China Direct, Inc
Form 10QSB
May 09, 2007

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly report ended March 31, 2007

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from ________ to _________

Commission File Number: 000-26415

CHINA DIRECT, INC.
(Exact name of small business issuer as specified in charter)

Delaware	13-3876100
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5301 North Federal Highway, Suite 120
Boca Raton, Florida 33487
(Address of principal executive offices)

(561) 989-9171
(Issuer's telephone number)

not applicable
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes [ ] No [X]

APPLICABLE ONLY TO COPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: At May 9, 2007 there were 13,573,433 shares of common stock were issued and outstanding.

Transitional Small Business Disclosure Format (Check one) Yes [ ] No [X]

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

Certain statements in this report contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, the risk of doing business in the People' Republic of China, our ability to implement our strategic initiatives, our access to sufficient capital, the effective integration of our subsidiaries in the PRC into a U.S. public company structure, economic, political and market conditions and fluctuations, government and industry regulation, Chinese and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

OTHER PERTINENT INFORMATION

All share and per share information contained in this report gives effect to the 100 for 1 (100:1) reverse stock split of our common stock effective June 28, 2006.

When used in this report the terms "China Direct", "we", "us" or "our" refers to China Direct, Inc., a Delaware corporation formerly known as Evolve One, Inc., and its subsidiaries. Other terms used in this report include:

- "China Direct Consulting" means China Direct Investments, Inc., a Florida corporation and a wholly owned subsidiary of China Direct,
- "CDI China" means CDI China, Inc., a Florida corporation and a wholly owned subsidiary of China Direct,
- "Lang Chemical" means Shanghai Lang Chemical Co., Ltd., a Chinese limited liability company, and a majority owned subsidiary of CDI China,
- "Chang Magnesium" means Taiyuan Chang Magnesium Co., Ltd., a Chinese limited liability company, and a majority owned subsidiary of CDI China
- "Changxin Trading" means Taiyuan Changxin YiWei Trading Co., Ltd., a Chinese limited liability company, and a wholly owned subsidiary of Chang Magnesium,
- "CDI Shanghai Management" means CDI Shanghai Management Co., Ltd., a Chinese limited liability company, and a wholly owned subsidiary of CDI China,
- "Luma Logistic" means Luma Logistic (Shanghai) Co., Ltd., a Chinese limited liability company, and a majority owned subsidiary of CDI China,
- "Big Tree" means Big Tree Group Corporation, a Florida corporation, and a majority owned subsidiary of CDI China,
- "Jieyang Big Tree" means Jieyang Big Tree Toy Enterprise Co., Ltd, a

Chinese limited liability company, and a majority owned subsidiary of CDI China,

- "Jinan" means Jinan Alternative Energy Group Corp. a Florida corporation, and a wholly owned subsidiary of CDI China,
- "CDI Wanda" means CDI Wanda New Energy Co., Ltd., a Chinese limited liability company formerly known as Jinan Wanda New Energy Co., Ltd., and a majority owned subsidiary of Jinan,
- "CDI Magnesium" means CDI Magnesium Co., Ltd., a Brunei corporation, and a majority owned subsidiary of CDI China,
- "Capital One Resource" means Capital One Resource Co., Ltd., a Brunei corporation, and a wholly owned subsidiary of CDI Shanghai Management, and
- "Excel Rise" means Excel Rise Technology Co., Ltd., a Brunei corporation, and a wholly owned subsidiary of Chang Magnesium.

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PART I - FINANCIAL INFORMATION

CHINA DIRECT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
March 31, 2007
(Unaudited)

ASSETS

Current Assets:	
Cash and cash equivalents	$
Notes receivable	
Investment in marketable securities held for sale	
Investment in marketable securities held for sale-related party	
Accounts receivable, net of allowance for doubtful accounts $8,358	
Inventories	
Prepaid expenses and other assets	
Prepaid expenses-related party	
Other receivable	
Due from related party	
Total current assets	
Property and equipment, net of accumulated depreciation of $226,250	
Prepaid expenses	
Property use right, net	
Total assets	$

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Loan payable-short term	$
Accounts payable and accrued expenses	
Accounts payable-related party	
Liabilities in connection with acquisitions-related party	
Advances from customers	
Deferred revenues-short term	
Other payable	
Income tax payable	
Total current liabilities	

Other payable-long term	
Deferred revenues-long term	
Minority interest	
Stockholders' Equity:	
Preferred Stock: $.0001 par value, 10,000,000 authorized, no shares issued and outstanding	
Common Stock; $.0001 par value, 1,000,000,000 authorized, 13,273,433 issued and outstanding	
Additional paid-in capital	
Deferred compensation	
Accumulated comprehensive loss	
Retained earnings	
Total stockholders' equity	
Total liabilities and stockholders' equity	$

See notes to unaudited consolidated financial statements

CHINA DIRECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Mo Ended March 3	
	2007	
Revenues	$ 30,498,940	$
Revenues-related party	440,000	
Total revenues	30,938,940	
Cost of revenues	27,467,014	
Gross profit	3,471,926	
Operating expenses:		
Selling, general, and administrative-related party	-	
Selling, general, and administrative	837,509	
Total operating expenses	837,509	
Operating (loss) income	2,634,417	
Other income (expense):		
Other income	9,936	
Interest income	29,166	
Unrealized gain on trading securities	-	
Realized loss on sale of marketable securities	(15,973)	

Net income before income taxes	2,657,546	
Income taxes expense	(232,572)	
Net income before minority interest	2,424,974	
Minority interest in income of subsidiary	(554,105)	
Net income	$ 1,870,869	$
Foreign currency translation gain	80,158	
Unrealized (loss) gain on marketable securities held for sale, net of income taxes	(607,539)	
Unrealized (loss) gain on marketable securities held for sale-related party, net of income taxes	(341,458)	
Comprehensive income	$ 1,002,030	$
Basic earnings per common share	$ 0.14	$
Diluted earnings per common share	$ 0.12	$
Basic weighted average common shares outstanding	13,043,826	
Diluted weighted average common shares outstanding	16,216,384	

See notes to unaudited consolidated financial statements

CHINA DIRECT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Ended Marc 2007	
Cash flows from operating activities:		
Net income	$ 1,870,869	$
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	56,821	
Bad debts recoveries	(102,253)	
Stock based compensation	83,248	

Realized loss on investment in trading securities	15,973
Unrealized loss (gain) on investment in trading securities	-
Fair value of shares received for services	(1,208,000)
Fair value of warrants received for services	(103,950)
Fair value of investments assigned to employees and consultants for services	-
Minority Interest	554,105
Changes in operating assets and liabilities:	
Prepaid expenses	(4,705,222)
Inventory	3,444,443
Accounts receivables	(3,337,203)
Other receivables	(58,510)
Accounts payable and accrued expenses	(1,068,939)
Accounts payable-related party	1,208,879
Advance from customers	3,561,494
Other payable	1,675,498
Deferred revenues	(194,975)
Deferred income tax	61,995
Income tax payable	9,190
Net cash provided by (used in) operating activities	1,763,463
Cash flows provided by investing activities:	
Due from related party	(996,783)
Cash acquired in acquisition	55,777
Decrease in notes receivable	897,366
Decrease in restricted cash	447,713
Proceeds from the sale of trading securities	125,638
Purchases of property and equipment	(23,480)
Net cash provided by (used in) investing activities	506,231
Cash flows from financing activities:	
Repayment of loans payable	(1,228,272)
Repayment of advances from executive officers	(140,893)
Proceeds from advances from customers	-
Capital contributed by officers	-
Proceeds from exercises of warrants/options	1,425,000
Net cash provided by financing activities	55,835
EFFECT OF EXCHANGE RATE ON CASH	52,752
Net increase (decrease) in cash	2,378,281
Cash, beginning of year	3,030,345
Cash, end of period	$ 5,408,626
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid for taxes	$ 165,161
Cash paid for interest	$ 3,025

See notes to unaudited consolidated financial statements

CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

THE COMPANY

China Direct, Inc., a Delaware corporation formerly known as Evolve One, Inc., and its subsidiaries are referred to in this report as the "Company," or "China Direct". China Direct Investments, Inc., a Florida corporation and a wholly owned subsidiary of China Direct, Inc. is referred to in this report as China Direct Consulting. CDI China, Inc., a Florida corporation and a wholly owned subsidiary of China Direct, Inc. is referred to in this report as CDI China.

