of acquisition.

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 (approximately RMB12,400) by issuing 244,897 shares of the Company's unregistered restricted common stock of \$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 RMB10,701 which has been classified as acquired website technology and is being amortized over two years. The impact of the increase in equity interest on the results of operations has been accounted for since the date of acquisition.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

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

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4. INVESTMENTS AND BUSINESS ACQUISITIONS (continued)

Silver Moon did not report any revenues 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 as at January 1, 2000, are RMB30,286 and RMB36.15, respectively.

5. FINANCIAL INCOME, NET

Financial income, net represents:

	1998	Year ended December 1999
	RMB	RMB
Interest income	6,862	948
Interest expense	(289)	(5)
Foreign exchange gains/(losses), net	17	(79)
	-----	-----
	6,590	864
	=====	=====

6. OTHER INCOME/(EXPENSE), NET

Other income/(expense), net represents:

	1998	Year ended December 1999
	RMB	RMB
Dividend income from cost method investments	-	6,677
Rental income	900	7
Net gains on trading of commodity futures contracts	1,889	-
Net gain on trading of marketable securities	-	3
Loss on disposal of property and equipment, net	-	(9)
Net loss on write-off of an equity method investment	-	(6)
Recovery of bad debts written-off	-	2,9
Share of income received from joint investment	-	-
Net loss on write-off of inventories	-	-
Unrealized loss on marketable securities	-	-
Others	1,281	1,1
	-----	-----
	4,070	10,3
	=====	=====

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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:

	1998	Year ended December 1999
	RMB	RMB
PRC	(19,410)	4,801
Other countries	(44,340)	(10,123)
	-----	-----
	(63,750)	(5,322)
	=====	=====

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

	1998	Year ended December 1999
	RMB	RMB
Current:		
PRC federal income tax	-	-
	=====	=====

It is management's intention to reinvest all the income attributable to the Company 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:

	1998	Year ended December 1999
--	------	-----------------------------



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	RMB	RMB
PRC federal statutory tax rate	15%	15%
Computed expected income taxes (tax benefit)	(9,563)	(798)
Higher effective income tax rates of another countries	(1,857)	(2,025)
Net increase in valuation allowance	5,068	373
Tax on foreign personal holding company income	-	2,450
Non-deductible expenses	6,352	-
Others, net	-	-
	-----	-----
Income tax expense for the year	-	-
	=====	=====

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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:

	1999
	RMB
Deferred tax asset:	
Net operating loss carryforwards	10,265
Less: Valuation allowance for deferred tax asset	(10,265)
	-----
	-
	=====

No undistributed earnings of the Company's foreign subsidiaries was available at December 31, 2000. Upon distribution of those earnings in the form of dividends or otherwise, the Company 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.

At December 31, 2000, the Company had net operating loss carryforwards ("NOLs") of approximately RMB30 million for U.S. income tax purposes that expire in various years through 2020. At December 31, 2000, the Group's subsidiaries in the PRC had NOLs amounting to approximately

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RMB3 million for PRC income tax purposes that expire in 2005.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

8. LOSS PER SHARE

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

	1998	Year ended December 1999
	RMB	RMB
	-----	-----
Numerator		
Numerator for basic and diluted loss per share:		
loss attributable to common shareholders	(52,671)	(6,996)
	=====	=====
Denominator		
Denominator for basic loss per share:		
Weighted-average number of shares	599,150	592,900
	=====	=====
Basic loss per share	(87.91)	(11.80)
	=====	=====
Diluted loss per share	(87.91)	(11.80)
	=====	=====

Details of the stock options and warrants of the Company are set out in note 14.

The computation of diluted loss per share did not assume the conversion of the stock options of the Company in 2000, 1999 and 1998 and the warrants of the Company in 2000 and 1999 because their inclusion would have been antidilutive.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. MARKETABLE SECURITIES

	1999
	----- RMB
Trading securities listed on the Shenzhen Stock Exchange, PRC	
At cost	55,023
Add: unrealized gain	4,367
Less: unrealized loss	(2,355)
	-----
Fair value	57,035 =====
Trading securities listed on the Hong Kong Stock Exchange	
At cost	-
Less: unrealized loss	-
	-----
Fair value	- =====

As of December 31, 2000, portfolio securities valued at RMB46,878 were held in escrow by the custodian as cover for call options written by the Group.

10. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	De 1999
	----- RMB
At cost:	
Buildings and leasehold improvements	9,115
Machinery, equipment and motor vehicles	8,044
	-----
	17,159
Accumulated depreciation	(5,757)
	-----
	11,402 =====

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

11. INVESTMENTS

Cost method investments comprise:

	De
	1999
	-----
	RMB
Investments in:	
Hainan Sundiro Motorcycle Co., Ltd.	
("Sundiro")	112,000
PRC joint venture	4,759
Others	883
	-----
	117,642
	=====

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, 1999, the investment in Sundiro represents a 5.3% equity interest. In 2000, the Group acquired 24,587,200 additional shares of Sundiro in satisfaction of a short term loan receivable of RMB45 million, related interest receivable of approximately RMB11 million and other receivables of approximately RMB11 million. As a result of this transaction, at December 31, 2000, the Group owns an equity interest of 8.7% of Sundiro.

In 1998, the Company made a deposit of RMB28,718 to Guilinyang for the intended acquisition of an additional 3.8% equity interest in Sundiro (the "Acquisition"). The Group originally anticipated that its relationship with Sundiro would lead to additional procurement of materials and supplies from the Group. Nevertheless, such expected business relationship with Sundiro did not occur. Based on an analysis of the opportunity cost and expected future benefits, the Group decided not to proceed with the Acquisition. Under the circumstances, the Group does not believe that it will be able to recover the deposit. Accordingly, the deposit was written-off as of December 31, 1998. The write-off of the deposit also triggered an impairment review of the Group's existing interest in Sundiro. As a result, a write-down of RMB21,251 was made in 1998 based on the decline in the estimated net realizable value of the investment below its carrying value which management believed is other-than-temporary. The net realizable value was estimated with reference to the quoted market price of securities with similar, but not identical characteristics, and adjusted for the lack of marketability of the investment.

CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

12. OTHER PAYABLES AND ACCRUED LIABILITIES

	1999
	RMB
Other payables	16,982
Accrued liabilities	7,647
Call options written, at fair value (premium received RMB3,182)	-
	24,629
	24,629

13. MARGIN LOAN PAYABLE

The Group has 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 bears interest at a variable rate. The rate was 12 percent as of December 31, 2000. Interest expense on the margin loan for the year ended December 31, 2000 was approximately RMB73. The margin loan is due and repaid as the securities are sold.

14. SHARE CAPITAL

During the year ended December 31, 1998, the Company repurchased and retired 10,000 shares of common stock of the Company as treasury stock under its share repurchase program for a total consideration of RMB853.

15. 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 of the Company, 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

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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 Company, 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 are now exercisable beginning on May 20, 1997 until May 20, 2006. All stock options remained outstanding as of December 31, 2000.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 15. STOCK OPTIONS (continued)

On December 30, 1996, a shareholders' meeting was held authorizing an amendment of the Plan increasing the number of common stock issuable under the Plan to 20% of the Company'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 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.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company 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 the date of grant and the date of subsequent modification in 1995 and 1996, respectively: risk-free interest rates of 6.50% and 6.78%; no dividend yield; volatility factors of the expected market price of the Company's common stock of 141.38% and 42.13%; and a weighted average expected life of the options of 6 years. No options were granted in 1998, 1999 and 2000.

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.

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:

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	1998	Year ended December 1999
	RMB	RMB
Pro forma net loss	(60,101) =====	(14,426) =====
Pro forma loss per share:		
Basic	(100.31) =====	(24.33) =====
Diluted	(100.31) =====	(24.33) =====

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share/option/warrant and per share/option/warrant data)

15. STOCK OPTIONS (continued)

The Company's stock option activities and related information for the years ended December 31, 2000, 1999 and 1998 are summarized as follows:

	1998		1999	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	----- `000	US\$	----- `000	US\$
Outstanding at beginning of year	24	42	24	42
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
	----		----	
Outstanding at end of year	24 =====	42	24 =====	42

The weighted average fair value of options modified during the year ended December 31, 1996 was US\$528 (RMB4,372).

