

China Direct Industries, Inc.
Form PRER14A
January 13, 2012

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. 1)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

China Direct Industries, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was

determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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 2. Form, Schedule or Registration Statement No.: Schedule 14A
 3. Filing Party: China Direct Industries, Inc.
 4. Date Filed: October 18, 2011
-

431 Fairway Drive, Suite 200
Deerfield Beach, Florida 33441
Telephone: (954) 363-7333

[X], 2012

Dear Shareholder:

On behalf of the Board of Directors (the "Board") of China Direct Industries, Inc. (the "Company"), I cordially invite you to attend the Special Meeting of Shareholders (the "Meeting") of the Company, which will be held on [X], 2012, at [_____.m], Eastern Time, at the Company's offices located at 431 Fairway, Drive, Suite 200, Deerfield Beach, Florida 33441. The matters to be considered by the Company's shareholders at the Meeting are to (a) approve our issuance of up to 17,841,627 shares of common stock (the "China Direct Shares"), which includes 16,401,627 shares as partial consideration for the transfer to us of all of the issued and outstanding capital stock in two related-party magnesium businesses, in transactions that subject us to the shareholder approval requirements of Rules 5635(a) and (b) of The Nasdaq Stock Market, together with an additional 1,440,000 shares to be issued under a management agreement ; (b) approve an amendment to our articles of incorporation to change our name from China Direct Industries, Inc. to CD International Enterprises, Inc. or such other name as the Board may elect; and (c) consider and act upon any other business as may properly come before the Meeting or any adjournment or postponement thereof.

Our acquisition of the magnesium businesses is being undertaken in order to expand our magnesium production capacity and customer base. In addition, we believe that this acquisition using primarily our securities and other non-cash assets will improve our cash flow and provide cost synergies and economies of scale in the administration of our magnesium segment.

The total consideration to be paid by the Company under the agreements governing the acquisition of the magnesium businesses is approximately \$26,705,070, of which, up to \$15,515,939 is payable by our issuance of up to 16,401,627 China Direct Shares, \$6,493,047 in cash or proceeds from repayment of the Company's intercompany loans and \$4,696,085 by way of assignment of the Company's interest in its subsidiary, Excel Rise Technology Co., Ltd. As more fully described in the accompanying proxy statement, on the closing date of the acquisition the market value of those shares may be more or less than the \$.9446 per share market value used to compute the purchase price under the acquisition agreements.

Shareholders of record at the close of business on [X], 201 2 are entitled to receive notice of and vote at the Meeting and any adjournment or postponement thereof.

After consideration, including consideration of the unanimous recommendation of the Audit Committee of the Board comprised solely of disinterested directors, the Board unanimously recommends that you vote "FOR" the proposals set forth in these materials.

It is very important that you be represented at the Meeting regardless of the number of shares you own. Even if you plan to attend the Meeting, I urge you to submit your vote promptly. You may vote your shares via a toll-free telephone number, over the Internet, or by marking, signing and dating your proxy card and returning it in the envelope provided, as described in further detail herein. Voting by phone, over the Internet or by proxy card will not prevent you from voting in person, but will ensure that your vote is counted if, for whatever reason, you are unable to attend.

Your continued support and interest in the Company are sincerely appreciated.

Sincerely

/s/ Yuejian (James) Wang
Yuejian (James) Wang, Ph.D.
Chairman of the Board,
Chief Executive Officer and President

Neither the United States Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the Share Transfer or the Transfer Agreements described in the enclosed proxy statement, passed upon the merits or fairness of the Share Transfer or the Transfer Agreements or passed upon the adequacy or accuracy of the disclosures in the enclosed proxy statement. Any representation to the contrary is a criminal offense.

CHINA DIRECT INDUSTRIES, INC.
431 Fairway Drive, Suite 200
Deerfield Beach, Florida 33441
Telephone: (954) 363-7333

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held on [X], 201 2

Dear Shareholder:

You are cordially invited to attend the Special Meeting of Shareholders (the "Meeting") of China Direct Industries, Inc. (the "Company"), to be held on [X], 201 2 , at [____ __. m.,] Eastern Time, at the Company's offices located at 431 Fairway, Drive, Suite 200, Deerfield Beach, Florida 33441.

At the Meeting, our shareholders will be asked:

1. To approve our issuance of shares of common stock as consideration for the transfer to us of all of the issued and outstanding equity in two related-party magnesium businesses, in transactions that subject us to the shareholder approval requirements of Rules 5635(a) and (b) of The Nasdaq Stock Market;
2. To approve an amendment to our articles of incorporation to change our name from China Direct Industries, Inc. to CD International Enterprises, Inc. or such other name as the Board of Directors may elect; and
3. To consider and act upon any other business as may properly come before the special meeting or any adjournments thereof.

These items of business are described in further detail in the proxy statement accompanying this Notice of Special Meeting of Shareholders.

After consideration, including consideration of the unanimous recommendation of the Audit Committee comprised solely of disinterested directors, the Board unanimously recommends that you vote "FOR" adoption of the Proposals.

Your vote is important. You should read the attached proxy statement and the information incorporated by reference into the proxy statement carefully. Whether or not you plan to attend the Meeting, you are urged to vote your shares promptly either by telephone, by Internet or by mail as described in further detail herein. You may revoke your proxy at any time before it is exercised at the Meeting by giving written notice to the Company's Corporate Secretary, by attending the Meeting and voting in person or by submitting a proxy bearing a later date.

These proxy materials are first being mailed to shareholders of the Company on or about [X], 201 2 .

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Lazarus Rothstein

Lazarus Rothstein
Secretary
Deerfield Beach, Florida
[X], 201 2

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Shareholders to be held on [X], 2012.

In accordance with the rules issued by the Securities and Exchange Commission, the Company is providing access to its proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of the Company's proxy materials on the Internet. The Company encourages you to access and review all of the important information contained in the proxy materials before voting.

The Company's proxy materials are also available at <http://www.cdii.net>.

TABLE OF CONTENTS

	Page
QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING	1
SUMMARY OF THE SHARE TRANSFER AND RELATED MATTERS	
The Companies	8
Summary of the Share Transfer	8
Background of the Share Transfer and Reasons for the Share Transfer	9
Why We are Seeking Shareholder Approval	9
The Transfer Agreements	10
Effect of the Share Transfer on Existing Shareholders	11
Vote Required for Approval of the Proposals	11
No Appraisal Rights	11
Conditions to the Share Transfer	11
Termination of the Transfer Agreements and Termination Fees	11
Representation, Warranties, and Indemnification	11
Interest of Certain Persons in Matters to be Acted Upon	12
Risks Relating to the Share Transfer	12
RISK FACTORS	12
CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS	14
GENERAL MEETING INFORMATION	16
General	16
Date, Time and Place of the Meeting	16
Mailing Address; Telephone Number; Date of Mailing	16
Notice and Voting	16
Votes Required for Approval of the Proposals	17
Abstentions and Unspecified Shares Held in Street Name	17
Quorum	17
Availability of Documents	17
PROPOSAL NO. 1 - ISSUANCE OF THE CHINA DIRECT SHARES	18
Summary of the Share Transfer	18
Background of the Share Transfer	18
Fixed Assets Appraisal Summaries	24
Reasons for the Share Transfer	29
Why We are Seeking Shareholder Approval	30
Recommendations of the Audit Committee and the Board	30

Effect of Issuance of the China Direct Shares in the Share Transfer on Existing Shareholders	33
Regulatory Approvals	33
Dissenter's Rights of Appraisal	33
Material United States Federal Income Tax	33
Consequences of the Share Transfer on the Company's Shareholders	
Accounting Treatment of the Share Transfer	33
Federal Securities Law Consequences; Resale Restrictions	34
The Transfer Agreements and Management Agreement	34
Financial Statements and Pro-Forma Financial Information	39
Business of the Company	39
Business of the Transfer Companies	40
Interest of Certain Persons in Matters to be Acted Upon	43
Vote Required and Board Recommendation	44
PROPOSAL NO. 2 - AMENDMENT TO ARTICLES OF INCORPORATION	44
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	44
HOUSEHOLDING OF SPECIAL MEETING MATERIALS	46
SHAREHOLDER PROPOSALS	46
COMMUNICATIONS WITH THE BOARD	46
OTHER MATTERS	46
WHERE YOU CAN FIND MORE INFORMATION	46
ATTACHMENTS	47

QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING

The following are some of the questions, and answers to those questions, that you as a shareholder of China Direct Industries, Inc. (“we,” “us” and words of similar import, the “Company” or “China Direct”) may have regarding the matters being considered at the Special Meeting of Shareholders (the “Meeting”) to which this proxy statement relates. The information in this section does not provide all of the information that may be important to you with respect to the matters being considered at the Meeting. Therefore, you should read this proxy statement carefully, as well as the full contents of the other documents to which this proxy statement refers or which it incorporates by reference. These documents contain information that may be important to you in determining how you will vote on the matters to be considered at the Meeting. See the section of this proxy statement entitled “Where You Can Find More Information” beginning on Page 39.

When is the Meeting and where will it be held?

The Meeting will be held on [X], 201 2 , at [___ __.m.] Eastern Time, at the Company’s offices located at 431 Fairway, Drive, Suite 200, Deerfield Beach, Florida 33441. The date, time and place of any adjournment or postponement of the Meeting will be established in accordance with the Company’s governing documents and applicable law. Directions to the Company’s offices may be obtained by contacting the Company, in writing, at China Direct Industries, Inc., Attn: Corporate Secretary, 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441 or by phone at (954) 363-7333.

Why am I receiving these proxy materials?

You are receiving a proxy statement because you owned shares of the Company’s common stock, par value \$0.001 per share (the “Shares”), on [X], 201 2 (the “Record Date”), and that entitles you to notice of and to vote on the matters being considered at the Meeting. This proxy statement is designed to assist you in voting and provides information that the Company is required to provide to you under the rules of the Securities and Exchange Commission (the “SEC”).

When are this proxy statement, proxy card and Notice being mailed?

This proxy statement, proxy card and Notice are first being mailed to the Company’s shareholders on or about [X], 201 2 .

What matters are being voted on at the Meeting and what vote is required for approval of such matters?

You are being asked to vote on the following matters (the “Proposals”):

Proposal No. 1. Proposal No. 1 seeks the approval of our shareholders to issue up to 17,841,627 shares of our common stock (the “China Direct Shares”) in connection with our acquisition of all of the issued and outstanding capital stock of Golden Trust Magnesium Industry Co., Ltd. (“Golden Trust”) and Lingshi Xinghai Magnesium Industry Co., Ltd. (“Lingshi Magnesium”) and shares of our common stock issuable under the terms of a management agreement covering management of the Company’s magnesium segment. In order to acquire Golden Trust, China Direct’s subsidiary, CDI China, Inc. has entered into (a) an equity transfer agreement (the “Marvelous Honor Transfer Agreement”) to acquire up to 100% of the equity (the “Marvelous Honor Shares”) in Marvelous Honor Holding, Inc. (“Marvelous Honor”), the holder of 72.5% of the equity in Golden Trust, from its shareholders (the “Marvelous Honor Holders”); and (b) an equity transfer agreement (the “Baotou Transfer Agreement”) to acquire the beneficial ownership of 27.5% of the equity in Golden Trust (the “Baotou Trust Shares”) held by Baotou Changxin Magnesium Co., Ltd. as trustee for Yuwei Huang and Xumin Cui (“Baotou Chang, as Trustee”). The Marvelous Honor Holders consist of Lianling Don g (the sister of Mr. Tung, a director of the Company), Ping Liu and Jianzhong Ju, unrelated parties, Lifei Huang (the daughter of Mr.

Huang, an executive vice president and director of the Company) and Xumin Cui, Ms. Huang's husband. The Marvelous Honor Holders and Baotou Chang, as Trustee are collectively referred to herein as the "Golden Trust Holders"). The Marvelous Honor Transfer Agreement and the Baotou Transfer Agreement are collectively referred to as the "Golden Trust Transfer Agreements". In order to acquire 100% of the issued and outstanding capital stock of Lingshi Magnesium (the "Lingshi Shares"), our 80% owned subsidiary, Taiyuan Ruiming Yiwei Magnesium Co., Ltd. ("Ruiming Magnesium") entered into an equity transfer agreement (the "Lingshi Transfer Agreement") to acquire the Lingshi Shares from Taiyuan Yiwei Magnesium Industry Co., Ltd. ("Yiwei Magnesium"). Mr. Huang owns or controls Yiwei Magnesium.

The Marvelous Honor Shares, the Baotou Trust Shares and the Lingshi Shares are hereinafter referred to as the "Transfer Shares". The Marvelous Honor Transfer Agreement, the Baotou Transfer Agreement and the Lingshi Transfer Agreement are collectively referred to herein as the "Transfer Agreements". In addition, the Marvelous Honor Holders, Baotou Chang, as Trustee and Yiwei Magnesium are collectively referred to herein as the "Holders". Golden Trust, Marvelous Honor and Lingshi Magnesium are collectively referred to as the "Transfer Companies".

The China Direct Shares also includes up to a total of 1,440,000 shares of China Direct common stock issuable to Messrs. Huang and Tung and their respective management teams pursuant to the terms of a management agreement covering management services to the Golden Trust and Lingshi Magnesium and the Company's other magnesium operations (the "Management Agreement"). The Management Agreement also provides for the payment to Mr. Huang of an annual salary of RMB 2,400,000 (approximately US \$375,000) and an annual salary to Mr. Tung of RMB 1,200,000 (approximately US \$187,000) for a term of three years, subject to completion of the acquisitions provided for in the Transfer Agreements .

For purposes of the Meeting, we are treating our issuance of the China Direct Shares in exchange for the Transfer Shares in all three Transfer Companies, and as consideration for services under the Management Agreement, as one proposal. A vote FOR Proposal No. 1 constitutes approval for us to issue China Direct Shares in exchange for such of the Transfer Shares as our Board of Directors (the "Board") determines is appropriate and in our best interests, and our inability to complete the acquisition of Transfer Shares in one or more of the Transfer Companies will not cancel or otherwise affect shareholder approval to consummate the issuance of China Direct Shares in exchange for Transfer Shares in the remaining Transfer Company. Our acquisition of the Transfer Shares of the Transfer Companies is sometimes hereinafter referred to as the "Share Transfer".

Proposal No. 2. Proposal No. 2 seeks approval of an amendment to the Company's articles of incorporation to change the Company's name from China Direct Industries, Inc. to CD International Enterprises, Inc. or such other name as the Board may elect.

Other Matters. Shareholders may also be asked to act upon such other business as may properly come before the Meeting or any adjournment or postponement thereof. At this time, we know of no matter that is to come before the Meeting other than consideration of the Proposals.

What does the Share Transfer Consideration consist of?

The consideration for the Holders to transfer the Transfer Shares in the Transfer Companies to the Company under the terms of the Transfer Agreements is an aggregate of \$26,705,070 (the "Aggregate Purchase Price") payable \$ 6,493,047 in cash or proceeds from repayment of the Company's intercompany loans, \$2,210,291 in cash or by the issuance of 2,336,460 Shares, \$ 13,305,647 by issuance of 14,065,166 Shares and \$4,696,085 by way of assignment of the Company's interest in its subsidiary, Excel Rise Technology Co., Ltd. ("Excel Rise").

The Company may pay up to \$15,515,939 of the Aggregate Purchase Price by our issuance of up to 16,401,627 China Direct Shares. Since the market price of the Company's shares fluctuates from day-to-day, the market value of the 16,401,627 China Direct Shares on the closing date of the acquisition may be more or less than the \$.9446 price per share that was used to compute the purchase price under the acquisition agreements. For example, if we were to issue all 16,401,627 China Direct Shares at the [\$.83] per share market price for shares of China Direct common stock on the date prior to the date this proxy statement is first mailed to our shareholders (the "Mailing Date") (a) the 16,401,627 China Direct Shares would have a market value of [\$13,613,350] and (b) the effective Aggregate Purchase Price for the two magnesium businesses on the Mailing Date would be approximately [\$24,802,482]. The market price for shares of China Direct common stock on the closing date may be more or less than the [\$.83] per share market price on the Mailing Date. The number of China Direct Shares we will issue under the acquisition agreements is fixed and will not change based upon changes in the market value of shares of China Direct.

The consideration included in each of the separate Transfer Agreements is summarized below:

Golden Trust. The consideration for the Golden Trust Holders to transfer up to a 100% interest in Golden Trust to the Company is set forth in the Marvelous Honor Transfer Agreement and the Baotou Transfer Agreement is an aggregate

of \$12,679,430 (the “Golden Trust Purchase Price”) payable \$4,038,559 in cash or proceeds from intercompany loans of the Company’s company and \$ 8,640,871 by issuance of 9,134,112 shares of the Company’s common stock. The consideration for the Marvelous Honor Holders’ transfer to us of the Marvelous Honor Shares in accordance with the Marvelous Honor Transfer Agreement consists of the Company’s issuance to the Marvelous Honor Holders (exclusive of Mr. Ju) of 7,930,306 Shares and the payment of \$1,690,517 in cash to Mr. Ju . The consideration for the transfer to the Company of the Baotou Trust Shares by Baotou Chang, as Trustee’s in accordance with the Baotou Transfer Agreement consists of the Company’s issuance to the beneficial owners of the Baotou Trust Shares of 1,203,806 Shares and the Company’s payment to them of \$2,348,043 in cash or the proceeds from repayment of China Direct’s intercompany loans in such amount.