Evolve One, Inc., ("Evolve One") a Delaware corporation acquired 100% of China Direct Consulting on August 16, 2006 (the "Transaction") in exchange for 10,000,000 shares of Evolve One common stock, after which the shareholders of China Direct Consulting owned approximately 95% of the existing shares of Evolve One. As a result of the August 16, 2006 Transaction, China Direct Consulting became a whole owned subsidiary of Evolve One. For financial accounting purposes, the Transaction was treated as a recapitalization of Evolve One with the former stockholders of the Evolve One retaining approximately 5% of he outstanding stock. This Transaction has been accounted for as a reverse acquisition under the purchase method for business combinations, and accordingly the Transaction has been treated as a recapitalization of China Direct Consulting, with China Direct Consulting as the acquirer. The shares issued in the Transaction are treated as being issued for cash and are shown as outstanding for all periods presented in the same manner as for a stock split. In September 2006 Evolve One changed their name to China Direct, Inc.

China Direct is a diversified management and consulting company.

Our purpose is twofold; (i) offer turn key consulting services to Chinese entities and (ii) acquire controlling interest in companies operating within the Chinese economy. China Direct seeks to provide an infrastructure for development.

China Direct operates two wholly owned entities; China Direct Consulting and CDI China. China Direct Consulting serves as a full service consulting and advisory firm offering a suite of services.

CDI China operates as a management company for Chinese entities. CDI China seeks to acquire a controlling interest in entities operating in China. CDI China was incorporated under the laws of the State of Florida on August 25, 2006. The goal of CDI China is to acquire a majority interest in a variety of Chinese entities engaged in operations which we believe will benefit from the continued growth of the Chinese economy. Examples of industries in which we will focus our efforts include manufacturing, technology, mining, healthcare, packaging, food and beverage, as well as companies involved in importing and exporting activities.

CHINA DIRECT, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS (CONTINUED)

THE COMPANY (CONTINUED)

On October 25, 2006, we entered into an agreement to contribute $701,250 to increase the net assets of Shanghai Lang Chemical Co., Ltd. ("Lang Chemical") to $1,400,418. As a result, CDI China holds a 51% majority interest in the restructured Shanghai Lang Chemical Co., Ltd. ("Lang Chemical"). Lang Chemical is a distributor of industrial grade synthetic chemicals within China.

On December 22, 2006 we entered into an agreement to contribute $2,550,000 to increase the net assets of Chang Magnesium Co., Ltd. ("Chang Magnesium") to $5,471,162. As a result CDI China holds a 51% majority interest in the restructured Chang Magnesium Co., Ltd. ("Chang Magnesium"). Chang Magnesium was formed to operate a newly constructed magnesium plant that will process and manufacture a variety of magnesium products, including magnesium powder, magnesium scrap, and various grades of magnesium slabs. Taiyuan Changxin YiWei Trading Co., Ltd., ("Changxin Trading") is a wholly owned subsidiary of Chang Magnesium. In February 2007 Chang Magnesium Co., Ltd. formed a new entity, Excel Rise Technology Co., Ltd., a Brunei corporation, as a wholly owned subsidiary. Excel Rise will seek to operate as an exporter of magnesium products; primary exports will include various forms of magnesium including but not limited to magnesium powder, magnesium scrap, and various grades of ordinary magnesium slabs.

In October 2006, we formed a new entity, Luma Logistic (Shanghai) Co., Ltd., ("Luma Logistic") a Chinese limited liability company, as a 60% majority owned subsidiary of CDI China. Luma Logistic intends to operate in two business segments; logistics management and as a commodity wholesaler. As a logistics management firm, Luma Logistic will seek to operate as a consolidator and shipment manager for various manufacturers for the shipment of goods and merchandise to the Port of Shanghai. Luma Logistic had no operations for the three months ended March 31, 2007. We presently seek to identify a business partner in China to develop the operations of Luma Logistic.

In November 2006 we formed a new entity, CDI (Shanghai) Management Co., Ltd., ("CDI Shanghai Management") as a wholly owned subsidiary of CDI China, Inc. CDI Shanghai Management will provide an operational infrastructure to subsidiaries of CDI China, as well as providing consulting services to Chinese entities in regards to merger, and acquisition, business development and financial management. CDI Shanghai Management will supervise and monitor the operations of the CDI China subsidiaries based in China. CDI Shanghai Management commenced operations in January 2007. On February 17, 2007, CDI Shanghai Management created Capital One Resource Co., Ltd., a Brunei corporation, as a wholly owned subsidiary.

In November 2006, we formed a new entity, Big Tree Group Corp. ("Big Tree"), a Florida corporation, as a 60% majority owned subsidiary of CDI China.

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS (CONTINUED)

THE COMPANY (CONTINUED)

On February 12, 2007, as amended on May 8, 2007 CDI China acquired a 60% interest in Jieyang Big Tree Toy Enterprise Co., Ltd., a Chinese limited liability company, ("Jieyang Big Tree") in exchange for 53,654 shares of our common stock valued at $268,272. The fair value of the common stock is based on the value of the common stock of $5.00 per share on January 30, 2007. The $268,272 worth of common stock is reflected in Liabilities in connection with acquisitions-related party in our consolidated balance sheet as of March 31, 2007. As a result Jieyang Big Tree is a wholly owned subsidiary of CDI China. Jieyang Big Tree will seek to be a reseller and distributor of toys and related entertainment products within China. Neither Big Tree nor Jieyang Big Tree had any operations for the three months ended March 31, 2007. Under the terms of the agreement, we agreed to make capital infusions of an aggregate of $1,000,000 to Jieyang Big Tree between March 31, 2007 and October 31, 2007 provided that Jieyang Big Tree meets the following benchmarks: revenues of $12.5 million and net income of $625,000 for the six month period ended June 30, 2007; and revenues of $18.75 million and net income of $937,500 for the nine months ended September 30, 2007. If made, it is expected the additional investment capital will be advanced in the form of a loan, 12% per annum, secured by the 53,654 shares of the our common stock issued in the transaction. We anticipate that Jieyang Big Tree will commence operations in June 2007. SEE NOTE 6- ACQUISITIONS.

On February 12, 2007 CDI China, Inc. acquired a 60% majority interest in CDI Magnesium Co., Ltd., a Brunei corporation ("CDI Magnesium"), in exchange for 25,000 shares of our common stock valued at $100,000. The fair value of the common stock is based on the value of the common stock of $4.00 per share on February 6, 2007. The $100,000 worth of common stock is reflected in Liabilities in connection with acquisitions-related party in our consolidated balance sheet as of March 31, 2007. CDI Magnesium was formed to operate a newly constructed magnesium plant in Taiyuan, China. It is expected that the plant will process and manufacture a variety of magnesium alloy by-products. CDI Magnesium had no operations for the three months ended March 31, 2007. CDI Magnesium expects to commence operations in July 2007. SEE NOTE 6- ACQUISITIONS.

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CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY (CONTINUED)

Jinan Alternative Energy Group Corp. was incorporated in Florida as a wholly owned subsidiary of CDI China on January 18, 2007 as Wonderful Tech Group Inc. ("Jinan") On February 7, 2007 Wonderful Tech Group Inc. changed its name to Jinan Alternative Energy Group Corp. On February 12, 2007 CDI China agreed to contribute $511,458 to increase the net assets of Jinan Wanda Alternative Energy Co., Ltd., to $1,002,859. As a result Jinan holds a 51% majority interest in Jinan Wanda Alternative Energy Co., Ltd. On March 23, 2007 Jinan Wanda New Energy Co., Ltd. changed its name to CDI Wanda New Energy Co., Ltd. ("CDI Wanda"). In April 2007 CDI China contributed $530,000 of working capital to CDI Wanda. CDI Wanda New Energy Co., Ltd., ("CDI Wanda") established in 1996, is located in Jinan, the capital city of Shandong Province. CDI Wanda is engaged in the alternative energy and recycling industry. CDI Wanda develops environmentally safe recycling technological applications. SEE NOTE 6- ACQUISITIONS.

BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and the footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of recurring accruals, considered for a fair presentation have been included. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for fiscal 2007. The consolidated statements include the accounts of the Company and its wholly and majority owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

As previously stated, we closed the acquisition of a majority interest of CDI Wanda on February 12, 2007. Our consolidated statements of operations for the three months ended March 31, 2007 include the operations of CDI Wanda for the period of February 12, 2007, the date of acquisition, through March 31, 2007. In this section we refer to that period as the "CDI Wanda Reporting Period".