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All options outstanding as of December 31, 2000 have an exercise price of US\$42 (RMB347.8). The weighted average remaining contractual life of those options is 5.4 years.

Shares of common stock reserved for future issuance at December 31, 2000 are 24,000.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 16. RELATED PARTY BALANCES AND TRANSACTIONS

The Group's amounts due from/to the Farming Bureau and related companies controlled by the Farming Bureau or a shareholder of the Company consisted of:

	1999
	----- RMB
Due from Farming Bureau	47,013 =====
Due from related companies:	
Jin Long Corporation ("Jin Long")	16,025
Jin Huan Corporation ("Jin Huan")	8,843
Other related companies	11,122 -----
	35,990 =====
Due to related companies:	
Other related companies	29,015 =====

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

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

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

In addition to those transactions set out in notes 3, 4, 11 22(a) and 24, 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.

	Notes	1998	Year ended Decem 1999
		----- RMB	----- RMB
Farming Bureau and related companies controlled by the Farming Bureau:			
Purchase of natural rubber	(a)	(386,754) =====	(450,704) =====
Purchase of woods		- =====	- =====
Guaranteed gross profit received	(a)	12,715 =====	6,350 =====
Net sales of materials, supplies and other agricultural products	(b)	14,252 =====	23,718 =====
Net sales of natural rubber		16,121 =====	- =====
Interest expense paid		(235) =====	- =====
Rental expenses paid		(628) =====	(739) =====
Manufacturing expenses paid		- =====	- =====
Shareholders/directors of the Company:			
Consultancy fees paid	(c)	(3,783) =====	(289) =====

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### (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 Hainan Agricultural, 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) (Collectively the "Operating Subsidiaries) on natural rubber purchased from farms controlled by the Farming Bureau (the "Farms"). Pursuant to an amendment to the S&P Agreement, the Guaranteed Margin was reduced to 1.5% with effect from April 1, 1999.

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. Consequently, the Group neither purchased nor sold rubber under the terms of the S&P Agreement during 2000.

#### (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.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### (c) Consultancy fees

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Pursuant to a mandate letter dated February 1, 1994, which was amended on November 1, 1994, between Billion Luck and Brender Services Limited ("Brender"), which is beneficially owned by a director of the Company, Billion Luck agreed to pay Brender consultancy fees of HK\$80 (RMB89) per month, and pursuant to a revised consulting agreement dated April 30, 1995, Brender agreed to provide accountancy and consulting services to the Company for a period of 5 years commencing on May 1, 1995. In consideration of the services to be rendered, the monthly consultancy fee paid by Billion Luck was increased to HK\$170 (RMB184) per month during May 1, 1995 to April 30, 1997. In 1997, the consultancy agreement was renewed for another three years effective from May 1, 1997, and in consideration of the additional advisory and coordination works to be performed, the monthly consultancy fee was revised to HK\$270 (RMB289) per month, and the agreement was terminated on February 1, 1999.

### 17. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	1998	Year ended Decem 1999
	----- RMB	----- RMB
Cash paid during the year for:		
Interest expense	53	5
Income tax	6,011	-
	=====	=====
Non-cash investing and financing activities:		
Addition of intangible assets	-	-
Acquisition of a minority interest in a subsidiary (note 4)	7,000	-
	=====	=====

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except share and per share data)

### 18. 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, trade receivables and amounts due from the Farming Bureau and related companies.

(i) Cash and cash deposits

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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) Trade receivables

The Group sells to customers located throughout the PRC. Concentrations of credit risk with respect to trade receivables are limited due to the large number of entities comprising the Group's customer base. The Group carefully assesses the financial strength of its customers and generally does not require collateral.

(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.

(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.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

19. 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) Trade receivables, accounts payable and other payables

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The carrying amounts reported in the balance sheets for trade receivables, accounts payable and other payables approximate their fair values.