Lingshi Magnesium. The consideration for Yiwei Magnesium’s transfer of the Lingshi Shares in accordance with the Lingshi Transfer Agreement to Ruiming Magnesium is an aggregate of \$17,532,051 . CDI China will pay 80% of the purchase price or \$14,025,641 which consists of the Company’s payment to Yiwei Magnesium of \$2,454,487 in cash or the proceeds from repayment of China Direct’s intercompany loans in such amount, \$2,210,291 in cash or by the Company’s issuance of 2,336,460 Shares, \$ 4,664,778 by the Company’s issuance of 4,931,055 Shares, and \$4,696,085 by the assignment of China Direct’s ownership interest in Excel Rise. In addition, Pine Capital Enterprises, Inc. (“Pine Capital”), a company controlled by Ms. Lifei Huang, Mr. Yuwei Huang’s daughter , will pay Yiwei Magnesium \$3,506,410 in cash. Pine Capital owns the 20% interest in Ruiming Magnesium not owned by the Company.

Why are we seeking to acquire the Transfer Companies?

Our acquisition of the magnesium businesses is being undertaken in order to expand our magnesium production capacity and customer base. We have historically and continue to employ a “growth through acquisition” strategy. Our acquisition of the Transfer Companies, and the magnesium businesses they operate, is being undertaken in order to expand our magnesium production capabilities by the addition of two pure magnesium production facilities capable of producing up to 32,000 metric tons of magnesium annually. If the acquisition is approved by our shareholders, we will complete the acquisition of the magnesium businesses upon satisfaction or waiver of all conditions to closing, upon which the businesses will be operated as subsidiaries of the Company. In addition, we believe that this acquisition using primarily our securities and other non-cash assets will improve our cash flow and provide cost synergies and economies of scale in the administration of our magnesium segment.

Why is shareholder approval of Proposal No. 1 required?

We are seeking shareholder approval to issue the China Direct Shares in the Share Transfer because the Company’s common stock is listed on the Nasdaq Global Market and the nature and size of the proposed Share Transfer subjects us to the shareholder approval requirements of Rules 5635(a) and (b) of The Nasdaq Stock Market (the “Nasdaq Rule”).

The Nasdaq Rule provides, in part, that we must obtain shareholder approval prior to the issuance of shares of the Company’s common stock in connection with the Company’s acquisition of the stock of another company, where:

- The shares to be issued by us constitute 20% or more of the Company’s outstanding shares or voting power before the issuance; or
- Any of the Company’s officers, directors or principal shareholders owns 5% or more of the company to be acquired and the issuance of the shares by us could increase the Company’s outstanding shares or voting power by 5% or more; or
- The issuance of the Company’s shares in a transaction that results in a change in control of the Company (under the Nasdaq Rule the issuance of 20% or more of the Company’s outstanding shares is a change in control if the shares issued constitute the largest voting bloc in our company).

If all of the China Direct Shares are issued in connection with the proposed Share Transfer and the Management Agreement, such China Direct Shares would constitute approximately 48.6% of the Company’s issued and outstanding shares of common stock prior to the Share Transfer; and the China Direct Shares would constitute the largest single voting bloc in our company. In addition, the Holders of Golden Trust, Marvelous Honor and Lingshi Magnesium include Yuwei Huang (an executive vice president and director of our company), Lianling Dong (the sister of Kong Tung, a director of our company), Lifei Huang (the daughter of Mr. Huang) and Xumin Cui (Ms. Huang’s husband); and the Company’s issuance of all of the China Direct Shares to these holders would increase the Company’s outstanding shares by more than 5%.

Why is shareholder approval of Proposal No. 2 required?

In order to change the Company’s corporate name from China Direct Industries, Inc. to CD International Enterprises, Inc. or such other name as the Board may elect, China Direct is required to amend its articles of incorporation. Florida law requires shareholder approval in order to amend a corporation’s articles of incorporation to change its name.

Will issuance of the China Direct Shares dilute the existing shareholders’ percentage of ownership in the Company?

Yes. The issuance of the China Direct Shares will significantly dilute your existing holdings of the Company's common stock. Assuming the issuance of all of the China Direct Shares, the Company's existing shareholders would own approximately 32.7% of the Company's then outstanding common stock and the Holders would own approximately 67.3% of the Company's then outstanding common stock.

What will happen if the Company's shareholders vote to approve the Proposals?

If we receive approval to issue the China Direct Shares, we anticipate that we will issue (a) the China Direct Shares at one or more closings pursuant to the Transfer Agreements, subject to the satisfaction or waiver of the other closing conditions contained in the Transfer Agreements, promptly following the Meeting and (b) those Shares issuable upon achievement of the performance benchmarks and other performance criteria set forth in the Management Agreement, as and when provided in the Management Agreement. If we receive approval to change the Company's name, we anticipate that we will file articles of amendment to the Company's articles of incorporation with the Florida Secretary of State promptly following the Meeting.

What will happen if the Company's shareholders do not vote to approve the Proposals?

If the Company's shareholders do not approve Proposal No. 1, we will not issue the China Direct Shares and we will not acquire the Transfer Companies unless we are able to restructure the Share Transfer in a manner that does not require the approval of the Company's shareholders under the Nasdaq Rule. We have no plans to restructure the Share Transfer in the event the Company's shareholders do not approve Proposal No. 1. If the Company's shareholders do not approve Proposal No. 2, we will not change the Company's corporate name.

Why is the Company Proposing to Acquire the Transfer Companies?

In developing its recommendation to the shareholders to vote in favor of the proposed issuance of the China Direct Shares in the Share Transfer, the Board considered many factors, including the positive and negative factors described in this proxy statement and concluded that adoption of Proposal No. 1 is advisable and in the best interests of the Company and the Company's shareholders. In particular, the Board, the Audit Committee comprised solely of disinterested directors and the Company's management considered a variety of factors, including, but not limited to:

- The Company's familiarity with the magnesium business, operations, assets, business strategy and competitive position and the nature of the industry trends, and economic and market conditions, both on a historical and on a prospective basis;
- The expected improved cash flows as a consequence of expected top line revenue growth attributable to the increased revenues from Golden Trust and Lingshi Magnesium;
- Management's view that the Share Transfer would enhance the Company's position in the magnesium industry generally and that after the Share Transfer the Company is expected to become one of the largest magnesium producers in China with annual production capacity of 82,000 metric tons of magnesium and 10,000 tons of magnesium powder;
- The Company's ability to use the China Direct Shares as currency to acquire the Transfer Companies, compared to the cost and availability of debt or other forms of capital that would be required for the Company to achieve the same expansion of its magnesium business;
- Historical and current information concerning the Company's magnesium business, including trends in financial performance, financial condition, operations and competitive position;
- The opportunity for the Company's shareholders to participate in the potential future value of the Company, and as a result of such inclusion the belief of the Audit Committee that the Company is positioned to grow faster as a result of the Share Transfer than without the Share Transfer;
- The Audit Committee's review of the structure of the Share Transfer and the financial, legal and other terms of the Transfer Agreements;
- The requirement that the Company obtain shareholder approval as a condition to issuance of the China Direct Shares;
- The fact that the Audit Committee considered, reviewed and evaluated the terms of the Transfer Agreements and Management Agreement independently from the Board and management;
-

The economies of scale that the Company expects will permit the Company to reduce its expenses relative to the size of its revenue levels and asset base;

- Management's expectation that magnesium prices will begin to rise as worldwide demand from the global aerospace, automotive and consumer electronics sectors fuel additional demand for magnesium ingots and other lightweight metals that are made with magnesium;
- That the Share Transfer would enable the Company to consistently deliver large quantities of magnesium thereby enhancing its position in the magnesium industry and with its larger customers who seek a stable and reliable source of supply;
- That the cost synergies and economies of scale that the Company expects will enhance its sales and administrative efforts in its Magnesium segment and reduce its expenses relative to the size of its revenue levels and asset base in this segment; and

- That the barriers to entry into magnesium production in China are high due to the high costs to acquire land use rights and construction and the difficulties in obtaining the necessary government approvals to engage in magnesium production, including required environmental permits.

The Company believes these actions create value for the Company's shareholders while providing a firm foundation for future growth and value enhancement.

Did the Board receive a fairness opinion or otherwise hire a financial advisor in connection with the Share Transfer of Golden Trust and Lingshi Magnesium?

Other than the appraisals of fixed assets performed by Shanxi Huaqiang Assets Appraisal Co., Ltd. and Shanxi Mingda Assets Appraisal Co., Ltd. (the "Appraisals"), China Direct did not receive a report, opinion, or appraisal from an outside party as to the value of its common stock, or the fairness of the Transfer Agreements to un-affiliated shareholders of China Direct, or otherwise engage a financial advisor in connection with the Transfer Agreements. The independent members of the Board who comprise the Audit Committee concluded that there was sufficient information and safeguards in place that did not justify the expense of retaining an independent financial advisor, including (i) the Company's conducting financial, legal and operational due diligence on Golden Trust and Lingshi Magnesium, (ii) obtaining the financial statements and an appraisal of the assets of Golden Trust and Lingshi Magnesium which formed the basis for establishing their purchase price, (iii) management's expectations regarding future growth prospects of the magnesium industry, worldwide consumption, exports out of China, and market prices and expansion potential of Golden Trust and Lingshi Magnesium, and (iv) the Transfer Agreements and Management Agreement were approved unanimously by the Audit Committee.

How does the Board recommend I vote on the Proposals?

The Board unanimously recommends a vote "FOR" Proposal No. 1 and "FOR" Proposal No. 2.

Why does the Board recommend I vote "FOR" the Proposals?

In addition to the reasons described above, the Board believes that the Company's financial position, capital structure and business operations in the magnesium industry will be strengthened as a result of its acquisition of the Transfer Companies. In addition, the Board believes that the proposed new corporate name of the Company more accurately reflects its current business operations.

Is there a break-up fee under the Transfer Agreements?

No, there are no break-up fees or termination fees payable under any of the Transfer Agreements.

Do I have dissenter or appraisal rights if I object to the Proposals?

No. Dissenter's rights of appraisal are not provided under applicable Florida law in connection with the Company's issuance of the China Direct Shares in the Share Transfer or the proposed change to the Company's corporate name.

What other matters may arise at the Meeting?

Other than the Proposals described in this proxy statement, the Company does not expect any other matters to be presented for a vote at the Meeting. If any other matter is properly brought before the Meeting, your proxy gives

authority to the proxies named therein to vote on such matters in their discretion.

Who is entitled to vote at the Meeting?

Only those shareholders who owned common stock at the close of business on the Record Date, which was [X], 2012, are entitled to notice of and to vote at the Meeting. At the close of business on the Record Date, the Company had [_____] shares of common stock outstanding and entitled to vote at the Meeting, which were held by [_____] shareholders of record. Each outstanding share of common stock entitles its holder to one vote.

How do I vote?

Shareholders can vote in person at the Meeting or by proxy. There are three ways to vote by proxy:

- By Telephone— You can vote by telephone by following the instructions on the proxy card if you received your materials by mail;

- By Internet— You can vote by Internet by following the instructions on the proxy card if you received your materials by mail; or
- By Mail—if you received your proxy materials by mail, you can vote by mail by marking, signing, dating and returning the proxy card in the envelope provided.

· Telephone and Internet voting for shareholders of record will close at 11:59 p.m. Eastern Time on [X], 201 2

If you properly complete, sign and return a proxy card, your shares will be voted as you specify. However, if you sign and return a proxy card but do not specify a vote with respect to a proposal, your shares will, to the extent permitted by law, be voted as the Board recommends with respect to the proposal and in the proxy's discretion with respect to any other matter that may be properly considered at the Meeting.

If your shares are held in "street name" by a bank, broker or other nominee or intermediary (collectively, "brokers"), you will receive voting instructions or a voting information form from your broker, who is the holder of record. You must follow the instruction of the broker in order for your shares to be voted.

If you plan to attend the Meeting, you must present identification containing a photograph, such as a driver's license or passport. If you are a shareholder of record, your name will be verified against the list of shareholders of record on the Record Date prior to your being admitted to the Meeting. If you are not a shareholder of record, but hold shares in "street name" (that is, through a broker or other nominee or intermediary), you should provide proof of beneficial ownership on the Record Date, such as your most recent account statement prior to the Record Date, a copy of the voting instruction card provided to you by your broker or other similar evidence of ownership. If you do not provide photo identification or comply with the procedures outlined above, you will not be admitted to the Meeting.

How can I revoke my vote?

You may revoke your vote at any time before it is exercised at the Meeting by:

- Delivering written notice of such revocation to the Company's Corporate Secretary prior to the Meeting at the address listed below;
- Submitting a telephone vote, an Internet vote or a properly executed proxy card bearing a later date that the Company receives before the polls close at the Meeting; or

· Attending the Meeting and voting in person.

If you hold your shares in "street name," you may revoke a previous vote only by following the procedures established by the broker.

You may provide written notice to the Company's Corporate Secretary at China Direct Industries, Inc., Attention: Corporate Secretary, 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441.

What is a "quorum"?

A "quorum" is the minimum number of votes that must be present at the Meeting, in person or by proxy, in order for the Meeting to be properly convened. For purposes of the Meeting, a quorum consists of one-third of the outstanding

shares of common stock, which may be present in person at the Meeting or represented by proxy. Your shares will be counted for purposes of determining a quorum if you attend the Meeting and vote in person or if you vote by telephone, by internet or by submitting a properly executed proxy card by mail. Abstentions and broker non-votes discussed below will be counted for determining whether a quorum is present for the Meeting. The presence at the Meeting, in person or by proxy, of the holders of at least [X] shares of the Company's common stock will be required to establish a quorum.

If my shares of common stock are held in "street name" by my broker, will my broker automatically vote my shares for me?

Other than with respect to certain routine matters, brokers holding shares of the Company's common stock for beneficial owners must vote those shares according to the specific instructions they receive from the beneficial owners, unless the brokers have been given discretionary voting power by the beneficial owners. In certain circumstances, brokers holding shares for a beneficial owner may not have discretionary voting power and may not have received voting instructions from the beneficial owner of the shares. In such cases, a broker may not vote on a proposal, which is known as a "broker non-vote."

Proposal No. 1 is considered a “non-routine” matter under applicable rules and, accordingly, if you do not provide voting instructions to your broker with respect to Proposal No. 1, your broker cannot exercise discretion and is prohibited from giving a proxy to vote your shares with respect to Proposal No. 1. Proposal No. 2 is considered a routine matter and your stockbroker or other nominee may exercise their discretionary voting power with respect to Proposal No. 2. When the vote is tabulated for any particular matter, broker non-votes will be counted for purposes of determining whether a quorum is present, but will not be counted towards the vote total for Proposal No. 1. Broker non-votes will have the effect of a vote against Proposal No. 2.

You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you give instructions on how to vote to your broker, you may later revoke the instructions by taking the steps described in the information that you receive from your broker.

Who counts the votes?

Computershare Trust Co., Inc. will receive and tabulate the proxies and will certify the voting results.

Who will solicit and pay the cost of soliciting proxies?

The Company will pay the cost of soliciting proxies, including the expenses related to the printing and mailing of this proxy statement. In addition to solicitation by mail, proxies may be solicited personally, or by telephone or other electronic means, by the Company’s directors, officers or other employees without additional compensation for such services. The Company will also request that banking institutions, brokerage firms, custodians, trustees, nominees, fiduciaries and other like parties forward the solicitation materials to the beneficial owners of common stock held of record by such persons, and the Company will, upon request of such record holders, reimburse forwarding charges and out-of-pocket expenses.

Will representatives of Sherb & Co. be present at the Meeting and available to answer questions?

As the Meeting is not an annual meeting of the shareholders, representatives of Sherb & Co., the Company’s independent registered public accounting firm, are not expected to be present at the Meeting.

Where can I obtain access to these proxy materials?

A copy of this proxy statement, proxy card and the accompanying Notice will be mailed to each shareholder of the Company entitled to vote at the Meeting. In addition, this proxy statement is available at <http://www.cdii.net>. Information on the Company’s website is not incorporated into this proxy statement. The proxy statement contains instructions on how to access this proxy statement and the Company’s other proxy materials online and how to vote your shares.

Who can help answer my questions, and where can I get additional information about matters described in this proxy statement and about the Company?

If you have questions about the matters described in this proxy statement, or how to submit your proxy, or if you need additional copies of the proxy statement or the enclosed proxy card or voting instructions, you should contact:

Mr. Lazarus Rothstein,
Executive Vice President, General Counsel
and Corporate Secretary

China Direct Industries, Inc.
431 Fairway Drive, Suite 200
Deerfield Beach, Florida 33441

If you would like additional information about the Company, please refer to the Company's annual, quarterly and current reports, proxy statements and other information on file with the SEC.

SUMMARY OF THE SHARE TRANSFER AND RELATED MATTERS

This summary highlights selected information from this proxy statement, the annexes attached hereto and the documents referred to or incorporated by reference herein, and may not contain all of the information that is important to you. Below is a summary of the terms of the Share Transfer and other related transactions. To better understand the proposals the Company is asking you to consider, you should read this entire proxy statement carefully, as well as those additional documents to which the Company refers. Each item in this summary includes a page reference directing you to a more complete description of that topic. The information incorporated by reference is attached to this proxy statement as further described in the section of this proxy statement entitled “Incorporation by Reference and Attachments.”

The Companies

China Direct Industries, Inc. (Page 39)

The Company is a U.S. based company that sources, produces and distributes industrial commodities in China and the Americas. China Direct also provides business and financial consulting services to public and private companies primarily operating in China. China Direct operates in three identifiable segments, Magnesium, Basic Materials, and Consulting. China Direct established its Magnesium and Basic Materials segments in China beginning in 2006 and has grown through acquisitions of controlling interests in Chinese private companies. China Direct consolidates these acquisitions as either its wholly or majority owned subsidiaries. Through its U.S. based industrial commodities business, established in 2009, China Direct sources, finances, manages logistics, and sells industrial commodities from North and South America for ultimate distribution in China.