As previously stated we closed the acquisition of a majority interest of Jieyang Big Tree on February 12, 2007. Our consolidated statements of operations did not include the operations of Jieyang Big Tree for the period of February 12, 2007, the date of acquisition, through March 31, 2007 as there were no operations.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

As previously stated we closed the acquisition of a majority interest of CDI Magnesium on February 12, 2007. Our consolidated statements of operations did not include the operations of CDI Magnesium for the period of February 12, 2007, the date of acquisition, through March 31, 2007 as there were no operations.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in 2007 and 2006 include the allowance for doubtful accounts of accounts receivable, stock-based compensation, and the useful life of property, plant and equipment.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

CONCENTRATION OF CREDIT RISKS

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The

Company places its cash with high credit quality financial institutions in the United States and China. As of March 31, 2007, bank deposits in the United States exceeded federally insured limit by $2,602,260. At March 31, 2007, the Company had approximately $2,406,366 in China bank deposits, which can not be insured. In China, there is no equivalent federal insurance as the United States. The Company has not experienced any losses in such accounts through March 31, 2007.

At March 31, 2007, our bank deposits by geographic area are as follows:

United States	$3,002,260
China	2,406,366
Total cash and cash equivalents ..	$5,408,626

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISKS (CONTINUED)

To reduce its risk, the Company periodically evaluates the credit quality of the financial institutions at which it holds deposits.

China Direct Consulting receives securities which include common stock and common stock purchase warrants from companies as part of its compensation for services. These securities are stated at fair value in accordance with SFAS #115 "Accounting for certain investments in debt and equity securities" and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services". Primarily all of the securities are received from small public companies. The securities received are typically restricted as to resale. The policy of China Direct Consulting is to sell securities it receives as compensation when permitted, rather than hold on to these securities as long term investments, regardless of market conditions in an effort to satisfy our current obligations. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. The Company recognizes revenue for such common stock based on the fair value at the time common stock is granted and for stock purchase warrants based on the Black-Scholes valuation model. Unrealized gains or losses on marketable securities, held for sale and unrealized gains or losses on marketable securities, held for sale-related party are recognized as an element of comprehensive income in our consolidated statement of operations on a monthly basis based on changes in the fair value of the security as quoted on national or inter-dealer stock exchanges. Once liquidated, the realized gain or loss on the sale will be reflected in our net income for the period in which the security was liquidated.

The Company categorizes securities as investment in marketable securities, held for sale and investment in marketable securities, held for sale-related party. One client, Dragon Capital Group Corp., a related party, accounted for all of our investment in marketable securities, held for sale-related party at March 31, 2007 of $1,410,800. These securities were issued to us by Dragon Capital Group Corp., a related party, which is a non reporting company whose securities are quoted on the Pink Sheets. Under Federal securities laws these securities cannot be readily resold by us generally absent a registration of those securities under the Securities Act of 1933. Dragon Capital Group Corp., the related party, does not intend to register the securities. Accordingly, while under generally accepted accounting principles we are required to reflect the fair value of these securities on our consolidated balance sheet, they are not readily convertible into cash and we may never realize the carrying value of these securities.

We provide consulting services to Dragon Capital Group Corp., a related party. Mr. Lisheng (Lawrence) Wang the CEO and Chairman of the Board of Dragon Capital Group Corp. is the brother of Dr. James Wang, our CEO and Chairman.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISKS (CONTINUED)

Four clients accounted for the Company's investment in marketable securities, held for sale of $2,191,400 held at March 31, 2007. These securities are comprised as follows; Dragon International Group Corp. accounted for $805,300, or approximately 37% of the Company's investment in marketable securities held at March 31, 2007. Linkwell Corporation accounted for $805,000, or approximately 36% of the Company's investment in marketable securities held at December 31, 2006. Sunwin International Neutraceuticals, Inc. accounted for $366,100, or approximately 17% of the Company's investment in marketable securities held at March 31, 2007 and Sense Holdings, Inc. accounted for $215,000, or approximately 10% of the Company's investment in marketable securities held at March 31, 2007.

CUSTOMER CONCENTRATION

Our subsidiary, China Direct Consulting, provides consulting services pursuant to written agreements and receives securities as compensation for services rendered. Four of China Direct Consulting's clients accounted for approximately 78%, and one client, Dragon Capital Group Corp., a related party, accounted for approximately 21% of the total revenues of $2,109,130 for China Direct Consulting during the three months ended March 31, 2007.

Dragon International Group Corp. accounted for $690,900, or approximately 33%, Sunwin International Neutraceuticals, Inc. accounted for $631,055, or approximately 30%, Dragon Capital Group Corp., a related party, accounted for $440,000, or approximately 21%, Shanghai Qinpu Investment Co., Ltd. accounted for $250,000, or approximately 12%, and Linkwell Corporation accounted for $70,500, or approximately 3% of China Direct Consulting's revenues at March 31, 2007. China Direct Consulting seeks to minimize its customer concentration risk by diversifying its existing client base.

Three clients accounted for $932,707 or approximately 58% of the total accounts receivable of $1,618,494 reflected for Lang Chemical at March 31, 2007. These amounts are comprised as follows; GuiZhou Crystal Chemical Co., Ltd. of $388,651 or approximately 24%, Shanghai ShanFu Chemical Co., Ltd. of $380,912 or approximately 24%, and Shanghai WeiJiang Chemical Co., Ltd. of $163,144 or approximately 10%.

Three clients accounted for $1,980,187 or approximately 45% of the total accounts receivable of $4,435,051 reflected for Chang Magnesium at March 31, 2007. These amounts are comprised as follows; TAK Trading of $ 757,306 or approximately 17%, CMC Co Metals of $ 654,166 or approximately 15%, and Alcoa Australia of $568,715 or approximately 13%.

Three clients accounted for the total amount of $37,175 of accounts receivable reflected for China Direct Consulting at March 31, 2007.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE

Accounts receivable are reported at net realizable value. The Company has established an allowance for doubtful accounts based upon factors pertaining to the credit risk of specific customers, historical trends, and other information. Delinquent accounts are written off when it is determined that the amounts are uncollectible. At March 31, 2007, the allowance for doubtful accounts was $8,358.

INVENTORIES

Inventories, consisting of raw materials and finished goods related to the Company's products are stated at the lower of cost or market utilizing the weighted average method.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, investments in marketable securities, held for sale, investment in marketable securities, held for sale-related party, accounts payable and accrued expenses, income tax payable and due to executive officers approximates their fair value due to their short term maturities. The carrying value of securities held for sale is reflected at their fair value based on the price of the security as quoted on national or inter-dealer stock exchanges.

MARKETABLE SECURITIES

The Company classifies its existing investments in marketable securities, held for sale and investments in marketable securities, held for sale-related party in accordance with SFAS No. 115. Investments in marketable securities, held for sale and investments in marketable securities, held for sale-related party consist of marketable equity securities, are stated at fair value. Unrealized gains or losses on marketable securities, held for sale and unrealized gains or losses on marketable securities, held for sale-related party are recognized as an element of comprehensive income in our consolidated statements of operations and are valued on a monthly basis based on fluctuations in the fair value of the security as quoted on national or inter-dealer stock exchanges. Realized gains or losses on marketable securities are recognized in the consolidated statement of operations as trading profits when the securities are sold.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MARKETABLE SECURITIES (CONTINUED)

As mentioned above, the Company receives securities which include common stock and Common stock purchase warrants and common from companies as part of its compensation for services. These securities are stated at fair value in accordance with SFAS #115 "Accounting for certain investments in debt and equity securities" and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services". Primarily all of the securities are received from small public companies. The common stock and the common stock purchase warrants received are typically restricted as to resale. The policy of China Direct Consulting is to sell securities it receives as compensation when permitted, rather than hold on to these securities as long term investments, regardless of market conditions in an effort to satisfy our current obligations. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. The Company recognizes revenue for such common stock based on the fair value at the time common stock is granted and for stock purchase warrants based on the Black-Scholes valuation model. Unrealized gains or losses on marketable securities, held for sale and unrealized gains or losses on marketable securities, held for sale-related party are recognized as an element of comprehensive income in our consolidated statement of operations on a monthly basis and are valued based on changes in the fair value of the security as quoted on national or inter-dealer stock exchanges. Once liquidated, we will include the realized gain or loss on the sale on marketable securities will be reflected in our net income for the period in which the security was liquidated.

Net unrealized gains or (losses) related to investments on trading securities for the three months ended March 31, 2007 and 2006 are $0 and $411,675, respectively. Net realized gains or (losses) related to investments in marketable securities for the three months ended March 31, 2007 and 2006 are $(15,973) and $0, respectively.

Unrealized loss on marketable securities, held for sale, net of tax effect for the three months ended March 31, 2007 and March 31, 2006 were $(607,539) and $0 respectively.

