

China Direct Industries, Inc.
Form 10-Q
May 13, 2010

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-33694

CHINA DIRECT INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of incorporation or
organization)

13-3876100
(I.R.S. Employer Identification No.)

431 Fairway Drive, Suite 200, Deerfield Beach, Florida
(Address of principal executive offices)

33441
(Zip Code)

954-363-7333
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[]	Accelerated filer	[]
Non-accelerated filer	[]	Smaller reporting company	[<input checked="" type="checkbox"/>]

(Do not check if smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. 30,798,093 shares of common stock were issued and outstanding as of May 10, 2010.

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INDEX OF CERTAIN DEFINED TERMS USED IN THIS REPORT

When used in this report the terms:

- “China Direct Industries”, “we”, “us” or “our” refers to China Direct Industries, Inc., a Florida corporation, and our subsidiaries;
- “CDI China”, refers to CDI China, Inc., a Florida corporation, and a wholly owned subsidiary of China Direct Industries; and
- “PRC” refers to the People’s Republic of China.

Magnesium Segment

- “Chang Magnesium”, refers to Taiyuan Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China;
- “Chang Trading”, refers to Taiyuan Changxin YiWei Trading Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of Chang Magnesium;
- “Excel Rise”, refers to Excel Rise Technology Co., Ltd., a Brunei company and a wholly owned subsidiary of Chang Magnesium;
- “CDI Magnesium”, refers to CDI Magnesium Co., Ltd., a Brunei company and a 51% owned subsidiary of Capital One Resources;
- “Asia Magnesium”, refers to Asia Magnesium Corporation Limited, a company organized under the laws of Hong Kong and a wholly owned subsidiary of Capital One Resource;
- “Golden Magnesium” refers to Shanxi Gu County Golden Magnesium Co., Ltd., a company organized under the laws of the PRC and a 52% owned subsidiary of Asia Magnesium;
- “Pan Asia Magnesium”, refers to Pan Asia Magnesium Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China;
- “Baotou Changxin Magnesium”, refers to Baotou Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC, a 51% owned subsidiary of CDI China, and a 39% owned subsidiary of Excel Rise. Effectively China Direct holds a 70.9% interest;
- “IMG” or “International Magnesium Group”, refers to International Magnesium Group, Inc., a Florida corporation and a 100% owned subsidiary of China Direct Industries; and
- “IMTC” or “International Magnesium Trading”, refers to International Magnesium Trading Corp., a company organized under the laws of Brunei and a 100% owned subsidiary of CDI China.

Basic Materials Segment

- “Lang Chemical”, refers to Shanghai Lang Chemical Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China;
- “CDI Jingkun Zinc”, refers to CDI Jingkun Zinc Industry Co., Ltd., a company organized under the laws of the PRC and a 95% owned subsidiary of CDI Shanghai Management;
- “CDI Jixiang Metal”, refers to CDI Jixiang Metal Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China;
- “CDI Metal Recycling”, refers to Shanghai CDI Metal Recycling Co., Ltd., a company organized under the laws of the PRC and an 83% owned subsidiary of CDI Shanghai Management;
- “CDI Beijing”, refers to CDI (Beijing) International Trading Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI Shanghai Management; and

- “CDII Trading”, refers to CDII Trading, Inc., a Florida corporation and a 100% owned subsidiary of China Direct Industries.

Consulting Segment

- “China Direct Investments”, refers to China Direct Investments, Inc., a Florida corporation, and a wholly owned subsidiary of China Direct;
- “CDI Shanghai Management”, refers to CDI Shanghai Management Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China; and
- “Capital One Resource”, refers to Capital One Resource Co., Ltd., a Brunei company, and a wholly owned subsidiary of CDI Shanghai Management.

Clean Technology Segment: (All operations related to the following entities were discontinued in September 2008)

- “CDI Clean Technology”, refers to CDI Clean Technology Group, Inc., a Florida corporation formerly known as Jinan Alternative Energy Group Corp.. Effective October 30, 2008, CDI China holds a 19% interest;
- “CDI Wanda”, refers to Shandong CDI Wanda New Energy Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI Clean Technology; and
- “Yantai CDI Wanda”, refers to Yantai CDI Wanda Renewable Resources Co., Ltd., a company organized under the laws of the PRC and a 52% owned subsidiary of CDI Wanda.

The information which appears on our websites is not part of this report.