The Magnesium segment, the Company’s largest segment in total assets and revenues, produces, sells and distributes pure magnesium and related by-products. The Basic Materials segment engages in the sale and distribution of basic resources within China and the global purchase and sale of industrial commodities which includes mineral ores and non-ferrous metals. In this segment we sell and distribute a variety of products in China including (i) industrial grade synthetic chemicals, (ii) steel products (iii) nonferrous metals, and (iv) recycled materials. Additionally, within this segment we hold the rights to mining properties which we are seeking to sell. The Consulting segment provides services to Chinese entities seeking access to the U.S. capital markets. These services include general business consulting, Chinese regulatory advice, translation services, formation of entities in the PRC, coordination of professional resources, strategic alliances and partnerships, advice on effective means of accessing U.S. capital markets, mergers and acquisitions, corporate governance and coordination of compliance with the Sarbanes-Oxley Act of 2002, and corporate asset evaluations.

The Company’s corporate headquarters are in Deerfield Beach, Florida, which houses the U.S. executive and administrative team that guides its overall operations. The Company’s U.S. office employs both English and Chinese speaking business and accounting staff and legal and other executive management. These professionals focus on due diligence, business development, finance, accounting and compliance with the reporting requirements of the SEC and other applicable laws in the U.S. and the PRC.

Golden Trust Magnesium Industry Co., Ltd. (Page 40, 42)

Golden Trust is a Chinese company established in March 2003. Golden Trust owns and operates a pure magnesium production facility located in Xiaoyi City, Shanxi Province, China capable of producing up to 20,000 metric tons of pure magnesium per year.

Marvelous Honor Holding, Inc. (Page 43)

Marvelous Honor is a Brunei corporation established in August 2008, which owns 72.5% of the issued and outstanding equity capital of Golden Trust. Marvelous Honor is a holding company .

Lingshi Xinghai Magnesium Industry Co., Ltd. (Page 40, 42)

Lingshi Magnesium is a Chinese company established in February 2004. Lingshi Magnesium owns and operates a pure magnesium production facility located in Jin Zhong City, Shanxi Province, China capable of producing up to 12,000 metric tons of pure magnesium per year.

Summary of the Share Transfer (Page 18)

Through its subsidiaries, the Company has entered into three separate equity transfer agreements (the Marvelous Honor Transfer Agreement, the Baotou Transfer Agreement and the Lingshi Transfer Agreement) pursuant to which it has agreed to, among other things, issue the China Direct Shares to the Holders in exchange for the Holders' transfer to the Company of the Marvelous Honor Shares, the Baotou Trust Shares and the Lingshi Shares.

Background of the Share Transfer and Reasons for the Share Transfer (Page 18 and 29)

The Company established its magnesium business segment beginning in 2006. Since that time, the Company has grown this segment through its acquisition of controlling interests in private Chinese companies, which it consolidates either as wholly or majority owned subsidiaries.

Golden Trust and Lingshi Magnesium operate magnesium production facilities and the Company believes that the issuance of the China Direct Shares to acquire these companies and manage its Magnesium segment business will allow the Company to further grow its Magnesium segment through increased magnesium production capacity that the Company anticipates will also provide synergistic benefits through coordinated sales and administrative functions and accretive earnings.

The Company's ability to use its securities as currency to acquire the Transfer Shares in the Transfer Companies will not have a significant impact on the Company's working capital and enables it to preserve capital to fund current and future business operations.

Fixed Assets Appraisal Summaries (Page 24)

On August 4, 2011 Shanxi Huaqiang Assets Appraisal Co., Ltd. ("Huaqiang") delivered to us an appraisal of Lingshi Magnesium's fixed assets which included a valuation of those assets as of June 30, 2011, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Huaqiang in preparing its appraisal.

Huaqiang's appraisal was directed to our board of directors and only addressed the valuation of Lingshi Magnesium's fixed assets reflected on its balance sheet as of June 30, 2011 to assist us in arriving at the Lingshi Purchase Price. The summary of Huaqiang's appraisal in this proxy statement sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Huaqiang in preparing its appraisal. Huaqiang's appraisal does not address any matters other than the appraised value of the Lingshi Magnesium Fixed Assets as of June 30, 2011 as determined by Huaqiang, and does not constitute a recommendation to our board of directors or any shareholder as to how to vote or act in connection with the Share Transfer or any other matter. See "Fixed Assets Appraisal Summaries-Lingshi Magnesium" beginning on page 24.

On August 12, 2011 Shanxi Mingda Assets Appraisal Co., Ltd. ("Mingda") delivered to us an appraisal report of Golden Trust's fixed assets which included a valuation of those assets as of June 30, 2011, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Mingda in preparing its appraisal.

Mingda's appraisal was directed to our board of directors and only addressed the valuation of Golden Trust's fixed assets reflected on its balance sheet as of June 30, 2011 to assist us in arriving at the Lingshi Purchase Price. The summary of Mingda's appraisal in this proxy statement sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Mingda in preparing its appraisal. Mingda's appraisal does not address any matters other than the appraised value of the Golden Trust Fixed Assets as of June 30, 2011 as determined by Mingda, and does not constitute a recommendation to our board of directors or any shareholder as to how to vote or act in connection with the Share Transfer or any other matter. See "Fixed Assets Appraisal Summaries-Golden Trust" beginning on page 26.

Why We are Seeking Shareholder Approval (Page 30)

The Company's common stock is listed on the Nasdaq Stock Market and we are, therefore, subject to the rules and regulations promulgated by Nasdaq. The Nasdaq Rule provides, in pertinent part, that shareholder approval is required prior to the issuance of securities in connection with the acquisition of the stock or assets of another company if:

- due to the present or potential issuance of common stock, including shares issued pursuant to an earn-out provision or similar type of provision, or securities convertible into or exercisable for common stock, the number of shares of common stock to be issued is or will be equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance of the stock or securities;
- any director, officer or Substantial Shareholder (as defined in the Nasdaq Rule) of the Company has a 5% or greater interest (or such persons collectively have a 10% or greater interest), directly or indirectly, in the company or assets to be acquired or in the consideration to be paid in the transaction or series of related transactions and the present or potential issuance of common stock, or securities convertible into or exercisable for common stock, could result in an increase in outstanding common shares or voting power of 5% or more; or

- such issuance would constitute a change in control of the Company's company (under the Nasdaq Rule the issuance of 20% or more of the Company's common stock under circumstances where the shares issued would constitute the largest voting bloc in the Company's constitutes a change in control).

Under the Nasdaq Rule, we must shareholder approval to issue the China Direct Shares in the Share Transfer because (a) the number of China Direct Shares we propose to issue in the Share Transfer will exceed 20% of the number of issued and outstanding shares immediately before the Share Transfer, (b) the Holders include related parties and the Company's issuance of the China Direct Shares in the Share Transfer will result in an increase of 5% or more of the Company's outstanding shares and (c) the Share Transfer could result in a change in control under the Nasdaq Rule.

In order to change the Company's corporate name from China Direct Industries, Inc. to CD International Enterprises, Inc. or such other name as the Board may elect, China Direct is required to amend its articles of incorporation. Applicable Florida law requires shareholder approval in order to amend a corporation's articles of incorporation.

The Transfer Agreements (Page 34)

On August 30, 2011 and pursuant to a January 12, 2012 amendment, the Company's wholly owned subsidiary, CDI China, entered into a series of agreements to acquire a 100% ownership interest in Golden Trust pursuant to the Golden Trust Transfer Agreements and Lingshi Magnesium pursuant to the Lingshi Magnesium Transfer Agreement for an aggregate purchase price of \$26,705,070 payable \$ 6,493,047 in cash or proceeds from repayment of the Company's intercompany loans, \$2,210,291 in cash or shares of its common stock, \$ 13,305,647 in shares of its common stock and \$4,696,085 by way of assignment of the Company's interest in its subsidiary, Excel Rise. The Golden Trust Transfer Agreements and the Lingshi Magnesium Transfer Agreement are discussed below.

Golden Trust Transfer Agreements (Page 34)

CDI China entered into two separate equity transfer agreements to acquire a 100% interest in Golden Trust. The Company will acquire (i) under the terms of the Marvelous Honor Transfer Agreement, a 72.5% interest in Golden Trust by acquiring up to a 100% interest in Marvelous Honor, and (ii) under the terms of the Baotou Transfer Agreement, a 27.5% interest in Golden Trust by acquiring the beneficial ownership interests of Yuwei Huang and Xumin Cui held by Baotou Chang, as Trustee. The Marvelous Honor Transfer Agreement and the Baotou Transfer Agreement are collectively referred to as the "Golden Trust Transfer Agreements." Under the terms of the Golden Trust Transfer Agreements, the aggregate purchase price for the 100% interest in Golden Trust (the "Golden Trust Purchase Price") is \$12,679,430 payable \$ 4,038,559 in cash or proceeds from intercompany loans of the Company and \$ 8,640,871 by issuance of 9,134,112 Shares.

Marvelous Honor Transfer Agreement. Pursuant to the terms of the August 30, 2011 Marvelous Honor Transfer Agreement, as amended on January 12, 2012, CDI China will acquire a 72.5% interest in Golden Trust by acquiring up to a 100% interest in Marvelous Honor Holdings, Inc. by acquiring the Marvelous Honor Shares from the Marvelous Honor Holders for aggregate consideration of \$9,192,586, payable by the Company's issuance to the Marvelous Honor Holders (exclusive of Mr. Ju) of 7,930,306 Shares and the payment of \$1,690,517 in cash to Mr. Ju.

The Marvelous Honor Holders consist of Lianling Dong (the sister of Mr. Tung, a director of the Company), Ping Liu and Jianzhong Ju, unrelated parties, Lifei Huang (the daughter of Mr. Huang, an executive officer and director of the Company) and Xumin Cui, Ms. Huang's husband. Marvelous Honor currently owns 72.5% of the issued and outstanding equity capital of Golden Trust.

Baotou Transfer Agreement. Under the terms of the August 30, 2011 Baotou Transfer Agreement, as amended on January 12, 2012, CDI China agreed to acquire a 27.5% beneficial interest in Golden Trust from Baotou Chang, as

Trustee for Messrs. Huang and Cui (the “Baotou Trust Shares”). CDI China agreed to pay aggregate consideration of \$3,486,843 for the Baotou Trust Shares payable \$2,348,043 in cash to Mr. Huang (or by transfer to Mr. Huang of the proceeds of the Company’s intercompany loans in such amount) and \$1,138,801 by issuance to Mr. Cui of 1,203,806 Shares.

Lingshi Magnesium Transfer Agreement (Page 36)

On August 30, 2011 and pursuant to a January 12, 2012 amendment , we entered into the Lingshi Transfer Agreement under which the Company’s 80% owned subsidiary, Ruiming Magnesium agreed to acquire a 100% interest in Lingshi Magnesium by acquiring the Lingshi Shares from Yiwei Magnesium in exchange for the Company’s payment to Yiwei Magnesium of aggregate consideration of \$17,532,051 (the “Total Lingshi Purchase Price”). CDI China will pay 80% of the Total Lingshi Purchase Price of \$14,025,641 (the “Lingshi Purchase Price”) consisting of:

- \$2,454,487 in cash or by transfer to them of the proceeds of China Direct’s intercompany loans in such amount;
 - \$2,210,291 in cash or by issuance of 2,336,460 Shares valued at \$0.946 per share;
 - \$4,664,778 by issuance of 4,931,055 Shares valued at \$0.946 per share; and
 - \$4,696,085 by the assignment of the Company’s ownership interest in Excel Rise.

Pine Capital a company controlled by Ms. Huang, has agreed to pay Yiwei Magnesium the remaining 20% of the Total Lingshi Purchase Price of \$3,506,410 in cash. Pine Capital owns the 20% interest in Ruiming Magnesium not owned by the Company. Yiwei Magnesium is a company controlled by Mr. Huang.

Effect of the Share Transfer on Existing Shareholders (Page 33)

The issuance of the China Direct Shares to the Holders in exchange for the Transfer Shares will significantly dilute the common stock ownership of all of the Company's existing shareholders.

Vote Required For Approval of the Proposals (Page 17 and 44)

For purposes of the Meeting, we are considering the issuance of the China Direct Shares in exchange for the Transfer Shares in all three of the Transfer Companies, as well as the Company's issuance of China Direct Shares under the Management Agreement, as one Proposal. A vote in favor of Proposal No. 1 constitutes a vote in favor of issuing the China Direct Shares in exchange for the Transfer Shares in such of the Transfer Companies as the Board determines is appropriate and in the Company's best interests; and the Company's inability to complete the Share Transfer as to the Transfer Shares in one or more of the Transfer Companies will not cancel or otherwise affect shareholder approval to consummate the Share Transfer with respect to the remaining Transfer Companies. To the extent that the Board determines not to complete the Share Transfer with respect to the Transfer Shares of one or more of the Transfer Companies, a vote FOR Proposal No. 1 will allow the Company to complete the Share Transfer with respect to the transfer of the Transfer Shares in the other Transfer Companies.

In order for the Proposals to be presented to shareholders for consideration at the Meeting, a quorum of shareholders must be present at the Meeting. The Company's Bylaws provide that a quorum of shareholders means the holders of at least one-third of the Company's issued and outstanding common stock entitled to vote on the matter. Once a quorum is present at the Meeting, the Proposals will be approved if the votes cast "FOR" each of the proposals exceed those cast against each of the respective proposals. Abstentions and broker non-votes will be treated as shares that are present, or represented and entitled to vote for purposes of determining the presence of a quorum at the Meeting. Broker non-votes will not be counted as a vote cast on Proposal No. 1, but will have the effect of a vote against Proposal No. 2.

The Board unanimously recommends a vote FOR Proposal No. 1 and the Company's issuance of the China Direct Shares in the Share Transfer and FOR Proposal No. 2 to approve the change of the Company's corporate name.

No Appraisal Rights (Page 33)

Under applicable Florida law, the Company's shareholders do not have dissenter or appraisal rights in connection with the Proposals.

Conditions to the Share Transfer (Page 37)

The obligations of each of the Company and the Golden Trust Holder, the Marvelous Honor Holders and Yiwei Magnesium under each of the Transfer Agreements is subject to the satisfaction of a number of customary conditions, any of which may be waived by the other party, as well as receipt of approval of Proposal No. 1 by the Company's shareholders. In addition, each of the Transfer Agreements includes certain conditions precedent to their consummation which are discussed in greater detail elsewhere in this proxy statement.

Representations, Warranties, and Indemnification (Page 37)

Subject to the procedures set forth in the Transfer Agreement, each of the parties to the Transfer Agreements have agreed to indemnify and hold each other harmless from certain losses attributable to or resulting from the breach of the representations and warranties contained in the Transfer Agreement. Each of the Transfer Agreements also permits us to offset amounts owed by us under the Transfer Agreement against amounts due to us for the other party's breach of any of its representations, warranties or covenants under the Transfer Agreement.

Termination of the Transfer Agreements and Termination Fees (Page 38)

The Transfer Agreements, as amended, provide that the transactions contemplated by the Transfer Agreements must be completed no later than February 29, 2012. Subject to the satisfaction of conditions precedent to closing, the Transfer Agreements do not otherwise contain termination provisions and, therefore, to the extent that shareholder approval for Proposal No. 1 is received and conditions precedent are satisfied or waived by February 29, 2012, the Company is obligated to issue the China Direct Shares in exchange for the Transfer Shares and under the Management Agreement, in accordance with their respective terms.

There are no termination fees or break-up fees payable by any of the parties to the Transfer Agreements in the event the Share Transfer does not take place or a Transfer Agreement is terminated prior to consummation of the corresponding Share Transfer.

Interest of Certain Persons in Matters to be Acted Upon (Page 43)

No person who has been a director or executive officer of the Company since the beginning of its last fiscal year, nor any nominee for election as a director or any associate of any of the foregoing, has any substantial interest, direct or indirect, in any of the matters to be considered at the Meeting, except that:

- the beneficial Holders of Golden Trust include Yuwei Huang (an executive vice president and director of our company), Lianling Dong (the sister of Mr. Tung, a director of our company), Lifei Huang (the daughter of Mr. Huang) and Xumin Cui (Ms. Huang's husband);
· Yiwei Magnesium is a company controlled by Yuwei Huang;
- a portion of the purchase price to be paid to Yiwei Magnesium will be paid by Pine Capital, a company controlled by Ms. Huang; and
- The managers under the Management Agreement described elsewhere in this proxy statement are Messrs. Huang and Tung.

Risks Relating to the Share Transfer (Page 12)

The Share Transfer involves substantial risk. You should carefully consider all of the information set forth in this proxy statement and, in particular, you should evaluate the risk factors set forth in the section of this proxy statement entitled "Risk Factors" before deciding whether to vote in favor of Proposal No. 1.

RISK FACTORS

In addition to the other information included or incorporated by reference in this proxy statement, you should carefully consider the matters described below in deciding whether to vote for the approval of the proposals presented in this proxy statement. For risks related to the Company, please see "Item 1A—Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2011 which is incorporated by reference herein.

The issuance of the China Direct Shares to the Holders in connection with the Share Transfer will substantially dilute the voting power of current China Direct shareholders.

Pursuant to the terms of the Transfer Agreements, and based on the number of shares of the Company's common stock outstanding as of the date of the Transfer Agreements, it is anticipated that China Direct will issue China Direct Shares to the Holders representing approximately 32.7% of the outstanding shares of common stock of China Direct as of immediately following the completion of the Share Transfer and assuming issuance of the China Direct Shares under the Management Agreement. Accordingly, the issuance of the China Direct Shares to the Holders in connection with the Share Transfer and Management Agreement will significantly reduce the relative voting power of each share of China Direct common stock held by current China Direct shareholders.