Unrealized (loss) gains on marketable securities, held for sale-related party, net of tax effect for the three months ended March 31, 2007 and March 31, 2006 were $(341,458) and $1,141,560 respectively

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREPAID EXPENSES

Prepaid expenses and others consist of the fair value of securities of China Direct Consulting's clients which were assigned to China Direct Consulting's officers as compensation pursuant to employment agreements, repayment to vendors for merchandise that had not yet been shipped, and value added tax refunds available from the Chinese government. The fair value of securities of China Direct Consulting's clients which were assigned to China Direct Consulting's officers as compensation reflects advance payment for services to be rendered to such clients over the term of the agreements which will be amortized during the next twelve months. Accordingly at March 31, 2007, we reflect prepaid expenses and others under our current assets of $3,531,506; this represents the fair value of securities of China Direct Consulting's clients which were assigned to China Direct Consulting's officers of $425,000, $28,770 of prepaid expenses related to China Direct Consulting, $401,350 of prepaid expenses related to Lang Chemical, $1,798,285 of prepaid expenses related to Chang Magnesium, $3,464 of prepaid expenses related to Jieyang Big Tree, $181,510 of prepaid expenses related to CDI Wanda, and other current assets of $693,127 which reflect value added tax refunds available from the Chinese government related to Chang Magnesium. At March 31, 2007, we reflect prepaid expenses-related party under our current assets of $3,611,243, $3,148,335 related to Chang Magnesium and $462,908 related to Lang Chemical. See Note 9-Related Party Transactions.

Non-current prepaid expenses represent the fair value of securities of China Direct Consulting's clients which were assigned to China Direct Consulting's officers for services to be rendered to such clients over the term of our consulting agreements which will be amortized beyond the twelve month period. Accordingly at March 31, 2007 we reflect a non-current prepaid expense of $222,728 on our consolidated balance sheet at March 31, 2007.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and are depreciated on a straight line basis over their estimated useful lives of five to forty years. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized.

ADVANCES FROM CUSTOMERS

Advances from customers represent prepayments to the Company for merchandise that had not yet been shipped to the customer. The Company will recognize the advances as revenue as customers take delivery of the goods, in compliance with its revenue recognition policy. At March 31, 2007 our consolidated balance sheet reflects advances from customers of $6,132,222 which consist of $217,586 related to Lang Chemical, $5,907,531 related to Chang Magnesium and $7,105 related to CDI Wanda.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPREHENSIVE INCOME

The Company uses Statement of Financial Accounting Standards No. 130 (SFAS 130) "Reporting Comprehensive Income". Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders', changes in paid-in capital and distributions to stockholders. For the Company, comprehensive income for the three months ended March 31, 2007 and 2006 included net income, foreign currency translation adjustments, unrealized gain (loss) on marketable securities, held for sale, net of income taxes, and unrealized gain (loss) on marketable securities, held for sale-related party, net of income taxes.

FOREIGN CURRENCY TRANSLATION

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are converted into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation", and are included in determining net income or loss.

For foreign operations with the local currency as the functional currency, assets and liabilities are translated from the local currencies into U.S. dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at weighted average exchange rates for the period to approximate translation at the exchange rates prevailing at the dates those elements are recognized in the financial statements. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive loss. As of March 31, 2007, the exchange rate for the Chinese Renminbi (RMB) was $1 for 7.7409 RMB.

The functional and reporting currency is the U.S. dollar. The functional currency of the Company's Chinese subsidiaries, Lang Chemical and Chang Magnesium, is the local currency, the Chinese dollar or Renminbi ("RMB"). The financial statements of the subsidiaries are translated into United States dollars using year end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not material during the periods presented. The cumulative translation adjustment and effect of exchange rate changes on cash at March 31, 2007 was $52,752.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment charges during the three months ended March 31, 2007.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MINORITY INTEREST

Under generally accepted accounting principles when losses applicable to the minority interest in a subsidiary exceed the minority interest in the equity capital of the subsidiary, the excess is not charged to the majority interest since there is no obligation of the minority interest to make good on such losses. The Company, therefore, has included losses applicable to the minority interest against its interest since the minority owners have no obligation to make good on the losses. If future earnings do materialize, the Company shall be credited to the extent of such losses previously absorbed.

As previously stated, as of October 25, 2006 we hold a 51% majority interest of Lang Chemical.

As previously stated as of December 22, 2006, we hold a 51% majority interest of Chang Magnesium.

As previously stated in November 2006, we formed a new entity, Big Tree Group Corporation ("Big Tree"), a Florida corporation, as a 60% majority owned subsidiary of CDI China. On February 12, 2007, as amended on May 8, 2007 CDI China acquired a 60% interest in Jieyang Big Tree Toy Enterprise Co., Ltd., a Chinese limited liability company, ("Jieyang Big Tree") in exchange for 53,654 shares of our common stock valued at $268,272. The fair value of the common stock is based on the value of the shares as of January 30, 2007. The $268,272 worth of common stock is reflected in Liabilities in connection with acquisitions-related party in our consolidated balance sheet as of March 31, 2007. As a result Jieyang Big Tree is a 60% majority owned subsidiary of CDI China.

On February 12, 2007 CDI China, Inc. acquired a 60% majority interest in CDI Magnesium Co., Ltd., a Brunei corporation ("CDI Magnesium"), in exchange for 25,000 shares of our common stock valued at $100,000. The fair value of the common stock is based on the value of the shares as of the date of the agreement. The $100,000 worth of common stock is reflected in Liabilities in connection with acquisitions-related party in our consolidated balance sheet as of March 31, 2007.

Jinan Alternative Energy Group Corp. was incorporated in Florida as a wholly owned subsidiary of CDI China on January 18, 2007 as Wonderful Tech Group Inc. ("Jinan") On February 7, 2007 Wonderful Tech Group Inc. changed its name to Jinan Alternative Energy Group Corp. On February 12, 2007 CDI China agreed to contribute $511,458 to increase the shareholder equity of CDI Wanda Alternative Energy Co., Ltd., to $1,002,859. As a result Jinan holds a 51% majority interest in CDI Wanda.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

Income taxes are accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the recognition of deferred tax assets and liabilities to reflect the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such assets. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some or the entire deferred tax asset will not be realized.

BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of common stock outstanding during each period. Diluted earnings per share are computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon the exercise of stock options and warrants. At March 31, 2007, there were options to purchase 9,438,980 shares of common stock and there were warrants to purchase 7,541,875 shares of common stock, which could potentially dilute future earnings per share. At March 31, 2006, there were options to purchase 5,500,000 shares of common stock, respectively, which could potentially dilute future earnings per share.

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

	March 31, 2007	March 31, 2006
Numerator:		
Net income	$ 1,870,869	$ 156,249
Denominator:		
Denominator for basic earnings per share		
Weighted average shares outstanding	13,043,826	10,000,000
Effect of dilutive employee stock options ...	3,172,558	874,521
Denominator for diluted earnings per share		
Weighted average shares outstanding	16,216,384	10,874,521
Basic earnings per share	$ 0.14	$ 0.02
Diluted earnings per share	$ 0.12	$ 0.01

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition".

China Direct Consulting provides its services pursuant to written agreements which may vary in duration. Revenues are recognized over the terms of the agreements. China Direct Consulting's revenues are derived from a fee for services rendered.

A significant portion of the services China Direct Consulting provides are paid with securities which include stock purchase warrants and common and preferred stock from clients as part of its compensation for services. These securities are classified as investment in marketable securities, held for sale and investment in marketable securities, held for sale-related party on the consolidated balance sheet, if still held at the financial reporting date. These securities are stated at fair value in accordance with the provision of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115) and EITF 00-8 "Accounting by a grantee for an equity instrument to be received in conjunction with providing goods or services".

The securities received, whether in the form of common stock, or common stock purchase warrants, are typically restricted as to resale. The policy of China Direct Consulting is to sell securities it receives as compensation when permitted, rather than hold on to these securities as long term investments, regardless of market conditions in an effort to satisfy our current obligations. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. The Company recognizes revenue for such common stock based on the fair value at the time common stock is granted and for stock purchase warrants based on the Black-Scholes valuation model. China Direct Consulting receives securities from clients as compensation for consulting services, which are typically restricted as to resale. Unrealized gains or losses on marketable securities, held for sale and unrealized gains or losses on marketable securities, held for sale-related party are recognized as an element of comprehensive income in our consolidated statement of operations on a monthly basis based on changes in the fair value of the security as quoted on national or inter-dealer stock exchanges. Once liquidated, the realized gain or loss on the sale will be reflected in our net income for the period in which the security was liquidated.

CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Realized gains or losses are recognized in the consolidated statement of operations when the related common stock or stock purchase warrant is exercised and sold. China Direct Consulting recognized revenues amounting to $2,109,130 and $206,415 for three months ended March 31, 2007 and 2006, respectively, of which $1,572,925 and $91,575 were in connection with the receipt of equity instruments for the three months ended March 31, 2007 and 2006 respectively. Furthermore of these amounts, Dragon Capital Group Corp., a related party comprised $440,000 and $0 of our revenue in connection with the receipt of equity instruments for three months ended March 31, 2007 and 2006, respectively.

	March 31, 2007	March 31, 2006
Cash	$ 536,205	$ 14,840
Cash-related party	-	100,000
Total Cash	$ 536,205	$ 114,840
Securities	$1,132,925	$ 91,575
Securities-related party	440,000	-
Total Securities	$1,572,925	$ 91,575
Total China Direct Consulting Revenues	$2,109,130	$ 206,415

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Additionally, the Company has deferred revenues of $1,364,825 in connection with the receipt of securities at March 31, 2007. The fees due under the contracts with our consulting clients are amortized over the term of the agreement. Our consolidated balance sheet at March 31, 2007 appearing elsewhere herein reflects both deferred revenues short term, which will be recognized during the next twelve months, and deferred revenues - long term which will be recognized beyond the twelve month period. China Direct Consulting recorded $779,900 of deferred revenue for the period ended March 31, 2007. This amount includes the following; securities of Sunwin International Neutraceuticals, Inc. valued at $186,300, securities of Dragon International Group Corp. valued at $311,600, and securities of Linkwell Corp. valued at $282,000. $584,925 will be realized in the year ended December 31, 2008 as the securities are recognized as revenues in accordance with the term of the agreements.

Lang Chemical, Chang Magnesium, and CDI Wanda record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectibility is reasonably assured. Revenues from the sale of products are recorded when the goods are shipped, title passes, and collectibility is reasonably assured.

STOCK BASED COMPENSATION

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment", which replaces SFAS No. 123 and supersedes APB Opinion No. 25. Under SFAS No. 123(R), companies are required to measure the compensation costs of share based compensation arrangements based on the grant date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share based compensation arrangements include stock options, restricted share plans, performance based awards, share appreciation rights and employee share purchase plans. In March 2005 the SEC issued Staff Accounting Bulletin No. 107, or "SAB 107". SAB 107 expresses views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share based payment arrangements for public companies. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. On April 14, 2005, the SEC adopted a new rule amending the compliance dates for SFAS 123R. Companies may elect to apply this statement either prospectively, or on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under SFAS 123. Effective January 1, 2006, the Company has fully adopted the provisions of SFAS No. 123R and related interpretations as provided by SAB 107. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant.

MARCH 31, 2007

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. The Statement is to be effective for the Company's financial statements issued in 2008; however, earlier application is encouraged. The Company is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

In September 2006, the Staff of the SEC issued SAB No. 108: "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. The SEC staff believes registrants must quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. This Statement is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 did not have a significant impact on the company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115" (Statement 159). Statement 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of Statement 159 on our financial statements. The Company is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 3 - INVENTORIES

At March 31, 2007, inventories consisted of the following:

Raw materials ...	$ 538,363
Finished goods ..	2,175,385
	$2,713,748

NOTE 4 - PROPERTY AND EQUIPMENT

At March 31, 2007, property and equipment consisted of the following:

	Useful Life	
Buildings	10-40 years	$2,004,221
Manufacturing equipment	10 years	1,914,177
Office equipment and furniture ...	3-5 years	108,659
Autos and trucks	5 years	34,568
Total		4,061,625
Less: Accumulated Depreciation ..		(226,250)
		$3,835,375

For the three months ended March 31, 2007 and 2006, depreciation expense amounted to $56,821 and $959, respectively.

NOTE 5 - PROPERTY USE RIGHT

In connection with the acquisition of CDI Magnesium, the Company acquired property use rights valued at $66,666, whereby the Company has rights to use certain properties until February 12, 2010. The Company will begin amortizing this property use right over the three years beginning April 1, 2007.

NOTE 6 - ACQUISITIONS

As mentioned earlier, the acquisition of Jieyang Big Tree closed February 12, 2007. The Company plans to consolidate substantially all of the operations of Jieyang Big Tree. The operations of Jieyang Big Tree are located in China. The Company acquired Jieyang Big Tree as part of its ongoing desire to expand its interests in China. Under the term of the agreement, the Company will issue common stock to acquire 100% ownership interest in Jieyang Big Tree. The Company agreed to issue 53,654 shares of its common stock, based on the fair value of each share of $5.00 per share on January 30, 2007; the equivalent of $268,272. As of March 31, 2007, the value of these shares is reflected as liability in connection with acquisition-related party on our consolidated balance sheet. The purchase price was determined based on arm's length negotiations and no finder's fees or commissions were paid in connection with the acquisition. The Company accounted for this acquisition using the purchase method of accounting in accordance with SFAS No. 141. Our consolidated statements of operations did not include the operations of Jieyang Big Tree for the period of February 12, 2007, the date of acquisition, through March 31, 2007 as there were no operations. We expect Jieyang Big Tree to commence operations in June 2007. Under the terms of the agreement, we agreed to make capital infusions of an aggregate of $1,000,000 to Jieyang Big Tree between March 31, 2007 and October 31, 2007 provided that Jieyang Big Tree meets the following benchmarks: revenues of $12.5 million and net income of $625,000 for the six month period ended June 30, 2007; and revenues of $18.75 million and net income of $937,500 for the nine months ended September 30, 2007. If made, it is expected the additional investment capital will be advanced in the form of a loan, 12% per annum, secured by the 53,654 shares of the our common stock issued in the transaction.

The estimated purchase price and the preliminary adjustments to historical book value of Jieyang Big Tree as a result of the acquisition are as follows:

Purchase price		$ 268,272
Net Assets Acquired(February 12, 2007):		
Total Assets		
Cash	$ 1,329	
Prepaid expenses	3,464	
Property and equipment, net	3,100	
Due from related parties	438,421	
	$ 446,314	
Total Liabilities	-	
Other comprehensive income	(806)	
Total net assets of Jieyang Big Tree	447,120	
% acquired	60%	
Net Assets Acquired(February 12, 2007):		$ 268,272
Purchase price exceed net assets acquired		$ -

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CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 6 - ACQUISITIONS (CONTINUED)

As mentioned earlier, on February 12, 2007, as amended on May 8, 2007 CDI China agreed to contribute $511,458 to increase the shareholder equity of Jinan Wanda New Energy Co., Ltd., to $1,002,859. As a result Jinan holds a 51% majority interest in Jinan Wanda New Energy Co., Ltd. On March 23, 2007 Jinan Wanda New Energy Co., Ltd. changed its name to CDI Wanda New Energy Co., Ltd. CDI Wanda New Energy Co., Ltd., ("CDI Wanda") established in 1996, is located in Jinan, the capital city of Shandong Province. CDI Wanda is engaged in the alternative energy and recycling industry. CDI Wanda develops environmentally safe recycling technological applications. The Company's shareholder, Dai Feng retained 49% equity interest in CDI Wanda, and remained as an officer. In April 2007 CDI China contributed $530,000 of working capital to CDI Wanda. The purchase price was determined based on arm's length negotiations and no finder's fees or commissions were paid in connection with the acquisition. Our consolidated statements of operations include the operations of CDI Wanda for the period of February 12, 2007, the date of acquisition, through March 31, 2007. In this section, we refer to that period as the "CDI Wanda Reporting Period".

The estimated purchase price and the preliminary adjustments to historical book value of CDI Wanda as a result of the acquisition are as follows:

Purchase price		$ 511,458
Net Assets Acquired(February 12, 2007):		
Total Assets:		
Cash	$ 54,448	
Accounts Receivable	3,028	

Prepaid expenses and other receivable	1,062,998	
Inventory	663,898	
Property and equipment, net	983,936	
Due from related party	-	
	2,768,308	
Total Liabilities:		
Accounts Payable	14,265	
Loans payable-short term	64,429	
Advance from customer	1,653,964	
Other Payable	544,249	
	2,276,907	
Total net assets	491,401	
Capital infusion	511,458	
Total net assets acquired	1,002,859	
% acquired	51%	
Net Assets Acquired(February 12, 2007):		511,458
Net assets acquired exceed purchase price		$ 0

NOTE 6 - ACQUISITIONS (CONTINUED)

As mentioned earlier, CDI China, Inc. acquired a majority interest in CDI Magnesium Co., Ltd., ("CDI Magnesium") in February 2007. The Company plans to consolidate substantially all of the operations of CDI Magnesium. The operations of CDI Magnesium are located in China. The Company acquired CDI Magnesium as part of its ongoing desire to expand its interests in China. Under the term of the agreement, the Company will issue common stock to acquire 60% ownership interest in CDI Magnesium. The consideration is equal to 60% of the shareholders' equity of CDI Magnesium of $166,666 as of February 12, 2007. The Company agreed to issue 25,000 shares of its common stock, based on the fair value of each share of $4.00 per share on February 6, 2007, equivalent to $100,000 equity of 60% CDI Magnesium on the date of acquisition. As of March 31, 2007, these shares are reflected as a liability in connection with acquisition-related party. The purchase price was determined based on arm's length negotiations and no finder's fees or commissions were paid in connection with the acquisition. The Company accounted for this acquisition using the purchase method of accounting in accordance with SFAS No. 141. Our consolidated statements of operations did not include the operations of CDI Magnesium for the period of February 12, 2007, the date of acquisition, through March 31, 2007 as there were no operations through March 31, 2007. CDI Magnesium expects to commence operations in July 2007.