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

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

(v) Cost method investments

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

(vi) Written call option

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

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

20. RESERVES AND DISTRIBUTION OF PROFITS

The movements in reserves during the years were as follows:

	Surplus reserve	Collective welfare fund
	RMB	RMB
Balance at December 31, 1997	12,757	12,757
Appropriation for the year	380	380
	-----	-----
Balance at December 31, 1998	13,137	13,137
Appropriation for the year	278	278
	-----	-----
Balance at December 31, 1999	13,415	13,415
Appropriation for the year	599	599
	-----	-----
Balance at December 31, 2000	14,014	14,014
	=====	=====

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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 reserves of HARC and its subsidiaries are determined in accordance with the relevant PRC accounting rules and regulations. The amounts of retained earnings of HARC and its subsidiaries that are included in the consolidated balance sheets as of December 31, 1999 and 1998 that are available for distribution are RMB76,143 and RMB70,615, respectively. HARC has no retained earnings available for distribution as of December 31, 2000.

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### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 21. ACCUMULATED OTHER COMPREHENSIVE GAIN/(LOSS)

The component of other comprehensive gain/(loss) is as follows:

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

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.

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### 22. COMMITMENTS

#### (a) Lease commitments

At December 31, 2000, future minimum payments under non-cancelable operating leases for the leasing of buildings in Hainan, the PRC, from the Farming Bureau and companies controlled by the Farming Bureau consist of the following:

	RMB
Payable in:	
2001	170
2002	170
2003	170
2004	128
2005	128
Thereafter	128
	-----
Total minimum lease payments	894
	=====

Rental expenses under operating leases for the years ended December 31, 2000, 1999 and 1998 amounted to RMB242, RMB242 and RMB242, respectively.

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## CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 22. COMMITMENTS (continued)

#### (b) Machinery

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

Subsequent to December 31, 2000, the purchase agreement was canceled and the related deposit was repaid in the form of 49 percent of interest in an subsidiary of the Group that having a fair value of RMB901 and cash of RMB712.

### 23. 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

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China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China.

### 24. RETIREMENT BENEFITS

As stipulated by the PRC regulations, the Operating Subsidiaries participate in a defined contribution retirement plan (the "Retirement Plan") administered by a State-owned insurance company controlled by the Farming Bureau. The Operating Subsidiaries are 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 are 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 the Retirement Plan. The Operating Subsidiaries are not responsible for any payments beyond the contributions to the Retirement Plan as noted above.

The amount of contributions paid by the Operating Subsidiaries, which were charged to the consolidated statements of operations, amounted to RMB262 and RMB287 for the years ended December 31, 1999 and 1998, respectively. As more fully described in Note 3, effective January 1, 2000, the Group disposed of these operations. There are nil amount of contributions paid by the Operating Subsidiaries.

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## CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 25. VALUATION AND QUALIFYING ACCOUNTS

	Provision for doubtful accounts	Provision for inventory write-downs
	----- RMB	----- RMB
Balance at December 31, 1997	-	-
Charged to costs and expenses	4,740	1,554
	-----	-----
Balance at December 31, 1998	4,740	1,554
Recovery of bad debts written-off	(2,902)	-
	-----	-----
Balance at December 31, 1999	1,838	1,554
Charged to costs and expenses	-	1,129
	-----	-----
Balance at December 31, 2000	1,838	2,683
	=====	=====



26. 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 years 1998 and 1999 presented in the consolidated financial statements. The Group did not have any export sales during the three years ended December 31, 2000, 1999 and 1998.

Description of products by segment  
-----

In 1999 and 1998, 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 these operations. The reportable segments in 2000 are supermarket operations and processed timber. Accordingly, the segment result in 1999 had been 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.

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 immaterial for all the periods 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.

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

26. SEGMENT FINANCIAL INFORMATION (continued)

Operating segment information  
-----

Year ended Decem

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	1998	1999
	----- RMB	----- RMB
Net sales to external customers:		
Natural rubber:		
Net sales to unaffiliated customers	453,952	442,841
Net sales to affiliates	16,121	
	-----	-----
	470,073	442,841
	-----	-----
Materials, supplies and other agricultural products:		
Net sales to unaffiliated customers	43,367	9,120
Net sales to affiliates	14,252	23,718
	-----	-----
	57,619	32,838
	-----	-----
Supermarket operations:		
Net sales to unaffiliated customers	-	688
Net sales to affiliates	-	-
	-----	-----
	-	688
	-----	-----
Processed timber:		
Net sales to unaffiliated customers	-	-
Net sales to affiliates	-	-
	-----	-----
	-	-
	-----	-----
Total consolidated net sales	527,692	476,367
	=====	=====
Depreciation and amortization expenses:		
Natural rubber	1,287	723
Materials, supplies and other agricultural products	45	333
Supermarket operations	-	7
Processed timber	-	-
	-----	-----
Total segment depreciation and amortization expenses	1,332	1,063
Reconciling item:		
Depreciation and amortization expenses attributable to corporate assets	38	28
	-----	-----
Total consolidated depreciation and amortization expenses	1,370	1,091
	=====	=====