The acquisition of the Transfer Companies may not be accretive and may cause dilution to the combined company's earnings per share, which may negatively impact the price of the common stock of China Direct following the completion of the Share Transfer.

China Direct currently anticipates that Golden Trust and Lingshi Magnesium will make a positive contribution to the Company's cash flow and earnings in fiscal 2013. This expectation is based on preliminary estimates and assumes realization of expected market demand and certain synergies expected to be realized by combining the Company's magnesium operations during such time. Such estimates and assumptions could materially change due to worldwide economic conditions, additional unanticipated operational costs, the failure to realize any or all of the benefits expected in the Share Transfer or other factors beyond the control of China Direct. All of these factors could delay, decrease or eliminate the expected accretive effect of the Share Transfer and cause resulting dilution to China Direct's earnings per share or to the price of its common stock.

The number of China Direct Shares to be received by the Holders will not be adjusted for changes in the market price of the Shares.

Under the terms of the Transfer Agreements, the China Direct Shares to be issued to the Holders is a fixed number of shares of the Company's common stock valued at \$0.946 per share. The number of China Direct Shares will not be adjusted for subsequent changes in the market price of the Shares. None of the parties to the Transfer Agreements may terminate the agreements because of changes in the market price of the Shares. . Consequently, the specific dollar value of the China Direct Shares to be received by the Holders will depend on the market value of China Direct common stock at the time of closing under the Transfer Agreements. We cannot assure you that the value of the China Direct Shares that the Holders will receive in the Share Transfer will not decline before or after the completion of the Share Transfer.

Some of the Company's directors and executive officers may have interests in the Share Transfer that may differ from the interests of the Company's shareholders.

When considering the Board's recommendation to vote in favor of the proposals presented in this proxy statement, you should be aware that the Company's directors may have interests in the Share Transfer that may be different from, or adverse to, your interests. Yuwei Huang, a member of the Board and an executive vice president, currently owns 1,169,231 shares of the Company's common stock (approximately 2.9%). Kong Tung, a member of the Board and general manager of the Company's subsidiary Golden Magnesium, currently owns 1,315,020 shares of the Company's common stock (approximately 3.3%). Messrs. Huang and Tung, either own, control or have a significant ownership interest in Golden Trust and Lingshi Magnesium and will receive compensation under the Management Agreement. Under the terms of the Management Agreement, Mr. Huang is entitled to an annual salary of RMB 2,400,000 (approximately \$375,000) and he and his management team are entitled to earn up to 960,000 Shares of the Company's common stock. Mr. Tung is entitled to an annual salary of RMB 1,200,000 (approximately \$187,000) during the three year term of this agreement and he and his management team are entitled to earn up to 480,000 Shares of the Company's common stock. The shares of the Company's common stock shall be awarded by China Direct upon achievement of the performance benchmark and other performance criteria set forth in the Management Agreement described in the section of this proxy statement entitled "The Transfer Agreements and Management Agreement-The Management Agreement".

The terms of the Transfer Agreements and Management Agreement were not arrived at as a result of arms-length negotiations and no fairness opinion in connection with the Transfer Agreement was obtained.

Mr. Yuwei Huang, an executive officer of the Company and a member of the Board and Kong Tung, a member of the Board, together with members of their families, are the principal equity owners of Lingshi Magnesium and Golden Trust. While the Transfer Agreements and the Management Agreement were approved and deemed fair and reasonable by the Company's Audit Committee which is comprised of independent directors, the Transfer Agreements and Management Agreement were not negotiated on an arms-length basis as a result of Messrs. Huang and Tung's interest in the Transfer Companies. While the Transfer Agreements and Management Agreement have been approved by the Audit Committee consisting solely of independent directors, there are no assurances that the terms of the Transfer Agreements and Management Agreement are as favorable to the Company as it might have obtained in arms-length negotiations with unrelated third parties supported by a fairness opinion as to the Transfer Agreements.

Integration of Golden Trust, Lingshi Magnesium and China Direct may be difficult and expensive to achieve.

The acquisition of Golden Trust and Lingshi Magnesium involves the integration of companies that have previously operated independently. The integration will be a complex, time consuming and expensive process and may materially harm the respective businesses of Golden Trust, Lingshi Magnesium and China Direct if not completed in a timely

and efficient manner. We may not be able to integrate the operations, financial and accounting systems of Golden Trust and Lingshi Magnesium without encountering difficulties, including possible unanticipated costs, failure to retain key employees, the diversion of management attention or failure to implement the financial software system the Company is presently implementing at its other magnesium segment companies. In addition, following the acquisition, Golden Trust and Lingshi Magnesium may not realize the increased revenues and cost savings that they expect to achieve or that would justify the investment made.

Because Chinese law governs the Transfer Agreements and Management Agreement, we may not be able to enforce the Company's rights within the PRC or elsewhere, which may limit the remedies otherwise available to the Company and damage its business.

The Transfer Agreements and Management Agreement are governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, prior court decisions have limited precedential value. The Company cannot assure you that it will be able to enforce these agreements or that remedies will be available outside of the PRC. The system of laws and the enforcement of existing laws and contracts in the PRC may not be as certain in implementation and interpretation as in the United States. Although disputes under the Transfer Agreements are subject to arbitration before the China International Economic and Trade Arbitration Commission in Beijing, China, the Company cannot predict the outcome of any litigation with any degree of certainty. The inability to enforce or obtain a remedy under the Transfer Agreements and the Management Agreement as a result of a dispute could divert management's time from the operation of the Company's business, require it to expend funds attempting to settle disputes, limit the time the Company's management would otherwise devote to the operation of its business, and, on a collective basis, have a material adverse effect on its business, financial condition and results of operations.

If the Transfer Companies fail to maintain an effective system of internal controls, the Company may not be able to accurately report its financial results or prevent fraud.

Since the Transfer Companies have operated as a private enterprise without public reporting obligations prior to the Share Transfer, it has committed limited personnel and resources to the development of the external reporting and compliance obligations that would be required of a public company. If the Transfer Companies financial reporting systems or procedures fail, the Company may not be able to provide accurate financial statements on a timely basis or comply with the Sarbanes-Oxley Act of 2002 as it applies to the Company. Any failure of the Company's ability to provide accurate financial statements could cause the trading price of the Company's common stock to decrease substantially.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. Certain statements made in this proxy statement may constitute forward-looking statements (within the meaning of Section 27A of the Securities Act 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) regarding the expectations of management with respect to revenues, profitability, and adequacy of funds from operations, among other things. The following factors, among others, could cause actual results to differ materially from those described in the forward-looking statements:

Relating to Proposal No. 1:

- Failure to realize increased production rates, and expectations regarding revenues, margins, net income and earnings, magnesium prices and demand in our magnesium segment;
- the ability to integrate the Transfer Companies into the business of the Company successfully and the amount of time and expense spent and incurred in connection with the integration;
- the failure to realize the cash flow, earnings and other economic benefits and cost savings that the Company anticipates as a result of the Share Transfer;

- the failure to uncover all risks and liabilities associated with the Share Transfer;
- the impact of the issuance of the China Direct Shares on the Company's common stock, including dilution of the ownership of the Company's common stock;
- the failure to obtain any necessary third party consents or satisfy any of the other conditions of the Transfer Agreements;
- adverse effects on the market price of the Company's common stock and on its operating results because of a failure to complete the Share Transfer; and
- significant transaction costs and/or unknown liabilities and general economic and business conditions that affect the Company following the completion of the Share Transfer.

Relating to the Company's Business Generally:

- Fluctuations in the pricing and availability of magnesium and in levels of customer demand.
 - Changes in the prices of magnesium and magnesium-related products.
- The Company's ability to implement the Company's expansion plans for growing the Company's business through increased magnesium production capacity and acquisitions and development of the Company's industrial commodities business .
 - Fluctuations in the cost or availability of coke gas and coal.
 - Loss of orders from any of the Company's major customers.
- The value of the equity securities we accept as compensation is subject to adjustment which could result in losses to us in future periods.
- The Company's ability to effectively integrate the Company's acquisitions and to manage the Company's growth and the Company's inability to fully realize any anticipated benefits of acquired business.
- The Company's need for additional financing which we may not be able to obtain on acceptable terms, the dilutive effect additional capital raising efforts in future periods may have on the Company's current shareholders and the increased interest expense in future periods related to additional debt financing.
 - The Company's dependence on certain key personnel.
- Difficulties we have in establishing adequate management, cash, legal and financial controls in the PRC.
 - The Company's ability to maintain an effective system of internal control over financial reporting.
- The lack various legal protections in certain agreements to which we are a party and which are material to the Company's operations which are customarily contained in similar contracts prepared in the United States.
 - Potential impact of PRC regulations on the Company's intercompany loans.
 - The Company's ability to assure that related party transactions are fair to the Company.
- Mr. Huang and his daughter Lifei Huang, as well as Mr. Kong, are owners and executive officers of several companies which compete directly with the Company's magnesium business.
 - The impact of a loss of the Company's land use rights.
- The Company's ability to comply with the United States Foreign Corrupt Practices Act which could subject us to penalties and other adverse consequences.
- Limits under the Investment Company Act of 1940 on the value of securities we can accept as payment for the Company's business consulting services.
 - The Company's acquisition efforts in future periods may be dilutive to the Company's then current shareholders.
- The risks and hazards inherent in the mining industry on the operations of the Company's basic materials segment.
- The Company's inability to enforce the Company's rights due to policies regarding the regulation of foreign investments in the PRC.
- The impact of environmental and safety regulations, which may increase the Company's compliance costs and reduce the Company's overall profitability.
- The effect of changes resulting from the political and economic policies of the Chinese government on the Company's assets and operations located in the PRC.
 - The impact of Chinese economic reform policies.
- The influence of the Chinese government over the manner in which the Company's Chinese subsidiaries must conduct the Company's business activities.
 - The impact on future inflation in the PRC on economic activity in the PRC.
 - The impact of any natural disasters and health epidemics in China.
 - The impact of labor laws in the PRC may adversely affect the Company's results of operations.
- The limitation on the Company's ability to receive and use the Company's revenues effectively as a result of restrictions on currency exchange in the PRC.
 - Fluctuations in the value of the RMB .
 - Delisting of the Company's securities from trading by NASDAQ.
-

The market price for shares of the Company's common stock has been and may continue to be highly volatile and subject to wide fluctuations.

These and other factors that could cause the Company's actual results to differ materially from those described in the forward-looking statements are set forth in this proxy statement, the Company's Annual Report on Form 10-K for the year ended September 30, 2011, and in the Company's other filings with the Securities and Exchange Commission (the "SEC"). Readers of this proxy statement are cautioned to consider these risks and uncertainties and not to rely on any forward-looking statements. The Company disclaims and does not undertake any obligation to update or revise any forward-looking statement in this proxy statement except as required by applicable law or regulation.

GENERAL MEETING INFORMATION

General

This proxy statement and the accompanying form of proxy and Notice of Special Meeting are provided in connection with the solicitation of proxies by the Board of the Company for use at the Special Meeting (the "Meeting") of shareholders to be held on [X], 201 2 .

Important Note

No person is authorized to make any representation with respect to the matters described in this proxy statement other than those contained, or incorporated by reference, in this proxy statement and, if given or made, such representation must not be relied upon as having been authorized by the Company or any other person or entity. This proxy statement, and the information incorporated herein, provides you with detailed information about the proposal to be considered and voted upon at the Meeting. Unless otherwise stated, the information in this proxy statement is current as of the date of this proxy statement. Shareholders are urged to carefully review this proxy statement, which discusses each of the proposals to be voted upon at the Meeting, including the accompanying annexes containing the Transfer Agreements relating to the Share Transfer, Management Agreement and the issuance of the China Direct Shares.

This proxy statement does not constitute the solicitation of a proxy from any person in any jurisdiction where it is unlawful to make such proxy solicitation. The delivery of this proxy statement shall not, under any circumstances, imply that there has not been any change in the information set forth herein since the date of the proxy statement.

Date, Time and Place of the Meeting

The Meeting will be held on [X], 201 2 at the Company's offices located at 431 Fairway, Drive, Suite 200, Deerfield Beach, Florida 33441, at _____ .m. Eastern Time, and any adjournments or postponements thereof. Directions to the Company's offices call 954-363-7333.

Mailing Address; Telephone Number; Date of Mailing

The mailing address of the Company's principal executive office is 431 Fairway Drive, Suite 200, Deerfield Beach, Florida 33441 and the telephone number at that address is (954) 363-7333. This proxy statement and the enclosed form of proxy and Notice of Special Meeting are first being mailed to the Company's shareholders on or about [X], 201 2 .

Notice and Voting

Each outstanding share of common stock entitles its holder to one vote. Only the Company's shareholders of record at the close of business on the Record Date will be entitled to notice of, and to vote at, the Meeting or any adjournment or postponement thereof. As of the Record Date, there were [_____] shares of common stock outstanding and entitled to vote at the Meeting and approximately [_____] holders of record.

If you complete and properly sign and return the accompanying proxy card, your shares will be voted as you specify, but if you do not specify a vote with respect to a proposal, your shares cannot be voted in favor of the Proposals, but may be voted in the proxy's discretion with respect to any other matter that may be properly considered at the Meeting.

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Under the Company's bylaws, business transacted at the Meeting is confined to the purposes stated in the Notice of Special Meeting. The proxy being solicited does, however, convey discretionary authority to the persons named therein as proxies to vote on matters that are incidental to the conduct of the Meeting.

You may revoke your proxy by:

- .delivering written notice of such revocation to the Company's Corporate Secretary before the Meeting;
- .submitting a properly executed proxy bearing a later date; or
- .attending the Meeting and voting in person.

If you hold your shares in "street name" (that is, through a broker or other nominee or intermediary), you may vote and revoke a previous vote only by following the procedures established by the broker or other nominee or intermediary.

Votes Required for Approval of the Proposals

For purposes of the Meeting, we are considering the issuance of the China Direct Shares in exchange for the Transfer Shares in all three of the Transfer Companies, as well as the Company's issuance of China Direct Shares under the Management Agreement, as one proposal. A vote in favor of Proposal No. 1 constitutes a vote in favor of issuing the China Direct Shares in exchange for the Transfer Shares in such of the Transfer Companies as the Board determines is appropriate and in the Company's best interests; and the Company's inability to complete the Share Transfer as to the Transfer Shares in one or more of the Transfer Companies will not cancel or otherwise affect shareholder approval to consummate the Share Transfer with respect to the Transfer Shares in the remaining Transfer Companies. To the extent that the Board determines not to complete the Share Transfer with respect to the Transfer Shares of one or more of the Transfer Companies, a vote FOR Proposal No. 1 will allow the Company to complete the Share Transfer with respect to the transfer of Transfer Shares in the other Transfer Companies.

In order for the Proposals to be presented to shareholders for consideration at the Meeting, a quorum of shareholders must be present at the Meeting. The Company's Bylaws provide that a quorum of shareholders means the holders of at least one-third of the Company's issued and outstanding common stock. Once a quorum is present at the Meeting, the Proposals will be approved if the votes cast "FOR" each of the proposals exceed those cast against each of the respective proposals.

Approval of the Proposals requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the Meeting, provided that a quorum is present.

Abstentions and Unspecified Shares Held in Street Name

Proposal No. 1 is not considered a "routine matter" and, therefore, brokers holding shares of the Company's common stock for beneficial owners must vote those shares according to the specific instructions they receive from the beneficial owners. Proposal No. 2 is considered a routine and, therefore, brokers holding shares of the Company's common stock for beneficial owners may exercise their discretionary voting power with respect to Proposal No. 2. Brokers or nominees holding shares for a beneficial owner do not have discretionary voting power in connection with Proposal No. 1 and might not have received voting instructions from the beneficial owner of the shares. In such cases, a broker may not vote on Proposal No. 1, which is known as a "broker non-vote."

"Broker non-votes" and abstentions will be counted for the purpose of determining the existence of a quorum at the Meeting. Since, in order to be adopted, the total votes cast for the Proposals must represent a majority of the votes cast at the Meeting, and since abstentions are considered votes cast for this purpose, an abstention has the effect of a vote against each of the Proposals. Because Proposal No. 1 is considered a "non-routine matter" and "broker non-votes" are not entitled to vote at the Meeting, "broker non-votes" are not considered votes cast and will not be counted for or against Proposal No. 1 or toward the total votes cast on Proposal No. 1. Because Proposal No. 2 is a "routine matter" and "broker non-votes" are entitled to vote at the Meeting, "broker non-votes" will have the effect of a vote against Proposal No. 2.

Quorum

A "quorum" is one-third of the outstanding shares of the Company's common stock, which may be present in person at the Meeting or represented by proxy and entitled to vote on the matter. Your shares will be counted for purposes of determining a quorum if you attend the Meeting and vote in person or if you vote by telephone, by Internet or by submitting a properly executed proxy card by mail. Abstentions and withheld votes will be counted for determining whether a quorum is present for the Meeting.

At the close of business on the Record Date, the Company had [X] shares of common stock outstanding entitled to cast a vote on the proposals presented in this proxy statement. The presence at the Meeting, in person or by proxy, of the holders of at least [X] shares of the Company's common stock will be required to establish a quorum.