The estimated purchase price and the preliminary adjustments to historical book value of CDI Magnesium as a result of the acquisition are as follows:

Purchase price	$ 100,000

Net Assets Acquired(February 12, 2007):		
Total Assets		
Property use rights	$ 66,666	
Property and equipment, net	100,000	
	166,666	
Total net assets	166,666	
	166,666	
% acquired	60%	
Net Assets Acquired(February 12, 2007):		100,000
Purchase price exceed net assets acquired		$ -

CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 - PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

The following unaudited pro forma combined financial information presented below, gives effect to the acquisitions of Lang Chemical, Chang Magnesium, and CDI Wanda under the purchase method of accounting prescribed by Accounting Principles Board Opinion No.16, Business Combinations, as if it occurred as of the beginning of Fiscal 2007 and the beginning of Fiscal 2006.

For the three months ended March 31, 2007 (unaudited):

	For Three Months Ended March 31, 2007				
	China Direct Consulting 3/31/2007	Lang Chemical 3/31/2007	Chang Magnesium 3/31/2007	CDI Wanda 3/31/2007	Proform Adjustme
Sales	$ 2,109,130	$ 12,394,612	$ 14,416,451	$ 2,092,094	$
Cost of Goods	281,168	12,098,500	13,496,206	1,293,225	
Gross Profit	1,827,962	296,112	920,245	798,869	
Operating Expenses	427,144	36,118	84,406	434,762	
Operating Income (Loss) ..	1,400,818	259,994	835,839	364,107	
Other Income	4,283	7,229	12,990	(2,061)	
Income tax expenses	(207,930)	(24,642)	-	-	
Net Income (Loss)	1,197,171	242,581	848,829	362,046	(712,1
Basic earning per share ..	$ 0.09	$ -	$ -	$ -	$
Diluted earnings per share	$ 0.07	$ -	$ -	$ -	$
Basic weighted average					

common shares	13,043,826	-	-	-	
Diluted weighted average common shares	16,216,384	-	-	-	

CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 7 - PRO FORMA FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

For the three months ended March 31, 2006 (unaudited):

	For Three Months Ended March 31, 2006				
	China Direct Consulting 3/31/2006	Lang Chemical 3/31/2006	Chang Magnesium 3/31/2006	CDI Wanda 3/31/2006	Proform Adjustme
Sales	$ 206,415	$ 6,678,140	$ 5,315,805	$ 20,265	$
Cost of Goods	15,260	6,584,602	5,287,298	11,886	
Gross Profit	191,155	93,538	28,507	8,379	
Operating Expenses	344,140	92,226	78,090	27,720	
Operating Income (Loss) ..	(152,985)	1,312	(49,583)	(19,341)	
Other Income	411,675	277	(2,152)	(1,891)	
Income tax expenses	(102,441)	-	-	-	
Net Income (Loss)	156,249	1,589	(51,734)	(21,232)	(7
Basic earning per share ..	$ 0.02	$ -	$ -	$ -	$
Diluted earnings per share	$ 0.01	$ -	$ -	$ -	$
Basic weighted average common shares	10,000,000	-	-	-	
Diluted weighted average common shares	10,874,521	-	-	-	

CHINA DIRECT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 8 - LOANS PAYABLE

Loans payable consisted of the following at March 31, 2007:

Loan due to Agriculture Bank of China Shanghai Branch, dated April 4, 2005, due in quarterly installments through January 4, 2008. Interest rate at 6.12% Secured by Lang Chemical's building located in Shanghai	$ 136,646
Note to Shanghai WuJin Chemical Company, due on April 30, 2007	193,776
Loan due to JiNan Commercial Bank due on August 3, 2007, Interest rate at 7.605%, Guaranteed by JiNan WuFa Boiler Company-a non-related third party	64,592
Total	395,014
Less: Current Portion	(395,014)
Loans payable, long-term-December 2008	$ -

NOTE 9 - RELATED PARTY TRANSACTIONS

The Company leases approximately 1,300 square feet of office space for its headquarters in the U.S. In August 2006, we began leasing approximately 1,171 square feet of office space. Prior to August 2006 we subleased this space from two related parties, Dr. Wang, our CEO and Mr. Siegel, our President. The Company incurred approximately $0 and $5,552 in rental expense pursuant to this subleasing arrangement for the three months ended March 31, 2007 and 2006, respectively.

At March 31, 2007, Lang Chemical prepaid NanTong LangYuan Chemical Co., Ltd. $462,908 for the future delivery of inventory. At March 31, 2007, Chang Magnesium prepaid Taiyuan YiWei Magnesium Industry Co., Ltd. $3,148,335 for the future delivery of inventory. At March 31, 2007, Chang Magnesium had $2,755,759 in accounts payable - related party which represents amounts due to Taiyuan YiWei Magnesium Industry Co., Ltd. for the purchase of inventory.

At March 31, 2007, we held a due from related party in the amount of $1,435,204. Included in the amount is a loan of approximately $996,783 due Chang Magnesium by YaZhou Magnesium Industry Co., Ltd., $438,421 of that amount reflects a loan due from Shantou Dashu to Jieyang Big Tree.

At March 31, 2007, we held a liability in connection with acquisition-due to related party of $368,272. Included in the amount is $268,272 worth of common stock due to Guihong Zheng. CDI China acquired a 60% interest in Jieyang Big Tree Toy Enterprise Co., Ltd., a Chinese limited liability company, ("Jieyang Big Tree") in exchange for 53,654 shares of our common stock valued at $268,272. The fair value of the common stock is based on the value of the common stock of $5.00 per share on January 30, 2007. The $268,272 worth of common stock is reflected in Liabilities in connection with acquisitions-related party in our consolidated balance sheet as of March 31, 2007.

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

The remainder of $100,000 reflects the value of common stock due to Wuliang Zhang, related to our acquisition of a 60% interest in CDI Magnesium. CDI China, Inc. acquired a 60% majority interest in CDI Magnesium Co., Ltd., a Brunei corporation ("CDI Magnesium"), in exchange for 25,000 shares of our common stock valued at $100,000. The fair value of the common stock is based on the value of the common stock of $4.00 per share on February 6, 2007. The $100,000 worth of common stock is reflected in Liabilities in connection with acquisitions-related party in our consolidated balance sheet as of March 31, 2007.

NOTE 10 - STOCKHOLDERS' EQUITY

COMMON STOCK

For the three months ended March 31, 2007 and 2006, amortization of stock based compensation amounted to $ 83,248 and $0, respectively.

During the three months ended March 31, 2007, the Company issued 405,000 shares of common stock in connection with the exercise of common stock options for net proceeds of $1,425,000. Of these options, 205,000 were exercised at $5.00 per share, while 200,000 were exercised at $2.00 per share.

STOCK OPTION PLAN

During Fiscal 2006 the Company adopted the 2006 Stock Compensation Plan (the "2006 Plan"). The Company has reserved and authorized 2,000,000 shares of their common stock. Under the 2006 Plan, the purchase price for incentive stock options must be at least 100% of the fair market value of our common stock on the date the option is granted, except that the purchase price of incentive options must be at least 110% of the fair market value in the case of an incentive option granted to a person who is a "10% stockholder". A "10% stockholder" is a person who owns (within the meaning of Section 422(b)(6) of the Internal Revenue Code of 1986) at the time the incentive option is granted, shares possessing more than 10% of the total combined voting power of all classes of our outstanding shares. The purchase price for shares subject to a non-qualified option must be at least the par value of our common stock.