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 26. SEGMENT FINANCIAL INFORMATION (continued)

Operating segment information (continued)

-----

	1998	Year ended December 1999
	RMB	RMB
	-----	-----
Segment profit/(loss):		
Natural rubber	3,465	5,634
Materials, supplies and other agricultural products	(7,967)	3,040
Supermarket operations	-	117
Processed timber	-	-
	-----	-----
Total segment profit/(loss)	(4,502)	8,791
Reconciling items:		
Corporate expenses	(15,852)	(15,056)
Loss on impairment of an investment	(49,969)	-
Interest income	6,862	944
Interest expense	(289)	(1)
	-----	-----
Total consolidated loss before income taxes	(63,750)	(5,322)
	=====	=====

	1998	December 1999
	RMB	RMB
	-----	-----
Segment assets:		
Natural rubber	258,090	115,651
Materials, supplies and other agricultural products	16,298	105,631
Supermarket operations	-	6,290
Processed timber	-	4,281
	-----	-----
Total segment assets	274,388	231,853
Reconciling items:		
Corporate assets	8,046	53,912
Investments	119,301	117,808
Intersegment receivables	(31,009)	(26,477)
	-----	-----
Total consolidated assets	370,726	377,096
	=====	=====

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CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

26. SEGMENT FINANCIAL INFORMATION (continued)

Operating segment information (continued)

-----

	1998	Year ended Decem 1999
	RMB	RMB
	-----	-----
Expenditure for additions to long-lived assets:		
Natural rubber	332	-
Materials, supplies and other agricultural products	58	54
Supermarket operations	-	4,223
Processed timber	-	1,326
	-----	-----
Total segment expenditure for additions to long-lived assets	390	5,603
Reconciling item:		
Corporate assets	700	557
	-----	-----
Total consolidated expenditure for additions to long-lived assets	1,090	6,160
	=====	=====

Long-lived assets of reportable segments and corporate assets consisted of property and equipment.

Net sales to external customers of the materials, supplies and other agricultural products division included the following product lines:

	1998	Year ended Decem 1999
	RMB	RMB
	-----	-----
Materials and supplies	28,180	32,838
Other agricultural products	29,439	-
Supermarket operations	-	688
Processed timber	-	-
	-----	-----

57,619  
=====33,526  
=====

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## CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 26. SEGMENT FINANCIAL INFORMATION (continued)

Major customers  
-----

For the year ended December 31, 1998, sales under the distribution of natural rubber segment to two unaffiliated customers, Jilin Hualin Rubber Factory and Zhanjiang Sugar and Wine Company, amounted to approximately 20% of the total net sales of the Group.

Except for the above, the Group did not have any major customers which represented more than 10% of the total consolidated net sales in 2000, 1999 and 1998.

## 27. RECENT ACCOUNTING PRONOUNCEMENTS

The FASB recently issued Statement of Financial Accounting Standards ("SFAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of Effective Date of SFAS No. 133" ("SFAS 137"). SFAS No. 137 defers for one year the effective date of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The rule applies to all fiscal quarters of all fiscal years beginning after June 15, 2000. In June 1998, the FASB issued SFAS No. 133, which is required to be adopted in years beginning after June 15, 1999. SFAS No. 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. SFAS No. 133 will require the Group to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Group has determined there is no impact or effect of SFAS No. 133 on the results and financial position of the Group.

In March 2000, the FASB issued FASB Interpretation No.44 (Fin No.44), "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Option No. 25." FIN No.44 became effective July 1, 2000 and provides guidance for applying APB Option No. 25 "Accounting for Stock Issued to Employees." FIN No.44 had no impact on the financial condition or results of operations of the Group.