Availability of Documents

If you have questions about the matters described in this proxy statement, or how to submit your proxy, or if you need additional copies of the proxy statement or the enclosed proxy card or voting instructions, you should contact:

Mr. Lazarus Rothstein,
Executive Vice President, General Counsel
and Corporate Secretary
China Direct Industries, Inc.
431 Fairway Drive, Suite 200
Deerfield Beach, Florida 33441

PROPOSAL NO. 1 – ISSUANCE OF THE CHINA DIRECT SHARES

Summary of the Share Transfer

The Company proposes to issue the 17,841,627 Shares pursuant to the Marvelous Honor Transfer Agreement, the Baotou Transfer Agreement, the Lingshi Transfer Agreement and the Management Agreement, as follows:

- Pursuant to the Marvelous Honor Transfer Agreement, we propose to acquire up to 100% of the issued and outstanding equity of Marvelous Honor (which, in turn, owns 72.5% of the issued and outstanding equity of Golden Trust), in consideration for the Company's issuance of 7,930,306 Shares to the Marvelous Honor Holders (exclusive of Mr. Ju) and the payment of \$1,690,517 in cash to Mr. Ju .;
- Pursuant to the Baotou Transfer Agreement, we propose to acquire 27.5% of the issued and outstanding equity of Golden Trust through the Company's wholly-owned subsidiary, CDI China, in consideration for the Company's issuance of 1,203,806 Shares, and the Company's payment of \$2,348,043 in cash (or by the Company's transfer of the proceeds of China Direct's intercompany loans in such amount) to the beneficial owners of the Baotou Trust Shares;
- Pursuant to the Lingshi Transfer Agreement, we propose to acquire 100% of the issued and outstanding equity of Lingshi Magnesium through the Company's 80% owned subsidiary, Ruiming Magnesium in consideration for the Company's payment to Yiwei Magnesium of:
 - \$2,454,487 in cash or by the Company's transfer of the proceeds of China Direct's intercompany loans in such amount;
 - \$2,210,291 in cash or in 2,336,460 Shares valued at \$0.946 per share;
 - \$4,664,778 by the issuance of 4,931,055 Shares valued at \$0.946 per share;
 - \$4,696,085 by the assignment to Yiwei Magnesium of the Company's ownership interest in Excel Rise ; and
- Pine Capital, a company controlled by Ms. Lefei Huang, Mr. Huang's daughter , has agreed to pay Yiwei Magnesium the remaining 20% of the Total Lingshi Purchase Price of \$3,506,410 in cash. Pine Capital owns the 20% interest in Ruiming Magnesium not owned by the Company.
- Pursuant to the Management Agreement, we propose to issue up to an aggregate of 1,440,000 Shares to the Managers and their management teams upon achievement of the performance benchmarks and other performance criteria set forth in the Management Agreement.

For purposes of the Meeting, we are considering the issuance of the China Direct Shares in exchange for the Transfer Shares in all three of the Transfer Companies, as well as the Company's issuance of China Direct Shares under the Management Agreement, as one proposal. A vote in favor of Proposal No. 1 constitutes a vote in favor of issuing the China Direct Shares in exchange for the Transfer Shares in such of the Transfer Companies as the Board determines is appropriate and in the Company's best interests; and the Company's inability to complete the Share Transfer as to the Transfer Shares in one or more of the Transfer Companies will not cancel or otherwise affect shareholder approval to consummate the Share Transfer with respect to the Transfer Shares in the remaining Transfer Companies. To the extent that the Board determines not to complete the Share Transfer with respect to the Transfer Shares of one or more of the Transfer Companies, a vote FOR Proposal No. 1 will allow the Company to complete the Share Transfer with respect to the transfer of Transfer Shares in the other Transfer Companies.

The closing of the Share Transfer under each Transfer Agreement is subject to the Company's receipt of shareholder approval for Proposal No. 1, as well as the satisfaction of other conditions set forth in the Transfer Agreements.

Background of the Share Transfer

We established the Company's magnesium business segment in the fourth quarter of 2006. Since that time, we have grown this segment through the Company's acquisition of controlling interests in private Chinese companies, which we consolidate either as wholly or majority owned subsidiaries. In the Company's Magnesium segment, the Company's largest segment in total assets and revenues, we produce, sell and distribute pure magnesium ingots, magnesium powders, granules, scraps, and magnesium alloys.

As part of the ongoing plan to develop the Company's Magnesium segment, the Board and the Company's management, from time to time, have discussed and reviewed strategic goals and alternatives. These reviews have included the addition of Yuwei Huang who was appointed executive vice president for the Magnesium segment and as a member of the Board in January 2009 and consolidation of the Company's Magnesium segment holdings as well as the acquisition of additional magnesium production facilities from Mr. Huang. In October 2009, we signed a non-binding letter of intent with Mr. Huang outlining the proposed targets and have made two acquisitions, including the acquisition of an 80% interest in Ruiming Magnesium in July 2010 and the remaining 48% interest we did not already own in Golden Magnesium in May 2011.

As part of the Company's Magnesium segment expansion, Yuejian (James) Wang, the Company's Chief Executive Officer and Chairman of the Board of Directors met with Yuwei Huang, the Company's Executive Vice President – Magnesium and a director of our company, in late August 2010 to discuss a framework with respect to the terms and conditions of a possible purchase of Lingshi Magnesium.

Following this meeting, representatives of our company and Lingshi Magnesium held a telephonic meeting to discuss and commence the process of providing due diligence materials to be made available to our company. Beginning in late September 2010 we began the Company's legal, financial and accounting due diligence review of Lingshi Magnesium, and were provided with electronic copies of various due diligence information.

In early November 2010, Dr. Wang met with Mr. Huang to continue their discussions regarding the acquisition of Lingshi Magnesium. At this meeting, the parties discussed the underlying assumptions for valuation methodologies for each company for purposes of determining the consideration to be paid in a potential acquisition of Lingshi Magnesium, and Dr. Wang made his initial proposed valuation of RMB 89.60 million (approximately \$13.8 million) for an 80% interest in Lingshi Magnesium. The proposed valuation was based on Lingshi Magnesium's net shareholder equity as of September 30, 2010 using RMB as the currency for computing the purchase price. Since the currency for computing the purchase price of Lingshi Magnesium and Golden Trust is RMB, all following U.S. dollar amounts are estimated amounts based on the exchange rate as of the date discussed. In conjunction with the valuation proposal, Dr. Wang proposed acquisition consideration consisting of \$4.8 million in stock of our company at \$1.30 per share, representing approximately 11.6% of our company's outstanding common stock, \$4.8 million in cash and \$ 4.2 million by assignment of the Company's interest in a subsidiary of ours, Excel Rise. Dr. Wang discussed his proposed valuation and the alternative valuation methodologies that could be used to value Lingshi Magnesium's business. These alternative valuation methodologies included Lingshi Magnesium's projected earnings, cash flow and net book value. The parties agreed to reconvene for further valuation discussions in December 2010 after both had conducted further analysis on the alternative valuation methodologies and Dr. Wang consulted with the Company's Audit Committee. During this meeting, Mr. Huang suggested that they meet with Mr. Tung to discuss his involvement in the management of the magnesium facilities we owned and were interested in acquiring.

In mid December 2010, Dr. Wang met with Mr. Huang to continue their discussions regarding the acquisition of Lingshi Magnesium. Dr. Wang then discussed the Company's potential interest in acquiring additional magnesium production facilities in conjunction with the proposed acquisition of Lingshi Magnesium and suggested the possibility of acquiring Golden Trust which was managed by Mr. Tung. Dr. Wang and Messrs. Huang and Tung concluded that given the interest of our company, Dr. Wang would make a presentation to the Company's Audit Committee regarding a potential strategic transaction between our company and Lingshi Magnesium.

On January 5, 2011, Dr. Wang met with the Audit Committee except for Dr. Shen who was traveling in China at the time of the meeting. During this meeting, Dr. Wang informed the Audit Committee about his December 2010 meeting with Mr. Huang and Mr. Tung in China and then made an introductory presentation along with Katie Zhao, the Company's Vice President of Business Development regarding Lingshi Magnesium and its business, operations and financial performance. In addition, Dr. Wang discussed the framework for a possible acquisition agreement discussed

in November 2010 with a total purchase price of RMB 89.6 million (approximately \$13.8 million) where we would acquire an 80% interest in Lingshi Magnesium that included \$4.8 million in cash, \$4.8 million in shares of the Company's common stock and \$ 4.2 million by assignment of the Company's interest in Excel Rise. As part of this transaction , Pine Capital would acquire a 20% interest in Lingshi Magnesium and pay approximately \$3.4 million in cash. Pine Capital is owned by Ms. Lifei Huang, Mr. Huang's daughter , and Yiwei Magnesium is owned by Mr. Huang . In addition, Dr. Wang informed the Audit Committee that during his December 2010 meeting with Messrs. Huang and Tung they discussed the possibility of acquiring Golden Trust in conjunction with Lingshi Magnesium. Dr. Wang suggested that the Audit Committee meet on January 12, 2011 at which time he would present a draft of an agreement and additional financial and due diligence materials related to Lingshi Magnesium for review by the Audit Committee. Dr. Wang answered various questions raised by the Audit Committee about the experience and vision for the Company's Magnesium segment should the proposed acquisition of Lingshi Magnesium be consummated.

On January 12, 2011, the Audit Committee held a meeting to discuss recent developments with respect to the proposed acquisition of Lingshi Magnesium and to review an analysis of the proposed investment, its corporate facilities, production, future expansion plans, management, financial forecast and summary of purchase price. In addition, the Audit Committee reviewed Lingshi Magnesium's draft unaudited financial statements, a draft of the Lingshi Transfer Agreement and Management Agreement, due diligence materials related to the appraisal of its fixed assets, a gas supply agreement and an engineering report of its facility. Dr. Wang and Mr. Rothstein were also in attendance. At various times through the date of execution of the Lingshi Transfer Agreement, Dr. Wang on behalf of the Audit Committee and Mr. Huang on behalf of Lingshi Magnesium negotiated the Lingshi Transfer Agreement. These negotiations included discussions regarding, the exchange of drafts and comments on these documents.

In ensuing negotiations between the parties related to the Lingshi Transfer Agreement and Management Agreement, significant issues that were negotiated up to the end of the negotiations, included, without limitation:

- the purchase price, payment terms, pricing method for the Company's common stock, exchange rate valuations, Messrs. Huang and Tong's obligations with regard to non-competition, and
- the compensation payable to Messrs. Huang and Tung and the management teams at each of the magnesium facilities owned or to be acquired by us.

The initial draft of the Lingshi Transfer Agreement provided for, among other things, the acquisition by our company of an 80% interest in Lingshi Magnesium for RMB 89.6 million (approximately \$13.6 million) (i) \$4.75 million by issuing 3,653,846 shares of the Company's common stock valued at \$1.30 per share and (ii) \$4.75 million cash consideration, \$ 4.1 million by assignment of the Company's ownership interest in Excel Rise. In addition, the Lingshi Transfer Agreement provided for a hold back from the purchase price of \$2.4 million or 1,827,506 shares of the Company's common stock that would be paid to the seller if Lingshi Magnesium's revenues for the 12 month period ended September 30, 2012 were no less than \$16.4 million and its earnings before interest, taxes depreciation and amortization (EBITDA) was no less than \$197 per metric ton of goods produced. The Lingshi Transfer Agreement also included a bonus of 300,000 shares of the Company's common stock if Lingshi Magnesium's revenues for the 12 month period ended September 30, 2012 were no less than \$17.9 million and its EBITDA was no less than \$197 per metric ton of goods produced. The RMB value of the purchase price was the same as the amount discussed in November 2010. The U.S. dollar value had decreased by approximately \$200,000 as a result of an increase in the RMB exchange rate.

At the February 14, 2011 Board meeting at which all directors were present in person or by telephone, Mr. Huang made a presentation regarding the current status of the magnesium market in China, the production status of each of the Company's magnesium facilities (including Lingshi Magnesium and Golden Trust and worldwide magnesium demand projections). Dr. Wang then reported that negotiations regarding the Lingshi Transfer Agreement were ongoing and that a framework for an acquisition agreement for Golden Trust had been established and that a draft agreement would be circulated to the Audit Committee for its consideration.

At the February 14, 2011 Board meeting, at which all directors were present, Dr. Wang provided an updated report on the Company's discussions to acquire Lingshi Magnesium and Golden Trust. At the conclusion of this meeting, the Board determined to adopt a resolution to appoint the Audit Committee to oversee the process of obtaining, reviewing and analyzing due diligence materials regarding the proposed acquisition of Lingshi Magnesium and Golden Trust (the "Proposed Transactions"), and granted the Audit Committee the authority and power to (i) represent the interests of our company and shareholders (other than Messrs. Huang and Tong) in connection with the Proposed Transactions, (ii) lead and manage the negotiations of the terms and conditions of the Proposed Transactions and delegate as it deems appropriate in connection with such negotiations, particularly where there is no proposed conflict, (iii) determine whether the Proposed Transactions are advisable and in the best interests of our company and its

shareholders (other than Messrs. Huang and Tong), (iv) if the Audit Committee deems appropriate, reject the Proposed Transactions, in which event the Board would not consider or take action on the Proposed Transactions, and (v) recommend to the full Board what other action, if any, should be taken by our company with respect to the Proposed Transactions. The Audit Committee was comprised of Messrs. Barnes, Steiner, Wasserman and Dr. Shen (each of Messrs. Barnes, Steiner, Wasserman and Dr. Shen having been determined by the Board as being “independent” of Lingshi Magnesium and Golden Trust and disinterested from the Proposed Transactions). No member of the Audit Committee is entitled to a fee related to the Proposed Transactions other than their regular compensation as members of the Board and the Audit Committee.

After the conclusion of the Board meeting, the Audit Committee met on February 14, 2011 to discuss the possibility of acquiring Golden Trust and agreed to move forward with negotiations and due diligence.

On February 14, 2011, the Audit Committee had asked that Andrew Wang, Executive Vice President and Chief Financial Officer, Lazarus Rothstein, Executive Vice President, General Counsel and Secretary and Katie Zhao, Vice President of Business Development, meet with and assist the Audit Committee with regard to the Lingshi Transfer Agreement and the proposed Management Agreement with Messrs. Huang and Tung. The Audit Committee requested management's assistance because, they considered that such additional assistance was necessary in their consideration of the Transfer Agreement and the Proposed Transactions. The Audit Committee and these individuals discussed any potential conflicts of interest in light of their roles as an officer of our company. As these individuals are "independent" of Golden Trust, Lingshi Magnesium and their shareholders and disinterested from the Proposed Transactions, the Audit Committee concluded that it was appropriate for these individuals to meet with and assist the Audit Committee with regard to the Transfer Agreement and the Proposed Transactions.

On February 14, 2011, the Audit Committee, discussed the need for outside legal counsel with Mr. Rothstein and determined that Mr. Rothstein, along with John Zhao, the General Manager of the Company's CDI Shanghai Management subsidiary who is a Chinese lawyer could act as legal advisors to the Audit Committee and our company in connection with the Proposed Transactions. Mr. Rothstein advised the Audit Committee with respect to their director duties under Florida law and the requirements and potential thresholds for shareholder approval in connection with the proposed acquisition of Lingshi Magnesium.

On February 14, 2011, the Audit Committee discussed whether it should engage an independent financial advisor to assist the Audit Committee in, among other things, evaluating the potential benefits and risks associated with pursuing the Proposed Transactions. The Audit Committee determined that since the purchase price of the proposed targets was largely based on their respective net shareholder equity, the input and experience of Dr. Wang, Mr. Wang, who is a Certified Public Accountant and holds a Masters Degree in Business Administration and Ms. Zhao, who holds Masters Degree in Business Administration, it would rely on the input from these individuals in addition to the due diligence materials and other information provided by management, Lingshi Magnesium and Golden Trust in evaluating the Proposed Transactions. In addition, Dr. Wang indicated that the Company would obtain an appraisal of Lingshi Magnesium property, plant and equipment to confirm the value of these assets included in Lingshi Magnesium's financial statements.

Following the February 14, 2011 Audit Committee meeting, representatives of our company and Golden Trust held a telephonic meeting to discuss and commence the process of providing due diligence materials to be made available to our company. Beginning in mid February 2011 we began the Company's legal, financial and accounting due diligence review of Golden Trust, and were provided with electronic copies of various due diligence information.

Dr. Wang and Messrs. Huang and Tung met during late February 2011 and early March 2011, to discuss the Company's potential acquisition of Golden Trust. At this meeting, the parties discussed the underlying assumptions for valuation methodologies for each company for purposes of determining the consideration to be paid, and Dr. Wang made his initial proposed valuation of RMB 75.0 million (\$11.5 million) for Golden Trust. The proposed valuation was based on Golden Trust's net shareholder equity as of March 31, 2011. In conjunction with the valuation proposal, Dr. Wang proposed acquisition consideration of \$11.5 million consisting of (i) \$9.2 million by issuing 7,384,615 shares of the Company's common stock valued at \$1.25 per share, representing approximately 21% of our company's outstanding common stock, and (ii) \$2.3 million cash consideration. Dr. Wang discussed his proposed valuation and the alternative valuation methodologies that could be used to value Golden Trust's business. These alternative valuation methodologies included Lingshi Magnesium's projected earnings, cash flow and net book value. The parties agreed to reconvene for further valuation discussions after both had conducted further analysis on the alternative valuation methodologies and Dr. Wang consulted with the Audit Committee.

On March 31, 2011, the Audit Committee reviewed due diligence materials provided by Golden Trust and various reports and analysis prepared by the Company's management. Dr. Wang who attended portions of the meeting

suggested that the Audit Committee visit the Golden Trust production facility located in Xiaoyi City, Shanxi Province, China in conjunction with the Company's April 22, 2011 annual meeting of shareholders held in Shanghai, China.

In late April 2011, Messrs. Steiner and Wasserman and Dr. Shen visited Golden Trust's magnesium production facilities and Mr. Huang's administrative offices in Taiyuan, China where he oversees the operations of all the Company's magnesium operations as well as the operations of Lingshi Magnesium and Golden Trust.