All share and per share information contained herein gives retroactive effect to the 1-for-100 shares reverse split of our common stock on September 19, 2008 which was immediately followed by a 100-for-1 forward split of our common stock.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

CHINA DIRECT INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2010 Unaudited	September 30, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 15,072,206	\$ 12,851,310
Investment in marketable securities available for sale	2,274,299	4,984,351
Investment in marketable securities available for sale - related party	596,680	604,686
Investment in subsidiaries -- cost method	290,864	290,864
Accounts receivable, net of allowance of \$216,875 and \$745,786 at March 31, 2010 and September 30, 2009, respectively	10,355,073	8,195,916
Accounts receivable - related parties	2,065,328	2,355,059
Inventories, net	7,664,580	5,806,722
Prepaid expenses and other current assets	6,599,312	5,092,205
Prepaid expenses - related parties	4,465,723	5,823,039
Loans receivable - related parties	1,370,747	1,094,142
Current assets of discontinued operations	51,345	51,345
Total current assets	50,806,157	47,149,639
Restricted cash	716,783	722,324
Property, plant and equipment, net	30,323,027	31,331,992
Prepaid expenses and other assets	2,443	1,836
Property use rights, net	1,089,766	1,113,902
Long-lived assets of discontinued operations	196,078	196,077
Total assets	\$ 83,134,254	\$ 80,515,770
LIABILITIES AND EQUITY		
Current Liabilities:		
Loans payable-short term	\$ 1,952,868	\$ 1,521,002
Accounts payable and accrued expenses	7,139,870	7,708,730
Accounts payable-related parties	51,736	51,716
Advances from customers and deferred revenue	1,388,865	2,007,137
Other payables	1,276,348	3,072,238
Other payables - related parties	374,483	399,629
Taxes payable	443,057	1,130,907
Current liabilities of discontinued operations	300,000	300,000
Total current liabilities	12,927,227	16,191,359
Total liabilities	12,927,227	16,191,359
CHINA DIRECT INDUSTRIES INC. EQUITY		
Preferred Stock: \$.0001 par value, stated value \$1,000 per share; 1,006 shares outstanding at March 31, 2010 and September 30, 2009, respectively.	1,006,250	1,006,250
	3,064	2,719

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Common Stock: \$.0001 par value; 30,635,475 and 27,189,719 outstanding at March 31, 2010 and September 30, 2009, respectively.

Additional paid-in capital	63,044,813	57,492,755
Accumulated other comprehensive income	1,543,404	1,902,221
Accumulated deficit	(13,716,371)	(14,328,732)
Total China Direct Industries, Inc. stockholders' equity	51,881,160	46,075,213
Noncontrolling interests	18,325,867	18,249,198
Total Equity	70,207,027	64,324,411
Total liabilities and equity	\$83,134,254	\$80,515,770

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

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

	For the Three Months Ended March 31		For the Six Months Ended March 31	
	2010	2009	2010	2009
Revenues	\$21,223,422	\$16,056,677	\$41,034,154	\$41,407,486
Revenues-related parties	2,147,104	4,629,432	4,588,900	18,235,074
Total revenues	23,370,526	20,686,109	45,623,054	59,642,560
Cost of revenues	21,376,375	19,317,293	41,804,685	59,339,911
Gross profit	1,994,151	1,368,816	3,818,369	302,649
Operating expenses:				
Selling, general, and administrative	2,469,306	2,463,109	5,262,809	6,132,949
Operating loss	(475,155)	(1,094,293)	(1,444,440)	(5,830,300)
Other (expense) income:				
Other (expense) income	(53,920)	56,169	48,485	66,828
Interest income (expense)	4,614	46,088	3,614	(11,384)
Realized gain (loss) on sale of marketable securities	2,066,497	(232,711)	2,101,188	(331,529)
Realized loss on Other Than Temporary Impairment	-	-	-	(7,521,088)
Realized gain on sale subsidiaries	-	-	-	238,671
Total other income (expense)	2,017,191	(130,454)	2,153,287	(7,558,502)
Income (loss) from continuing operations before income taxes	1,542,036	(1,224,747)	708,847	(13,388,802)
Income tax (expense) benefit	(15,206)	71,579	(54,924)	179,470
Income (loss) from continuing operations, net of income taxes	1,526,830	(1,153,168)	653,923	(13,209,332)
Loss from discontinued operations	-	(620,579)	-	(1,536,823)
Net income (loss)	\$1,526,830	\$(1,773,747)	\$653,924	\$(14,746,155)
Net income attributable to noncontrolling interests-continuing operations	130,354	14,132	18,746	2,389,489
Net income attributable to noncontrolling interests-discontinued operations	-	304,084	-	753,045
Net income (loss) attributable to China Direct Industries, Inc.	\$1,657,184	\$(1,455,531)	\$672,669	\$(11,603,621)
Deduct dividends on Series A Preferred Stock:				
Preferred stock dividend	(20,125)	(20,235)	(60,308)	(40,470)
Net income (loss) attributable to common stockholders	\$1,637,059	\$(1,475,766)	\$612,361	\$(11,644,091)
Basic and diluted income (loss) per common share:				
Basic	\$0.06	\$(0.06)	\$0.02	\$(0.49)
Diluted	\$0.06	\$(0.06)	\$0.02	\$(0.49)
Basic weighted average common shares outstanding	28,594,256	23,414,500	27,981,440	23,555,518

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Diluted weighted average common shares outstanding	29,057,018	23,414,500	28,444,202	23,555,518
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The accompanying notes are an integral part of these financial statements.

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CHINA DIRECT INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(Unaudited)

Preferred Stock		Common Stock		Additional	Accumulated	Retained	Non-controlling
Shares	Amount	Shares	Amount	Paid-in Capital	Comprehensive Income	Earnings	Interests