Under the 2006 Plan, all incentive stock options shall expire on or before the 10th anniversary of the date the option is granted, except under limited circumstances. In the case of incentive stock options granted to an eligible employee owning more than 10% of the Company's common stock, these options will expire no later than five years after the date of the grant. Non-qualified options shall expire 10 years and one day from the date of grant unless otherwise provided under the terms of the option grant. Shares covered by plan options which terminate unexercised will again become available for grant as additional options, without decreasing the maximum number of shares issuable under the 2006 Stock Compensation Plan, although such shares may also be used by us for other purposes.

NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTION PLAN (CONTINUED)

There were no options granted under the 2006 Plan for three months ended March 31, 2007.

For Fiscal 2006, the Company granted 3,588,000 options to consultants and employees. These options vested over a period not exceeding one year and had exercise price ranging from $0.01 to $10.00. For the three months ended March 31, 2007, the option expenses of $40,288 were recognized as sales and general and administrative expenses as the options were granted as compensation to employees pursuant to employment agreements. These options were exercisable upon vesting. These options granted to employees have a life of 5 years. The options granted to consultants are exercisable immediately. The consultants commence services for these options for three years. The consultant contracts are for three years. For the three months ended March 31, 2007, the amortization of deferred compensation expenses related to options amounted to $11,000.

The following table sets forth the Company's stock option activity during the three months ended March 31, 2007 and Fiscal 2006:

	Shares underlying options	Weighted average exercise price
Outstanding at December 31, 2006	9,843,980	$ 3.27
Granted	-	-
Exercised	(405,000)	3.52
Expired or cancelled	-	-
Outstanding at March 31, 2007	9,438,980	$ 6.37
Exercisable at March 31, 2007	5,504,980	$ 5.51
Weighted-average exercise price of options granted during the period		$ 0.00

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NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTION PLAN (CONTINUED)

The weighted average remaining contractual life and weighted average exercise price of options outstanding at March 31, 2007, for selected exercise price ranges, is as follows:

Options outstanding:

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price	Options Exercisable	Weighted average exercise price of options exercisable
$ 0.01	1,100,000	2.96	$ 0.01	1,100,000	$ 0.01
0.30	1,000,000	4.76	0.30	1,000,000	0.30
2.00	200,000	4.09	2.00	200,000	2.00
2.25	400	7.56	2.25	400	2.25
2.50	2,238,000	4	2.50	2,154,000	2.50

5.00	1,390,000	5	5.00	290,000	5.00
7.50	1,375,000	6	7.50	-	-
10.00	1,375,000	7	10.00	-	-
15.00	500	1.19	15.00	500	15.00
30.00	760,000	5	30.00	760,000	30.00
56.25	80	7.68	56.25	80	56.25
	9,438,980	4.84	$ 6.37	5,504,980	$ 5.51

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NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK WARRANTS

For the three months ended March 31, 2007, the amortization of deferred compensation expenses-warrants amounted to $31,960. These options granted to consultants are exercisable immediately.

A summary of the status of the Company's outstanding stock purchase warrants granted as of March31, 2007 and changes during the period is as follows:

	Shares underlying warrants	Weighted average exercise price
Outstanding at December 31, 2005	-	$ -
Granted	7,361,875	6.78
Warrants assumed with reverse merger transaction on August 16, 2006	180,000	11.25
Exercised	-	-
Expired or cancelled	-	-
Outstanding at December 31, 2006	7,541,875	6.89
Granted	-	-
Exercised	-	-
Expired or cancelled	-	-
Outstanding at March 31, 2007	7,541,875	$ 6.89
Exercisable at March 31, 2007	7,541,875	$ 6.89

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CHINA DIRECT, INC. AND SUBSIDIARIES
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NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

COMMON STOCK WARRANTS (CONTINUED)

The following information applies to all warrants outstanding at March 31, 2007.

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 2.50	50,000	4.67	$ 2.50	50,000	$ 2.50
$ 4.00	3,884,375	4.50	$ 4.00	3,884,375	$ 4.00
$ 7.50	90,000	1.14	$ 7.50	90,000	$ 7.50
$10.00	3,427,500	4.48	$10.00	3,427,500	$10.00
$15.00	90,000	1.14	$15.00	90,000	$15.00
	7,541,875	4.41		7,541,875	

NOTE 11 - MARKETABLE SECURITIES

China Direct Consulting receives securities which include common stock and common stock purchase warrants from companies as part of its compensation for services. The Company categorizes securities with restriction as investment in marketable securities, held for sale and investment in marketable securities, held for sale-related party. Unrealized gains or losses of marketable securities, held for sale and unrealized gains or losses on marketable securities, held for sale-related party are recognized as an element of comprehensive income in our consolidated statement of operations on a monthly basis and are valued based on changes in the fair value of the security as quoted on national or inter-dealer stock exchanges. Once liquidated, the realized gain or loss on the sale of marketable securities will be reflected in our net income for the period in which the security was liquidated. At March 31, 2007 all securities are reflected as investment in marketable securities, held for sale, and investment in marketable securities, held for sale-related party.

NOTE 11 - MARKETABLE SECURITIES (CONTINUED)

For three months ended March 31, 2007

	January 1, 2007	Amount received/ sold	Reclassification from trading securities to held for sale securities	Unrealized loss
Investment in trading securities	$ 2,166,603	$ -	$(2,166,603)	$ -
Investment in trading securities-related party	311,611	(47,611)	(264,000)	-

Total Investment in trading securities	2,478,214	(47,611)	(2,430,603)	-
Investment in marketable securities, held for sale	-	952,050	2,166,603	(927,253)
Investment in marketable securities, held for sale-related party	1,325,400	346,000	264,000	(524,600)
Total Investment in marketable securities, held for sale	$ 1,325,400	$ 1,298,050	$ 2,430,603	$(1,451,853)

For three months ended March 31, 2006

	January 1, 2006	Amount received/ sold	Unrealized gain	March 2006
Investment in trading securities ...	$ 152,800	$ 261,700	$ 411,675	$ 826,
Investment in marketable securities, held for sale-related party	$ 810,000	$ -	$1,890,000	$2,700,

CHINA DIRECT, INC. AND SUBSIDIARIES
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NOTE 12 - SEGMENT INFORMATION

The following information is presented in accordance with SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. For the three months ended March 31, 2007, the Company operated in six reportable business segments - (1) Shanghai Lang Chemical Co., Ltd. ("Lang Chemical"). Lang Chemical is a distributor of industrial grade synthetic chemical products; (2) Chang Magnesium Co., Ltd., ("Chang Magnesium"). Chang Magnesium and its wholly owned subsidiary Taiyuan Changxin YiWei Trading Co., Ltd. ("Changxin Trading") process and distribute various forms of magnesium including but not limited to magnesium powder, magnesium scrap, magnesium alloy and various grades of ordinary magnesium slabs; (3) Jieyang Big Tree Toy Enterprise Co., Ltd. ("Jieyang Big Tree") will seek to be a reseller and distributor of toys and related entertainment products within China; (4) CDI Magnesium Co., Ltd., ("CDI Magnesium") is expected that the plant will process and manufacture a variety of magnesium alloy by products; (5) CDI Wanda Alternative Energy Co., Ltd., ("CDI Wanda") develops environmentally safe recycling technological applications; and (6) China Direct Investments, Inc. ("China Direct Consulting") serves as a full service consulting and advisory firm offering a comprehensive suite of services critical to the success of Chinese entities seeking to access the U.S. capital markets. The Company's reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations. Condensed information with respect to these reportable for three months ended March 31, 2007 and 2006 are as follows.

For the three months ended March 31, 2007 (Unaudited):

	Lang Chemical (chemical distribution segment)	Chang Magnesium (magnesium segment)	Jieyang Big Tree	CDI Magnesium	CDI Wanda	China Direct Consulting
Revenues	$12,394,612	$14,416,451	$ -	$ -	$2,018,748	$1,669,130
Revenues - related party	-	-	-	-	-	440,000
Interest income (expense)	(3,025)	13,309	-	-	(1,374)	20,256
Net (loss) income	171,235	432,903	-	-	69,560	1,197,171
Segment Assets ...	$ 3,577,439	$17,530,830	$446,314	$ 166,666	$1,605,406	$7,336,348

For the three months ended March 31, 2006:

The Company had only one segment for the three months ended March 31, 2006 that being their consulting advisory services segment, accordingly a table is not presented for segment information for the three months ended March 31, 2006.