Following the receipt of drafts of the Transfer Agreements on May 12, 2011, the Audit Committee met on May 31, 2011 to consider, among other things, recent developments with respect to the proposed acquisition of Lingshi Magnesium and Golden Trust, including the proposed purchase price, further valuation issues in connection with the assets of Golden Trust and Lingshi Magnesium, establishment of performance targets, and the required shareholder approval threshold for the issuance of the Company's stock. Dr. Wang and Mr. Rothstein were also in attendance.

Based on the February 2011 and March 2011 discussions noted above, I Golden Trust Transfer Agreements provided for, among other things, the acquisition by our company of all the outstanding common stock of Marvelous Honor which owns a 72.5% interest in Golden Trust and the remaining 27.5% interest from Baotou Changxin, as trustee in consideration for which the Golden Trust Holders would receive RMB 75 million (approximately \$11.5 Million) (i) \$9.2 million by issuing 7,384,615 shares of the Company's common stock valued at \$1.25 per share, and (ii) \$2.3 million cash consideration, \$1.15 million to be paid within 15 business days of the closing of the proposed transactions and \$1.15 million to be paid within 15 days after completion of transfer of title of the interests of the Golden Trust Holders.

The equity transfer agreement for Lingshi Magnesium provided for, among other things, the acquisition by the Company's 80% owned subsidiary, Ruiming Magnesium of a 100% interest in Lingshi Magnesium from Yiwei Magnesium, a company owned or controlled by Mr. Huang, for RMB 112 million (approximately \$17.2 million). Under the terms of the proposed agreement CDI China would pay 80% of the Lingshi Purchase Price or \$13.8 million as follows (i) \$4.8 million by issuing 3,859,692 shares of the Company's common valued at \$1.25 per share; (ii) \$4.2 million by assignment of the Company's interest in Excel Rise; and (iii) \$4.8 million in cash consideration, \$2.4 million to be paid within 15 business days of the closing of the Proposed Transactions and \$2.4 million to be paid within 15 days after completion of transfer of title of the interests of Yiwei Magnesium. Pine Capital which owns the 20% non-controlling interest in Ruiming Magnesium will pay approximately \$3.4 million in cash for a 20% interest in Lingshi Magnesium. The RMB value of the purchase price was the same as the amount discussed in January 2011. The U.S. dollar value had increased by approximately \$200,000 as a result of a decrease in the RMB exchange rate. Further, as a result of a decrease in the price of our common stock from \$1.30 to \$1.25, the number of shares to be issued increased from 3,653,846 to 3,859,692. All other terms and conditions of the draft agreements discussed in January remained substantially the same .

After the May 31, 2011 meeting, Dr. Wang scheduled a meeting for June 29, 2011 between the members of the Audit Committee and Dr. Wang to further discuss the potential acquisition of Golden Trust and Lingshi Magnesium.

On June 22, 2011, Dr. Wang provided the Audit Committee with, among other things, updated information on the history of the magnesium industry's production and management's expectations, an overview of Dr. Wang's June 2001 meeting with Messrs. Huang and Tung regarding the proposed acquisitions of Lingshi Magnesium and Golden Trust and the consolidation of management, sales and accounting for the entire Magnesium segment, a proposed three year employment agreement with Messrs. Huang and Tung providing for an annual salary of RMB 2.4 million (approximately \$370,000) for Mr. Huang and RMB 1.2 million (approximately \$185,000) for Mr. Tung and restricted stock awards based on production benchmarks to be agreed on.

On July 29, 2011, the Audit Committee held a meeting to discuss, among other things, recent developments with respect to the drafts of the Transfer Agreements and the Management Agreement. Dr. Wang, Mr. Rothstein and Ms. Zhao were also in attendance.

As a result of the reduction in the market price of the Company's common stock, Mr. Huang and Dr. Wang discussed revising the price per share of the Company's common stock from \$1.25 per share to \$1.00 per share which would increase the number of shares from 7,384,615 to 9,230,769 under the Golden Trust Transfer Agreements. With respect to the Lingshi Magnesium Transfer Agreement, the cash would decrease from \$4.8 million to \$2.4 million and increase the amount payable in shares from \$4.8 million to \$7.2 million which along with the change in the price per share of the Company's common stock from \$1.25 per share to \$1.00 per share which would increase the number of shares from 3,859,692 to 7,236,923. In addition, the initial idea of the hold back of a portion of the purchase price was replaced with a purchase price adjustment clause that would reduce the purchase price if Golden Trust's stockholder equity was less than the amounts included in its June 30, 2011 unaudited balance sheet. All other terms and conditions of the draft agreements previously discussed, including the \$11.5 million purchase price for Golden Trust and the

\$13.8 million purchase price for Lingshi Magnesium remained substantially the same.

At the meeting, Dr. Wang and Ms. Zhao also made a presentation with respect to their financial analysis of the potential acquisition of Golden Trust and Lingshi Magnesium. Dr. Wang and Ms. Zhao exited the meeting following their presentation. In addition, the Audit Committee reviewed revenue and expense projections for Golden Trust and Lingshi Magnesium with members the Company's management in order to validate the valuation of these companies.

On August 11, 2011 Mr. Rothstein provided the Audit Committee with an overview and analysis of the key terms of the proposed draft Transfer Agreements and Management Agreement.

On August 12, 2011, the Audit Committee held a telephonic meeting to discuss, among other things, recent developments with respect to the Proposed Transactions, the draft Transfer Agreements and the Management Agreement. Mr. Rothstein was also in attendance along with Dr. Wang and Mr. Wang., who was present for portions of the meeting. As a result of the reduction in the market price of the Company's common stock and his discussion with Messrs. Huang and Tung regarding its effects on the proposed purchase price for Golden Trust and Lingshi Magnesium, Dr. Wang recommended that the Audit Committee consider including a trailing 10 day price formula for purposes of determining the number of shares of the Company's common stock that it would issue in exchange for the Transfer Shares. Using this formula, the revised price per share of the Company's common stock assuming the Transfer Agreements were signed on August 12, 2011 would be reduced to \$0.90 per share from \$1.00 per share previously discussed.

After receiving the appraisal of Golden Trust's assets, Messrs. Huang and Tung and Dr. Wang discussed revising the purchase price to reconcile the initial valuation based on net shareholder equity on book value. Messrs. Huang and Tung adjusted their proposal for the sale of Golden Trust as follows: (i) from RMB 75.0 million (approximately \$11.7 million) to RMB 81.0 million (approximately \$12.6 million) with the increase in purchase price payable in shares of the Company's common stock. The proposed revised purchase price was derived as follows: RMB 75.0 million reflecting the August 12, 2011 appraised value of Golden Trust's fixed assets and up to RMB 6.0 million reflecting certain net assets (total current assets less total liabilities as of the end of the month prior to the month in which the closing takes place). If net other assets exceed RMB 6.0 million, Golden Trust will distribute to its then shareholders current assets in an amount equal to such excess. The parties to the Golden Trust Transfer Agreements will agree on the specific assets to be included in net other assets and the assets that Golden Trust may distribute.

In addition, the Audit Committee discussed with Mr. Wang certain tax implications to our company of the Proposed Transactions, none of which had a material impact.

After Dr. Wang and Mr. Wang left the meeting, Mr. Rothstein reviewed with the Audit Committee its fiduciary duties with respect to approval of the Transfer Agreements and the Management Agreement. Mr. Rothstein also discussed certain risks associated with these agreements and the rationale for entering into them, including a discussion of the factors described in the section of this proxy statement entitled "Reasons for the Share Transfer; Recommendation of the Audit Committee and the Board."

On August 23, 2011, the Audit Committee held a meeting to discuss, among other things, recent developments with respect to the draft Transfer Agreements and Management Agreement. Mr. Rothstein was also in attendance along with Dr. Wang who was present for portions of the meeting. As a result of the August 12, 2011 appraisal report of Shanxi Mingda Assets Appraisal Co., Ltd (the "Mingda Appraisal") reflecting an appraised value of the fixed assets of Golden Trust of RMB 74.5 million (approximately \$11.7 million) that resulted in an increase in the net book value of Golden Trust's fixed assets of RMB 24.8 million (approximately \$3.9 million), Dr. Wang discussed revising the Golden Trust purchase price. Dr. Wang recommended increasing the purchase price for Golden Trust from RMB 75.0 million (approximately \$11.7 million) to RMB 81.0 million (approximately \$12.7 million) to reflect the RMB 75.0 million appraised value of Golden Trust's fixed assets and up to RMB 6.0 million reflecting certain net assets with the increase in purchase price payable in shares of the Company's common stock. In addition, the U.S. dollar value of the purchase price had increased by approximately \$180,000 as a result of a decrease in the RMB exchange rate.

With respect to the purchase price for Lingshi Magnesium, the U.S. dollar value had increased by approximately \$215,000 as a result of a decrease in the RMB exchange rate and, as a result of a decrease in the price of our common stock from \$1.00 to \$0.95 and a \$500,000 increase in the valuation of Excel Rise, the number of shares to be issued decreased by approximately 13,000 shares. All other terms and conditions of the agreement to acquire Magnesium discussed in July 2011 remained substantially the same.

On August 25, 2011, Mr. Rothstein provided the Audit Committee with revised drafts of the Transfer Agreements, the Management Agreement and a summary of the proposed changes. The revised agreements reflected further discussions between Dr. Wang and Mr. Huang which included a revision to the cash and stock components of the Lingshi Magnesium purchase price by reducing the amount of cash from RMB 29.8 million (approximately \$4.7 million) to RMB 15.7 million (approximately \$2.45 million) with a corresponding increase in the amounts payable in shares of the Company's common stock. All other terms and conditions of the agreement to acquire Magnesium previously discussed and presented to the Audit Committee remained substantially the same.

On August 28, 2011, Dr. Wang and Messrs. Huang and Tung met to discuss open deal terms for a potential acquisition of Golden Trust by our company and the valuation of Golden Trust proposed by Mr. Huang. At this meeting, the parties agreed to value Golden Trust at \$12.7 million, which represented approximately 10,875,144 shares of our company's common stock, based on a stock price of \$.95 per share. In addition, the parties agreed to reduce the purchase price in the event that the "net other assets" (defined as total current assets less total liabilities) of Golden Trust set forth on a post-closing balance sheet of Golden Trust were less than approximately \$940,000. Also, in the event that net other assets as of the post closing balance sheet exceeded approximately \$940,000, then the purchase price would be increased by such amount. Dr. Wang agreed to present these terms to the Audit Committee for its consideration. All other terms and conditions of the draft agreements previously discussed and presented to the Audit Committee remained substantially the same.

On August 29, 2011, the Audit Committee, by unanimous written consent voted to adopt resolutions:

- approving the Company's entering into the Transfer Agreements and Management Agreement;
- recommending that the Board approve the Transfer Agreements and Management Agreement;
- recommending that the Board recommend that the Company's shareholders approve the Proposed Transactions (including the issuance of the Company's common stock) pursuant to the terms of the Transfer Agreements and Management Agreement; and
- giving Dr. Wang, working with Mr. Rothstein, the Company's general counsel, the authority to finalize and make all final decisions with regard to the finalization of the Transfer Agreements and Management Agreements and the ancillary documents contemplated therein.

Immediately following the Audit Committee's signing the August 29, 2011 written consent, the Board by unanimous written consent voted to adopt resolutions approving and declaring advisable the execution, delivery and performance of the Transfer Agreements, the Management Agreement and the ancillary documents contemplated therein, and determined that the Proposed Transactions were advisable and in the best interests of the Company's shareholders.

On August 30, 2011, the parties finalized, exchanged and executed copies of all transaction-related documents. On September 6, 2011, we issued a press release announcing the transaction.

On December 19, 2011, the Audit Committee approved amendments to the Transfer Agreements to extend the closing date to February 29, 2012 as the Company was still in the process of obtaining the SEC's approval of its Preliminary Proxy Statement filed with the SEC on October 18, 2011. In addition, the Audit Committee approved an amendment to the Marvelous Honor Transfer Agreement to reflect Mr. Jianzhong Ju's agreement to sell CDI China his 18.39% interest in Marvelous Honor (the "18.39% Ju Interest") for RMB 10,799,528 (US \$ 1,700,713) in cash in lieu of the issuance of 1,787,015 shares of our common stock attributable to this interest and CDI China's right, but not the obligation, to purchase the 18.39% Ju Interest.

Fixed Assets Appraisal Summaries

In arriving at each of the Lingshi Purchase Price and the Golden Trust Purchase Price, we relied in part upon appraisals of the fixed assets of each of these entities which were prepared for us by independent third party appraisal firms.

Lingshi Magnesium

We retained Shanxi Huaqiang Assets Appraisal Co., Ltd. (“Huaqiang”) to perform an appraisal of Lingshi Magnesium’s fixed assets and provide us with a valuation of those assets. For the purposes of the appraisal, Lingshi Magnesium’s fixed assets included all buildings, structures, other auxiliary facilities, and equipment used by Lingshi Magnesium in the operation of its business and included in its balance sheet as of June 30, 2011 (the “Lingshi Magnesium Fixed Assets”). For the purposes of Huaqiang’s engagement, we selected June 30, 2011 as the appraisal date because it was the date closest to the date of the financial statements we used, among other factors, as a basis for determining the purchase price of Lingshi Magnesium.

Huaqiang’s business includes whole enterprise appraisal, appraisal consulting and training, accounting, financial and management consulting, and other asset appraisal related business services. Its operations are located in Shanxi Province, PRC, which is the province in which Lingshi Magnesium’s operations are located. Its two appraisers are both certified appraisers licensed by the China Asset Appraisal Association. Huaqiang is an unrelated third party, with no affiliation to either Lingshi Magnesium, Golden Trust or our company, of any of their or our respective officers, directors, employees or agents. Huaqiang was selected on the basis of its professional experience and non-affiliated relationship to us, Lingshi Magnesium or Golden Trust.

Huaqiang delivered to us an appraisal dated August 4, 2011 that, as of June 30, 2011, and based upon and subject to various assumptions and limitations described in Huaqiang's appraisal, estimated the replacement cost of the Lingshi Magnesium Fixed Assets to be RMB 117,238,762 (approximately \$18,352,107) and the appraised value of the Lingshi Magnesium Fixed Assets was RMB 94,227,292 (approximately \$14,749,979).

In determining market value, Huaqiang utilized the "Cost Method" to arrive at the market value of the appraised assets. See "Appraisals–Methodology."

We used Huaqiang's appraisal of the Lingshi Magnesium Fixed Assets to assist us in arriving at the Lingshi Purchase Price. Huaqiang's appraisal does not address any matters other than the appraised value of the Lingshi Magnesium Fixed Assets as determined by Huaqiang, and does not constitute a recommendation to our board of directors or any shareholder as to how to vote or act in connection with the Share Transfer or any other matter.

In arriving at values included in Huaqiang's appraisal, the procedures it followed included:

- collecting historical and current information for each of the fixed assets constituting the Lingshi Magnesium Fixed Assets, and selecting the appropriate appraisal strategy based upon the purpose and object of the engagement;
- performing due diligence to confirm the existence of each of the fixed assets constituting the Lingshi Magnesium Fixed Assets and determine who owned such asset;
 - inspecting each of the fixed assets constituting the Lingshi Magnesium Fixed Assets;
- investigating and assessing the condition of the tangible assets through communication with the property manager to assess the operational status of the tangible assets;
 - conducting the market research and price asking quotes under the regulated method;
- compiling and analyzing the appraisal results to ensure that the appraised value of the appraised assets are calculated using the correct depreciation and market values; and
 - performing such other analyses and considered such other information as Huaqiang deemed appropriate.

In conducting the appraisal, Huaqiang assumed and relied upon the accuracy and completeness of the information reviewed by it and did not assume any responsibility to independently verify or otherwise investigate such information. Huaqiang's report was limited to the appraised value of the Lingshi Magnesium Fixed Assets and Huaqiang expressed no view as to, and its report did not address, the fairness (financial or otherwise) of the Lingshi Purchase Price or any other terms of the Share Transfer. Furthermore, Huaqiang's report did not address (i) our underlying business decision to consummate or otherwise pursue the Share Transfer, (ii) the merits of the Share Transfer relative to any other acquisition or alternative transaction that was, is or may be available to us or (iii) the prices at which the Company's common stock may trade at any future time, including following the announcement or consummation of the Share Transfer.

Huaqiang's appraisal was necessarily based on the assumption that Lingshi Magnesium's business will be operated after the Share Transfer in substantially the same manner as it was at the time of the appraisal, and the following additional assumptions:

- related China laws and regulations, national economic, political and social environment will not be materially changed;

- no human or unforeseeable factors occur or affect Lingshi Magnesium;
- the Lingshi Magnesium Fixed Assets are owned and used by Lingshi Magnesium for its own business purpose and it will not transfer those assets to any business which is outside Lingshi Magnesium's current scope of operations;
- Lingshi Magnesium is operated in its normal course of operations and the particular or specific business/trade patterns have not been considered as affecting the appraised value of the Lingshi Magnesium Fixed Assets; and
 - Lingshi Magnesium complies with all laws and regulations applicable to its business.

Neither we nor Lingshi Magnesium placed any limitations on Huaqiang as to the scope of its investigations to conduct the appraisal. While we are not aware of any changes in the Lingshi Magnesium Fixed Assets from the valuation date of June 30, 2011, subsequent developments may affect Huaqiang's appraisal and Huaqiang does not have any obligation to update, revise or reaffirm its appraisal.

Fees and expenses paid to Huaqiang

We paid Huaqiang a fee in the amount of RMB 120,000 (approximately \$18,800) for its services. No portion of Huaqiang's fee was contingent upon the conclusion reached in its appraisal or the successful completion of the Share Transfer. We have not retained Huaqiang in the past to provide us with appraisal or advisory services. Huaqiang may provide appraisal and advisory services to us, other participants in the Share Transfer or certain of their respective affiliates in the future, for which Huaqiang may receive compensation.