In March 2000, the Emerging Issues Task Force of the FASB reached

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consensus on Issue No. 00-2 "Accounting for Website Development Cost." ("EITF 00-2"). EITF 00-2 establishes how an entity should account for costs incurred to develop a Web site. It requires that an entity capitalize costs during the Web application and infrastructure and graphics development stages of development. The consensus is effective for all costs incurred beginning after June 30, 2000, although earlier adoption is encouraged. EITF 00-2 did not have a material impact on the Group's financial condition or its results of operations.

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### CHINA RESOURCES DEVELOPMENT, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 28. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table summarizes the quarterly financial data for the years ended December 31, 2000 and 1999. Net loss per share calculations for each of the quarters are based on the weighted average number of shares for each period; therefore, the sum of the quarters may not necessarily be equal to the full year per share amount.

	REVENUES RMB	COST OF SALES	GROSS PROFIT/ (LOSS) RMB	NET GA / (LOSS) RMB
	-----	-----	-----	-----
2000				
March 31, 2000	1,397	1,296	101	2,1
June 30, 2000	2,316	2,548	(232)	(2,1
September 30, 2000	1,445	1,135	310	(8,8
December 31, 2000	1,796	1,423	373	(14,3
Year Ended December 31, 2000	6,954	6,402	552	(23,2
1999				
March 31, 1999	21,355	21,140	215	(4,3
June 30, 1999	83,960	81,928	2,032	2
September 30, 1999	190,190	186,900	3,290	(8
December 31, 1999	180,862	177,968	2,894	(2,0
Year Ended December 31, 1999	476,367	467,936	8,431	(6,9

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## EXHIBITS

### EXHIBITS INDEX

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, 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.)
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	Long-Term Sale and Purchase Agreement dated November 5, 1994,

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- by and among Hainan Province Agricultural Reclamation General Company (the Farming Bureau), Hainan Agricultural Resources Company Ltd., Hainan Province Agricultural Reclamation No. 1 Materials Supply & Marketing Company (First Supply), and Hainan Province Agricultural Reclamation No. 2 Materials Supply & Marketing Company (Second Supply) (Original Chinese version with English translation filed as Exhibit 10.12 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1994, and incorporated herein by reference.)
- 10.2 Rental Agreement, by and between General Bureau of Hainan State Farms (the Farming Bureau) and Hainan Agricultural Resources Company Limited (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.)
- 10.3 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.)
- 10.4 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.)
- 10.5 Loan Agreement between HARC and the Farming Bureau, dated March 25, 1996, and the supplementary agreement dated December 31, 1996 (Certified English translation of original Chinese version filed as Exhibit 10.28 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996, and incorporated herein by reference.)
- 10.6 Loan Agreement between HARC and the Registrant, dated March 25, 1996 (Certified English translation of original Chinese version filed as Exhibit 10.29 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996, and incorporated herein by reference.)
- 10.7 Rental Agreement between HARC and the Hainan Farming Bureau Testing Center, dated August 9, 1996 (Certified English translation of original Chinese version filed as Exhibit 10.30 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996, and incorporated herein by reference.)
- 10.8 China Resources Development, Inc., Amended and Restated 1995 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.)
- 10.9 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,



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- 1997, and incorporated herein by reference.)
- 10.10 Agreement for the Sale and Purchase of Share in Hainan Zhongwei Agricultural Resources Company Ltd., 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.)
- 10.11 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.)
- 10.12 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.)
- 10.13 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.)
- 10.14 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.)
- 10.15 Long-Term Sale and Purchase Supplementary Agreement No. 3 by and among Farming Bureau, HARC, First Supply and Second Supply, dated May 21, 1999 (Certified English translation of original Chinese version filed as Exhibit 10.22 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1999, and incorporated herein by reference.)
- 10.16 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.)
- 10.17 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.)
- 10.18 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.)
- 10.19 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.)

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- 11.3 Computation of Earnings Per Share for Fiscal Year ended December 31, 2000 (Contained in Financial Statements filed herewith.)
- 21 Subsidiaries of the Registrant (Filed herewith.)
- 99.2 Notice of Annual Meeting, Proxy Statement and Proxy distributed to shareholders in advance of annual meeting held on October 12, 2000 (Filed with Schedule 14A dated October 2, 2000, and incorporated herein by reference.)