CHINA DIRECT, INC. AND SUBSIDIARIES
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NOTE 13 - FOREIGN OPERATIONS

For the three months ended March 31, 2007, the Company derived part of its revenue from its subsidiaries located in the People's Republic of China. Identifiable assets by geographic areas as of March 31, 2007 are as follows:

	Identifiable Assets at March 31, 2007
United States	$ 7,336,348
China	23,326,655
Total	$30,663,003

Three months ended March 31, 2007:

	United States	People's Republic of China
Revenues	$ 1,669,130	$ 28,829,810
Revenues - related party .	$ 440,000	$ -
Identifiable assets	$ 7,336,348	$ 23,326,655

Three months ended March 31, 2006:

For the three months ended March 31, 2006, all revenues and identifiable assets were located in the United States, accordingly a table is not presented for foreign operations for the three months ended March 31, 2006.

NOTE 14 - OPERATING RISK

(a) Country risk

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

(b) Products risk

In addition to competing with other companies, the Company could have to compete with larger US companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel if access is allowed into the PRC market. If US companies do gain access to the PRC markets, they may be able to offer products at a lower price. There can be no assurance that the Company will remain competitive should this occur.

NOTE 14 - OPERATING RISK (CONTINUED)

(c) Exchange risk

The Company can not guarantee that the current exchange rate will remain steady, therefore there is a possibility that the Company could post the same amount of profit for two comparable periods and because of a fluctuating exchange rate actually post higher or lower profit depending on exchange rate of Chinese Renminbi converted to US dollars on that date. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

(d) Political risk

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

(e) Key personnel risk

The Company's future success depends on the continued services of executive management in China and the United States. The loss of any of their services would be detrimental to the Company and could have an adverse effect on business development. The Company maintains key-man insurance on the lives of the executive management. Future success is also dependent on the ability to identify, hire, train and retain other qualified managerial and other employees. Competition for these individuals is intense and increasing.

(f) Performance of subsidiaries risk

The majority of the Company's revenues will be derived via the operations of the

Company's majority owned Chinese subsidiaries. Economic, governmental, political, industry and internal company factors outside of the Company's control affect each of the subsidiaries. If the subsidiaries do not succeed, the value of the assets and the price of our common stock could decline.

NOTE 15 - SUBSEQUENT EVENTS

On April 24, 2007, Jinan Alternative Energy Group Corp. entered into an agreement to form a new entity in coordination with Guangdong Qingyuan Changxin Waste Material Renewable Processing Co., Ltd. Pursuant to a joint venture agreement entered on April 24, 2007, Jinan has the option to contribute capital to acquire an ownership interest in a new entity to be created by Guangdong Qingyuan Changxin Waste Material Renewable Processing Co., Ltd. Under the terms of the agreement Jinan has the option to invest up to $1,310,000 to acquire a 51% equity ownership of the new entity to be formed.

In May 2007 China Direct Investments, Inc. entered into a lease agreement for an additional 1,273 square feet of office space for a monthly lease payment of approximately $3,106 per month, expiring on October 31, 2007.

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On May 8, 2007 we entered into an amended agreement related to our acquistion of 51% of CDI Wanda in February 2007. The revised terms provide that we are tendering $511,458 on or before April 30, 2007 to acquire a 51% majority interst in CDI Wanda. As well in the future should CDI China permit other shareholders to contribute capital to CDI Wanda; CDI China shall have the option to contribute capital and/or acquire additional interest from other shareholders to maintain its 51% majority interest in CDI Wanda. In the aggregate CDI China shall not issue in excess of 337,500 shares of common stock valued at $4.00 per share on February 6, 2007, as mutually agreed upon by and among the parties to the agreement in February 2007, and shall not contribute in excess of $1,350,000, inclusive of the $511,458 capital commitment due on or before April 30, 2007, to maintain its 51% majority stake in CDI Wanda.

On May 8, 2007 we entered into an amended agreement related to our acquistion of 60% of Jieyang Big Tree in February 2007. The revised terms provide that we are tendering $268,272 worth of commons tock valued at $5.00 per share on January 30, 2007, as mutually agreed upon by and amongst the parties to the agreement to acquire a 60% majority interst in Jieyang Big Tree from exisitng sharehodlers. As well in the future should CDI China permit other shareholders to contribute capital to Jieyang Big Tree; CDI China shall have the option to contribute capital and/or acquire additional interest from other shareholders to maintain its 60% majority interest in Jieyang Big Tree. In the aggregate CDI China shall not issue in excess of 240,000 shares of common stock valued at $5.00 per share on January 30, 2007, as mutually agreed upon by and among the parties to the agreement to maintain its 60% majority stake in Jieyang Big Tree.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of our consolidated financial condition and results of operations for the three months ended March 31, 2007 and 2006 should be read in conjunction with the unaudited consolidated financial statements, including footnotes, and other information presented elsewhere in this Form 10-QSB.

OVERVIEW

On August 16, 2006 we acquired 100% of the issued and outstanding stock of China Direct Consulting in exchange for 10,000,000 shares of our common stock which, at closing, represented approximately 95% of our issued and outstanding shares of our common stock. Prior to the transaction we were a shell company for a limited period of time immediately prior to the acquisition, and previously had conducted various business operations. As a result, China Direct Consulting became a wholly owned subsidiary of our company. For financial accounting purposes, the transaction was treated as a recapitalization of our company with the former stockholders of our company retaining approximately 5% of the outstanding stock. As such, our consolidated financial statements have been prepared as if China Direct Consulting was the acquiror. As a result, the business of China Direct Consulting became the business of our company.

China Direct Consulting

China Direct Consulting was organized in January 2005 and provides specialized business consulting services exclusively to Chinese entities seeking access to the U.S. capital markets. China Direct Consulting enters into agreements with clients to provide services for a fixed consulting fee. The amount of the consulting fee varies based upon the scope of the services to be rendered. Historically, a significant portion of the fees earned by China Direct Consulting have been paid in shares of its client's securities which are valued at fair market value for the purposes of our revenue recognition. Depending upon the particular client, China Direct Consulting may receive either unregistered securities with registration rights or a client may issue securities directly to our employees. The policy of China Direct Consulting is to sell securities it receives as compensation when permitted, rather than hold on to these securities as long term investments, regardless of market conditions, in an effort to satisfy our current obligations.

China Direct Consulting currently has five client companies, including one client which is a related party. Accordingly China Direct Consulting is dependent on revenues generated from these five clients. For the three months ended March 31, 2007, four of the clients represented approximately 87% of the revenues of China Direct Consulting. Revenues from China Direct Consulting represented approximately 6.8% of our consolidated revenues for the three months ended March 31, 2007.

The fees due under the contracts with our consulting clients are amortized over the term of the agreement. Our consolidated balance sheet at March 31, 2007 appearing elsewhere herein reflects both deferred revenues short term, which will be recognized by us during the next 12 months, and deferred revenues - long term which will be recognized beyond the 12 month period. In instances where the securities accepted for payment are issued directly to employees, we recognize the revenue represented by those securities consistent with our revenue recognition policy and the net value of those securities, after deduction of any costs of those revenues, are then deemed compensation paid to the particular employee.

Our cost of revenues include direct costs we incur in rendering the services to our client companies, which include fees paid to professional resources including but not limited to marketing, legal and accounting services directly related to each particular client. In addition, we may engage certain third party professionals to assist in providing the contracted services to a client company. The costs associated with these third party professionals are included in our cost of revenues.

Our arrangements with our consulting clients generally provide that fees paid to China Direct Consulting will cover the costs of various professional resources including but not limited to attorneys, accounting personnel and auditors providing services on behalf of the client company. As these professionals generally will not provide services on a fixed fee basis, and the scope of the services necessary for a particular client company can vary from project to project, our cost of revenues can ultimately be significantly higher than initially projected which can adversely impact our gross profit margins. Furthermore fees for professional services cannot be satisfied with securities. As such the policy of China Direct Consulting is to sell securities it receives as compensation when permitted, rather than hold on to these securities as long term investments, regardless of market conditions, in an effort to satisfy our current obligations, due in part, to these professional resources.

While it is not our policy to hold securities we accept as payment for services as long term investments, we are not always able to immediately liquidate such securities as a result of either market conditions or restrictions on resale imposed by Federal securities laws. Primarily all of the securities are received from small public companies. The securities received are typically restricted as to resale. The policy of China Direct Consulting is to sell securities it receives as compensation when permitted, rather than hold on to these securities as long term investments, regardless of market conditions in an effort to satisfy our current obligations. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. China Direct Consulting recognizes revenue for such common stock based on the fair value at the time common stock is granted and for stock purchase warrants based on the Black-Scholes valuation model. China Direct Consulting receives securities from clients as compensation for consulting services, which are typically restricted as to resale. Unrealized gains or losses on marketable securities held for sale as well as unrealized gains or losses on marketable securiti