Golden Trust

We retained Shanxi Mingda Assets Appraisal Co., Ltd. ("Mingda") to conduct an appraisal of Golden Trust's fixed assets and provide us with a valuation of those assets. For the purposes of the appraisal, Golden Trust's fixed assets included all buildings, structures, other auxiliary facilities, and equipment used by Golden Trust in the operation of its business and included in its balance sheet as of June 30, 2011 (the "Golden Trust Fixed Assets"). For the purposes of Mingda's engagement, we selected June 30, 2011 as the appraisal date (the "Appraisal Date") because it was the date closest to the date of the financial statements we used, among other factors, as a basis for determining the purchase price of Golden Trust.

Mingda's business includes enterprise wide appraisal, appraisal consulting and training, accounting, financial and management consulting, and other asset appraisal related business services. Its operations are located in Shanxi Province, China, which is the province in which Golden Trust's operations are located. Its two appraisers are both certified appraisers licensed by the China Asset Appraisal Association. Mingda is an unrelated third party, with no affiliation to Golden Trust or our company, of any of our or their respective officers, directors, employees or agents. Mingda was selected on the basis of its professional experience and non-affiliated relationship to us and Golden Trust.

Mingda delivered to us an appraisal dated August 12, 2011 that, as of June 30, 2011, and based upon and subject to various assumptions and limitations described in Mingda's appraisal, estimated the market value of the Golden Trust Magnesium Fixed Assets to be RMB 74,501,500 (approximately \$11,662,179) reflecting an increase of RMB 24,793,200 (approximately \$3,881,032) over the RMB 49,708,300 (approximately \$7,781,146) book value of the Golden Trust Fixed Assets.

In determining market value, Mingda utilized the "Cost Method" to arrive at the market value of the appraised assets. See "Appraisals –Methodology."

We used Mingda's appraisal of the Golden Trust Fixed Assets to assist us in arriving at the Golden Trust Purchase Price. Mingda's appraisal does not address any matters other than the appraised value of the Golden Trust Fixed Assets as determined by Mingda and does not constitute a recommendation to our board of directors or any shareholder as to how to vote or act in connection with the Share Transfer or any other matter.

In arriving at values included in Mingda's appraisal, the procedures it followed included:

- collecting historical and current information for each of the fixed assets constituting the Golden Trust Fixed Assets, and selecting the appropriate appraisal strategy based upon the purpose and object of the engagement;

- performing due diligence to confirm the existence of each of the fixed assets constituting the Golden Trust Fixed Assets and determine who owned such asset;
 - inspecting each of the fixed assets constituting the Golden Trust Fixed Assets;
- investigating and assessing the condition of the tangible assets through communication with the property manager to assess the operational status of the tangible assets;
 - conducting the market research and price asking quotes under the regulated method;
- compiling and analyzing the appraisal results to ensure that the appraised value of the appraised assets are calculated using the correct depreciation and market values; and
 - performing such other analyses and considered such other information as Mingda deemed appropriate.

In conducting the appraisal, Mingda assumed and relied upon the accuracy and completeness of the information reviewed by it and did not assume any responsibility to independently verify or otherwise investigate such information. Mingda's appraisal was limited to the appraised value of the Golden Trust Fixed Assets and Mingda expressed no view as to, and its appraisal did not address, the fairness (financial or otherwise) of the Golden Trust Purchase Price or any other terms of the Share Transfer. Furthermore, Mingda's appraisal did not address (i) our underlying business decision to consummate or otherwise pursue the Share Transfer, (ii) the merits of the Share Transfer relative to any other acquisition or alternative transaction that was, is or may be available to us or (iii) the prices at which the Company's common stock may trade at any future time, including following the announcement or consummation of the Share Transfer.

Mingda's appraisal was necessarily based on the assumptions that Golden Trust's operation and management level, the business scope and directors remain the same after the Share Transfer, the applicable interest rate, tax rate and currency ratio will not be materially changed, as well as on the following additional assumptions:

- related China laws and regulations, the national economic, political and social environment will not be materially changed and no human irresistible or unforeseeable factors happen to Golden Trust;
- the comptroller and officers of Golden Trust are competent;
- Golden Trust follows all relevant Chinese laws and regulations; and
- Golden Trust's accounting principles in the future will remain the same.

Neither we nor Golden Trust placed any limitations on Mingda as to the scope of its investigations to conduct the appraisal. While we are not aware of any changes in the Golden Trust Fixed Assets from the valuation date of June 30, 2011, subsequent developments may affect Mingda's appraisal and Mingda does not have any obligation to update, revise or reaffirm its appraisal.

Fees and expenses paid to Mingda

We paid Mingda a fee in the amount of RMB 70,000 (approximately \$11,000) for its services. No portion of Mingda's fee was contingent upon the conclusion reached in its appraisal or the successful completion of the Share Transfer. We have not retained Mingda in the past to provide us with appraisal or advisory services. Mingda may provide appraisal and advisory services to us, other participants in the Share Transfer or certain of their respective affiliates in the future, for which Mingda may receive compensation.

Appraisal Methodology

In determining market value, Huaqiang and Mingda utilized the "Cost Method" to arrive at the market value of the appraised assets. The Cost Method is a business valuation model based on the net asset value of a going concern. In applying the Cost Method to arrive at the appraised value of the Lingshi Magnesium Fixed Assets and the Golden Trust Fixed Assets, the following formulas were used:

Generally, appraised value was determined by multiplying the "replacement cost" for each asset multiplied by the applicable "newness rate". Assets were segregated into the following categories (i) machinery and equipment, (ii) vehicles, (iii) electronic equipment, and (iv) buildings and structures.

Machinery and Equipment. The "Replacement Cost" of the machinery and equipment was determined using the following formula: purchase price + freight charges + installation and set up costs + other pre-construction expenses +

cost of capital – value added tax. The components of the Replacement Cost formula for machinery and equipment were as follows:

- 1) Purchase Price. For domestic manufactured and designed machinery and equipment, the Replacement Cost was determined by the price obtained from the manufacturer or a trading company which sells the machinery and equipment and with reference to the “2011 Mechanic and Electronic Products’ Price”, other related documents, and recent contract prices of similar products. For imported machinery and equipment, the price of its domestically manufactured comparable replacement was used. If the imported machinery and equipment did not have a domestically manufactured replacement, the recent contract price of similar products was used or a price quote from an import trade agency was obtained.
- 2) Freight Costs. Freight cost was determined according to the freight distance between the machinery and equipment user and its seller, the volume, weight and value of the machinery and equipment and the delivery method used to transport it.

- 3) Installation and Set Up Costs. Installation and set up costs were determined based on how the machinery and equipment was set up and installed at Golden Trust's facility plus standard industry charges.
- 4) Other Pre-construction costs. Amounts included in the Chinese national construction charge guidance were used for these amounts.
- 5) Cost of Capital. The cost of capital over the period of time estimated to replace the machinery and equipment was determined using the estimated interest rate for borrowing on the Appraisal Date.

Vehicles. The "Replacement Cost" of the vehicles was determined using the following formula: Purchase price + Tax Cost + Other Costs. The components of the Replacement Cost formula for vehicles were as follows:

The "purchase price" was determined by the market price at the Appraisal Date based on advertised prices for such vehicles.

The "Tax Cost" was computed as follows: $\text{Tax Cost} = (\text{Purchase Price}/117\%) \times \text{applicable vehicle purchase tax rate}$.

"Other Costs" were determined by reference to local vehicle pricing standards.

Electronic Equipment. The "Replacement Cost" for standard and ordinary electronic equipment, Replacement Cost was determined by reference to current market prices for similar equipment. If the electronic equipment was actively traded in the used market, then the used market price was used directly as the Replacement Cost.

Building and Structures. The "Replacement Cost" for building and structures was determined using the following formula:

$\text{Replacement Cost} = \text{Comprehensive construction cost} + \text{other Pre-construction Expenses} + \text{Cost of capital}$.

For large, important and valuable buildings, the comprehensive construction cost was calculated based on construction costs and installation costs evaluated based on local construction costs based on standard construction methods.

The Pre-construction Expenses were determined based on local estimated construction charges.

Cost of capital was evaluated by the construction period and the loan interest rate on the Appraisal Date.

For simple and less valuable buildings, Replacement Cost was calculated by the unit construction cost.

Newness Rate. The "newness rate" was determined using the following formula:

The newness rate (Ratio of Remaining Useful Life %) used for the machinery and equipment was calculated as follows: $\text{Theoretical newness rate (Ratio of Remaining Useful Life \%)} = (\text{economic useful life} - \text{used life}) / \text{economic useful life} \times 100\%$. In some cases, the following alternative formula was used: $\text{investigated newness rate} \times 1 + \text{newness rate (Ratio of Remaining Useful Life \%)} \text{ evaluated by useful life method} \times 2$.

The newness rate (Ratio of Remaining Useful Life %) used for vehicles was determined based on current vehicle scrapping standard, mileage method, and usage year's method respectively. The lowest was used as the newness rate (Ratio of Remaining Useful Life %).

The theoretical newness rate (Ratio of Remaining Useful Life %) used for electronic equipment was determined as follows: Theoretical newness rate (Ratio of Remaining Useful Life %) = (economic useful life – used life)/economic useful life X 100%.

The “Comprehensive Newness Rate” (Ratio of Remaining Useful Life %) used for important and valuable buildings and structures and was determined by investigation and the general application of the following formula: investigated newness rate X 1 + newness rate (Ratio of Remaining Useful Life %) evaluated by useful life method X 2.

The Newness rate (Ratio of Remaining Useful Life %) used for simple and less valuable buildings was evaluated by useful life method = Remaining useful life/(Remaining useful life + used life) X 100%.

Reasons for the Share Transfer

In developing its recommendation to the shareholders to vote in favor of the proposed issuance of the China Direct Shares pursuant to the Transfer Agreements and Management Agreement, the Board considered many factors, including the positive and negative factors described elsewhere in this proxy statement and concluded that adoption of the Proposal is advisable and in the best interests of the Company and the Company's shareholders. In particular, the Board, the Audit Committee comprised solely of disinterested directors and the Company's management considered a variety of factors, including, but not limited to:

- Lingshi Magnesium and Golden Trust are in the business of producing pure magnesium and will provide the Company with additional production capacity and a wider base of customers to further grow the magnesium segment;
- that additional production capacity would enable the Company to consistently deliver larger quantities of magnesium thereby enhancing its position in the magnesium industry and with its larger customers who seek a stable and reliable source of supply;
- management's expectation that magnesium prices will begin to rise as worldwide demand from the global aerospace, automotive and consumer electronics sectors fuel additional demand for magnesium ingots and other lightweight metals that are made with magnesium;
- expected improved cash flows as a consequence of expected top line revenue growth attributable to the revenues from Golden Trust and Lingshi Magnesium;
- that the cost synergies and economies of scale that the Company expects will enhance its sales and administrative efforts in its Magnesium segment and reduce its expenses relative to the size of its revenue levels and asset base in this segment;
- that the barriers to entry into magnesium production in China are high due to the high costs to acquire land use rights and construction and the difficulties in obtaining the necessary government approvals to engage in magnesium production, including required environmental permits;
- the Lingshi Purchase Price was based on the stockholders equity of Lingshi Magnesium as of June 30, 2011, an appraisal of its property, plant and equipment as of June 30, 2011 and is subject to certain adjustments at closing if the stockholders' equity as of the end of the month prior to the closing is less than stockholders equity as of June 30, 2011;
- the Golden Trust Purchase Price was based on the appraised value of the property, plant and equipment of Golden Trust as of June 30, 2011 and tangible assets to be identified by the parties at closing;

· In evaluating the China Direct Share price of \$0.95 per share, the Board:

- viewed the market price of the Company's common stock as a reasonably accurate indicator of what a willing buyer would pay to a willing seller, neither one of whom is under any compulsion to buy or sell, after considering such factors as their estimate of the Company's value as a whole, its earnings and performance history, its prospects, the prospects of the industry as a whole, an assessment of the Company's management, and other factors that typically bear on a common stock purchase or sale decision;

determined that an average closing price of the China Direct common stock over a period of time prior to the execution of the Transfer Agreements, rather than the closing price as of a specified date, would more accurately represent the current value of the China Direct common stock;

- concluded that the price of the Company's common stock equal to the trailing average of the closing price of the common stock for the 10 day period from August 15, 2011 to August 26, 2011 was an appropriate indication of the fair market value for the Company's common stock; and.
- in determining the China Direct Share price, the Board considered that, during such 10-day period, the Company's trailing average closing price was \$0.95 per share and the Company's common stock had high and low trading prices of \$1.08 and \$0.85 per share, respectively, and high and low closing prices of \$1.05 and \$0.86 respectively.

- the Company's ability to use its securities and other non-cash assets as currency to acquire the Transfer Shares and the Transfer Companies would not have a significant impact on the Company's working capital and enables us to preserve capital to fund current and future business operations.

China Direct believes these actions create value for its shareholders while providing a firm foundation for future growth and value enhancement.

Why We are Seeking Shareholder Approval

We are seeking shareholder approval to issue the China Direct Shares in the Share Transfer because the Company's common stock is listed on the Nasdaq Global Market and the nature and size of the proposed Share Transfer subjects us to the shareholder approval requirements of Rule 5635(a) of The Nasdaq Stock Market (the "Nasdaq Rule").

The full text of the applicable portions of the Nasdaq Rule is as follows:

(a) Acquisition of Stock or Assets of Another Company

Shareholder approval is required prior to the issuance of securities in connection with the acquisition of the stock or assets of another company if:

(1) where, due to the present or potential issuance of common stock, including shares issued pursuant to an earn-out provision or similar type of provision, or securities convertible into or exercisable for common stock, other than a public offering for cash:

(A) the common stock has or will have upon issuance voting power equal to or in excess of 20% of the voting power outstanding before the issuance of stock or securities convertible into or exercisable for common stock; or

(B) the number of shares of common stock to be issued is or will be equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance of the stock or securities; or

(2) any director, officer or Substantial Shareholder (as defined by Rule 5635(e)(3)) of the Company has a 5% or greater interest (or such persons collectively have a 10% or greater interest), directly or indirectly, in the Company or assets to be acquired or in the consideration to be paid in the transaction or series of related transactions and the present or potential issuance of common stock, or securities convertible into or exercisable for common stock, could result in an increase in outstanding common shares or voting power of 5% or more.

(b) Change in Control

Shareholder approval is required prior to the issuance of securities when the issuance or potential issuance will result in a change of control of the Company.

Under the Nasdaq Rule, we must obtain shareholder approval to issue the China Direct Shares in the Share Transfer because (a) the number of China Direct Shares we propose to issue in the Share Transfer will exceed 20% of the number of issued and outstanding shares immediately before the Share Transfer, (b) the Holders include related parties and the Company's issuance of the China Direct Shares in the Share Transfer will result in an increase of 5% or more of the Company's outstanding shares and (c) the Share Transfer could result in a change in control under the Nasdaq Rule.

Recommendations of the Audit Committee and the Board

The Board authorized the Audit Committee, consisting of David Barnes, Sheldon Steiner, Phillip S. Shen, Ph.D. and Adam Wasserman, to evaluate and negotiate the Transfer Agreements and the Management Agreement in consultation with management of the Company and its general counsel. The Audit Committee:

- 30 -

- Determined that the Transfer Agreements and Management Agreement, the performance by the Company of its obligations thereunder, including issuance of the China Direct Shares and consummation of the Share Transfer and execution of the Management Agreement, are advisable and in the best interests of the Company and all of its shareholders and unanimously authorized, adopted and approved issuance of the China Direct Shares under each of the Transfer Agreements and Management Agreement, the performance by the Company of its obligations thereunder and the consummation of the Share Transfer;
- Unanimously recommended that the Board approve and authorize the Transfer Agreements and Management Agreement, the Share Transfer and issuance of the China Direct Shares; and
- Unanimously recommended that the Board recommend that the Company's shareholders approve the issuance of the China Direct Shares pursuant to the Transfer Agreements and the Management Agreement.

In reaching these conclusions, the Audit Committee consulted with management of the Company and its general counsel, and considered many factors, including, without limitation, the following, each of which they believed supported their decision:

- The Audit Committee's familiarity with the Company's business, operations, assets, business strategy and competitive position and the nature of the magnesium industry, industry trends, and economic and market conditions, both on a historical and on a prospective basis;
- The expected improved cash flows as a consequence of expected top line revenue growth attributable to the increased revenues from Golden Trust and Lingshi Magnesium;
- Management's view that the Share Transfer would enhance the Company's position in the magnesium industry generally and that after the Share Transfer the Company is expected to become one of the largest magnesium producers in China with annual production capacity of 82,000 metric tons of magnesium and 10,000 tons of magnesium powder;
- The Company's ability to use the China Direct Shares as currency to acquire the Transfer Companies, compared to the cost and availability of debt or other forms of capital that would be required for the Company to achieve the same expansion of its magnesium business;
- Historical and current information concerning the Company's magnesium business, including trends in financial performance, financial condition, operations and competitive position;
- The opportunity for the Company's shareholders to participate in the potential future value of the Company, and as a result of such inclusion the belief of the Audit Committee that the Company is positioned to grow faster as a result of the Share Transfer than without the Share Transfer;
- The Audit Committee's review of the structure of the Share Transfer and the financial, legal and other terms of the Transfer Agreements;
- The requirement that the Company obtain shareholder approval as a condition to issuance of the China Direct Shares;
- The fact that the Audit Committee considered, reviewed and evaluated the terms of the Transfer Agreements and Management Agreement independently from the Board and management;

- The economies of scale that the Company expects will permit the Company to reduce its expenses relative to the size of its revenue levels and asset base;
- management's expectation that magnesium prices will begin to rise as worldwide demand from the global aerospace, automotive and consumer electronics sectors fuel additional demand for magnesium ingots and other lightweight metals that are made with magnesium;
- that the Share Transfer would enable the Company to consistently deliver large quantities of magnesium thereby enhancing its position in the magnesium industry and with its larger customers who seek a stable and reliable source of supply;
- that the cost synergies and economies of scale that the Company expects will enhance its sales and administrative efforts in its Magnesium segment and reduce its expenses relative to the size of its revenue levels and asset base in this segment; and

- that the barriers to entry into magnesium production in China are high due to the high costs to acquire land use rights and construction and the difficulties in obtaining the necessary government approvals to engage in magnesium production, including required environmental permits.

In addition, the Audit Committee was aware of and considered that certain individuals, including the Company's directors and executive officers, may have interests with respect to the Share Transfer that may differ from, or may be in addition to, their interests as shareholders of the Company, described in the section of this proxy statement entitled "Interest of Certain Persons in Matters to be Acted Upon."

In the course of their deliberations, the Audit Committee also considered a variety of risks and other potentially negative factors concerning the Share Transfer, including the following:

- The fact that the China Direct Shares will constitute approximately 32.7% of the Company's issued and outstanding common stock following completion of the Share Transfer and, accordingly, the significant influence the Holders would have over the Company's corporate governance;
- The issuance by the Company of 17,841,627 Shares which will result in dilution to the Company's shareholders;
 - The risk that the Share Transfer might not be completed in a timely manner or at all due to failure to obtain shareholder approval under the Nasdaq Rule;
- If the Share Transfer is not completed, the potential adverse effect of the public announcement of the termination of the Transfer Agreements on the Company's business;
- The possible volatility, at least in the short term, of the trading price of the common stock resulting from the announcement and pendency of the Share Transfer;
- The fact that the financial and strategic benefits expected to be achieved by the Share Transfer might not be obtained on a timely basis or at all, which would have a detrimental impact on the Company's ability to become more profitable and to fund its operating expenses;
- The interests that certain members of the Board and management have in the issuance of the China Direct Shares and consummation of Share Transfer;
- The fact that Messrs. Huang and Tung and members of their immediate families will own approximately 30.5% of the issued and outstanding shares of the Company's common stock as of the Record Date on a pro forma basis, (ii) 32.7% of the issued and outstanding shares of the Company's common stock as of the Record Date on a pro forma basis (assuming the award of all shares provided for in the Management Agreement to Messrs. Huang and Tung) and, accordingly, the control these shareholders, if they acted together, would have over the Company's corporate governance; and
- The fact that Dr. Wang and Messrs. Huang and Tung's combined, large ownership stake, may make it unlikely for a third party to pursue a strategic transaction with the Company in the future without their consent or participation, including a change of control of the Company, even if such a transaction would generally benefit the Company's shareholders.

The Audit Committee also considered a number of additional risks involved with the Share Transfer which are described under the section of this proxy statement entitled "Risk Factors."

Ultimately, the Audit Committee determined that, considering all of the foregoing factors, the benefits outweighed the risks and other potentially negative factors concerning issuance of the China Direct Shares pursuant to the Transfer Agreements and the Management Agreement and thereby unanimously approved and recommend the Share Transfer to the Board.

The Board based its unanimous determination to approve the issuance of the China Direct Shares in the Share Transfer and pursuant to the Management Agreement on the Audit Committee's recommendation and unanimously recommended that the Company's shareholders approve the Proposal primarily on the factors that were considered by the Audit Committee described above.

The foregoing discussion of the information considered by the Audit Committee and the Board is not exhaustive, but includes the material factors that the Audit Committee and the Board considered in unanimously approving the issuance of the China Direct Shares pursuant to the Transfer Agreements and Management Agreement and recommending the approval of Proposal No. 1 by the Company's shareholders. In view of the wide variety of factors considered by the Audit Committee and the Board in connection with their evaluation, and the complexity of these factors, the Audit Committee and the Board did not consider it practical to, nor did they attempt to, quantify, rank or otherwise assign any specific or relative weights to the specific factors they considered in reaching their decision. In considering the factors described above, individual directors may have assigned different weights to different factors. The Audit Committee and the Board did not reach any specific conclusion on each factor considered, but instead conducted an overall analysis of the totality of the benefits and risks. The Audit Committee and the Board each discussed the factors described above, including asking questions of senior management and legal and financial advisors, and determined that the issuance of the China Direct Shares pursuant to the Transfer Agreements and the Management Agreement is advisable and in the best interests of the Company and its shareholders.

AFTER CONSIDERATION, INCLUDING CONSIDERATION OF THE UNANIMOUS RECOMMENDATION OF THE AUDIT COMMITTEE, THE BOARD UNANIMOUSLY RECOMMENDS THAT THE COMPANY'S SHAREHOLDERS VOTE "FOR" PROPOSAL NO. 1 TO ISSUE THE CHINA DIRECT SHARES.

Effect of Issuance of the China Direct Shares in the Share Transfer on Existing Shareholders

Issuance of the China Direct Shares will significantly dilute the common stock ownership of the Company's existing shareholders. Assuming the issuance of the 17,841,627 Shares pursuant to the terms of the Transfer Agreements and Management Agreement, and no other issuances of shares as of the date the Share Transfer is completed, the Company's existing shareholders, the Holders and recipients of Shares under the Management Agreement would own approximately [67.3]% and [32.7]%, respectively, of the Company's common stock issued and outstanding as of the Record Date on a pro forma basis, and your ownership will have been diluted by that amount.

Regulatory Approvals

The Company is required to obtain the approval of its shareholders for the issuance of the China Direct Shares to consummate the Share Transfer pursuant to the Nasdaq Rule. The Nasdaq Rule requires shareholder approval if any director, officer or 5% or greater shareholder has a 5% or greater interest (or such persons collectively have a 10% or greater interest), directly or indirectly, in the company or assets to be acquired or in the consideration to be paid in the transaction(s) and the present or potential issuance of common stock, or securities convertible into or exercisable for common stock, could result in an increase in outstanding common stock or voting power of 5% or more.

In addition, shareholder approval is required for an acquisition of stock or assets of another company if the present or potential issuance of common stock or securities convertible into or exercisable for common stock, other than a public offering for cash, may equal or exceed 20% of the voting power or the total shares outstanding on a pre-transaction basis.

Other than compliance with the Nasdaq Rule, and the approval of the Company's shareholders under the applicable Florida statute regarding the amendment to the Company's articles of incorporation to change its name as discussed in Proposal No. 2, there are no other regulatory approvals which are necessary to consummate the Transfer Agreements or the Management Agreement.

Dissenter Rights of Appraisal

Under applicable Florida law, the Company's shareholders do not have dissenter's rights of appraisal in connection with the Proposals to be acted upon at the Meeting.

Material United States Federal Income Tax Consequences of the Share Transfer on the Company's Shareholders

As the Company's shareholders are not receiving any consideration or exchanging any of their outstanding securities in connection with the issuance of the China Direct Shares, it is not expected that the issuance of the China Direct Shares in connection with the Share Transfer will result in the recognition of taxable income by the Company's shareholders for federal income tax purposes.

Accounting Treatment of the Share Transfer

The Company is the accounting acquirer of each of the Transfer Companies and will allocate the consideration paid for each of the Transfer Companies among the fair value of the assets acquired.

Federal Securities Law Consequences; Resale Restrictions

The China Direct Shares to be issued pursuant to the Transfer Agreements and Management Agreement will be issued in transactions exempt from the registration requirements under Section 5 of the Securities Act, pursuant to Section 4(2) and Rule 506 under Regulation D and/or Regulation S. Therefore, the China Direct Shares will be "restricted securities," and the issuance of the China Direct Shares will not initially be registered under the Securities Act and as such will not be freely transferable. The recipients of the China Direct Shares may not sell their shares of common stock acquired in connection with the Share Transfer except pursuant to:

- an effective registration statement under the Securities Act covering the resale of those shares; or
- an exemption under the Securities Act.

Under Rule 144 of the Securities Act, the holders of the China Direct Shares will be permitted to sell their shares of common stock if they satisfy certain requirements of Rule 144, including, to the extent applicable, with respect to a holding period for their shares, and further provided that the Company has made available adequate current public information concerning the Company.

The Transfer Agreements and Management Agreement

The following is a summary of the material terms and conditions of the Transfer Agreements and Management Agreement. This summary may not contain all the information about these agreements that is important to you. This summary is qualified in its entirety by reference to the full text of the Transfer Agreements and Management Agreement attached as Annexes A, B, C and D to, and incorporated by reference into, this proxy statement. You are encouraged to read the Transfer Agreements and Management Agreement in their entirety because they are the legal documents that govern the issuance of the China Direct Shares.

The Transfer Agreements

On August 30, 2011, the Company's wholly owned subsidiary, CDI China, entered into a series of agreements to acquire a 100% ownership interest in Golden Trust pursuant to the Golden Trust Transfer Agreements and Lingshi Magnesium pursuant to the Lingshi Magnesium Transfer Agreement for an aggregate purchase price of \$26,705,070 payable \$ 6,493,047 in cash or proceeds from repayment of the Company's intercompany loans, \$2,210,291 in cash or shares of its common stock, \$ 13,305,647 in shares of its common stock and \$4,696,085 by way of assignment of the Company's interest in its subsidiary, Excel Rise. The Golden Trust Transfer Agreements and the Lingshi Magnesium Transfer Agreement are discussed below.

Golden Trust Transfer Agreements

On August 30, 2011, we entered into two separate equity transfer agreements covering the transfer to us of 100% of the issued and outstanding capital stock of Golden Trust. We will acquire a 72.5% interest in Golden Trust by acquiring a 100% interest in Marvelous Honor Holdings, Inc. ("Marvelous Honor") and a 27.5% interest in Golden Trust Magnesium Industry Co., Ltd. ("Golden Trust") by acquiring the beneficial ownership interests of Yuwei Huang and Xumin Cui which are held by Baotou Changxin Magnesium Co., Ltd, as Trustee. ("Baotou Chang, as Trustee").

Marvelous Honor Transfer Agreement

Under the terms of the August 30, 2011 equity transfer agreement, as amended on January 12, 2012 (the "Marvelous Honor Transfer Agreement"), the Company's wholly-owned subsidiary CDI China, Inc. ("CDI China") agreed to acquire

up to 100% of the issued and outstanding capital stock (the “Marvelous Honor Shares”) of Marvelous Honor Holdings, Inc. (“Marvelous Honor”) from Lianling Dong, Ping Liu, Jianzhong Ju, Lifei Huang and Xumin Cui (collectively, the “Marvelous Holders”). Marvelous Honor is the owner of 72.5% of the issued and outstanding capital stock of Golden Trust. Lianling Dong is the sister of Kong Tung, a director of our company; Lifei Huang is the daughter of Yuwei Huang, an executive officer and director of our company. Xumin Cui is the husband of Lifei Huang.

Pursuant to the Marvelous Honor Transfer Agreement, the Marvelous Holders agreed to transfer the Marvelous Honor Shares to the Company for a purchase price of \$9,192,586, subject to adjustment for “net other assets” discussed below (the “Marvelous Honor Purchase Price”). The purchase price is payable by the Company’s issuance to the Marvelous Holders of an aggregate of 7,930,306 Shares (the “Marvelous Honor Acquisition Shares”) and the payment of \$1,690,517 in cash to Mr. Ju for his 18.39% (the “18.39% Ju Interest”) in lieu of the issuance of 1,787,015 shares of our common stock attributable to this interest previously included the August 30, 2011 Marvelous Honor Transfer Agreement. Under the terms of the January 12, 2012 amendment to the Marvelous Honor Transfer Agreement, CDI China is not obligated to purchase the 18.39% Ju Interest. One-half of the Marvelous Honor Acquisition Shares are due and payable within 15 business days following the closing of the Marvelous Honor Transfer Agreement and the balance of these shares are due and payable within 15 business days following satisfaction of the conditions described in that agreement (including the delivery of technical information, financial statements and other information).

In the event that the “net other assets” of Golden Trust set forth on a post-closing balance sheet of Golden Trust as of the last day of the month prior to the month in which the closing occurs (the “Golden Trust Balance Sheet”) are equal to or less than approximately \$940,000, then the Marvelous Honor Purchase Price shall be reduced by 72.5% of such deficiency; and the Marvelous Holders, exclusive of Mr. Ju , shall pay the amount of any such reduction in the Marvelous Honor Purchase Price by delivery of China Direct Shares having the same value as the reduction. In the event that the “net other assets” of Golden Trust set forth on the Golden Trust Balance Sheet exceeds approximately \$940,000, then current assets equal to 72.5% of such amount shall be distributed to the beneficial owners of Marvelous Honor (the selection of the current assets to be distributed is to be determined by the parties). For purposes of the agreement, “net current assets” are defined as Golden Trust’s total current assets less total liabilities, as set forth on the Golden Trust Balance Sheet. In addition, in the event that any of the current assets of Golden Trust included on the Golden Trust Balance Sheet are impaired, uncollected or written-off within one year of the closing, the Marvelous Honor Purchase Price, exclusive of the portion attributable to Mr. Ju , shall be reduced by 72.5% of such amount, and the Marvelous Holders, exclusive of Mr. Ju , shall pay the amount of any such reduction in the Marvelous Honor Purchase Price by delivery of China Direct Shares having the same value as the reduction.

Consummation of the transactions contemplated under the Marvelous Honor Transfer Agreement is subject to (a) the Company’s acquisition of the 27.5% interest of Golden Trust that is not covered by the Marvelous Honor Transfer Agreement, (b) execution of an amendment to a land lease agreement covering the real estate used by Golden Trust, (c) the Company’s receipt of shareholder approval to issue the China Direct Shares under the Nasdaq Rule and (d) satisfaction of the other conditions precedent described elsewhere in this discussion. The Marvelous Honor Transfer Agreement provides that a closing of the transactions contemplated by the agreement shall take place at a mutually agreeable time and place following satisfaction of the conditions precedent to closing and upon payment of the Marvelous Honor Purchase Price as described in the agreement, but not later than February 29, 2012 .

Baotou Transfer Agreement

Under the terms of the August 30, 2011 equity transfer agreement, as amended on January 12, 2012 (the “Baotou Transfer Agreement”) between CDI China agreed to acquire 27.5% of the issued and outstanding capital stock of Golden Trust from Baotou Changxin Magnesium Co., Ltd., as trustee for Yuwei Huang and Xumin Cui (“Baotou Chang, as Trustee”).

Pursuant to the Baotou Transfer Agreement, Baotou Chang, as Trustee, agreed to transfer the 27.5% beneficial ownership interest of Golden Trust owned by Yuwei Huang and Xumin Ciu to us for a purchase price of \$3,486,843, subject to adjustment for “net other assets” discussed below (the “Baotou Purchase Price”). The Baotou Purchase Price is payable \$2,348,043 in cash or from the proceeds from an intercompany loan receivable of the Company in such amount and \$1,138,801 by the Company’s delivery to Mr. Ciu of 1,203,806 Shares (the “Baotou Transfer Shares”). One-half of the cash portion (\$1,174,021) of the Baotou Purchase Price and one-half of the Baotou Transfer Shares

(601,903 shares) are due and payable within 15 business days following the closing and the balance of the cash portion of the Baotou Purchase Price and the balance of the Baotou Transfer Shares are due and payable within 15 business days following satisfaction of the conditions described in the transfer agreement (including the delivery of technical information, financial statements and other information).

In the event that the “net other assets” of Golden Trust set forth on the Golden Trust Balance Sheet are equal to or less than approximately \$940,000, then the Baotou Purchase Price shall be reduced by 27.5% of such deficiency; and Messrs. Huang and Cui shall pay the amount of any such reduction in the Baotou Purchase Price by delivery of China Direct Shares having the same value as the reduction. In the event that the “net other assets” of Golden Trust set forth on the Golden Trust Balance Sheet exceeds approximately \$940,000, then current assets equal to 27.5% of such excess shall be distributed to Messrs. Huang and Cui (the selection of the current assets to be distributed is to be determined by the parties). For purposes of the Baotou Transfer Agreement, “net other assets” are defined as Golden Trust’s total current assets less total liabilities, as set forth on the Golden Trust Balance Sheet. In addition, in the event that any of the current assets of Golden Trust included on the Golden Trust Balance Sheet are impaired, uncollected or written-off within one year of the closing, the Baotou Purchase Price shall be reduced by 27.5% of such amount, and Messrs. Huang and Cui shall pay the amount of any such reduction in the Baotou Purchase Price by delivery of China Direct Shares having the same value as the reduction.

Consummation of the transactions contemplated under the Baotou Transfer Agreement is subject to (a) the Company's acquisition of the 72.5% of Golden Trust that is not covered by the Baotou Transfer Agreement, (b) execution of an amendment to a land lease agreement covering the real estate used by Golden Trust, (c) the Company's receipt of shareholder approval to issue the China Direct Shares under the Nasdaq Rule, and (d) satisfaction of the other conditions precedent described elsewhere in this discussion. The Baotou Transfer Agreement provides that a closing of the transactions contemplated by the agreement shall take place at a mutually agreeable time and place following satisfaction of the conditions precedent to closing and upon payment of the Baotou Purchase Price as described in the agreement, but not later than February 29, 2012 .

Lingshi Magnesium Transfer Agreement

In order to acquire Lingshi Magnesium, the Company's 80% owned subsidiary, Taiyuan Ruiming Yiwei Magnesium Co., Ltd. ("Ruiming Magnesium") entered into an equity transfer agreement on August 30, 2011, as amended on January 12, 2012 (the "Lingshi Transfer Agreement") to acquire a 100% interest in Lingshi Magnesium (the "Lingshi Shares") from Taiyuan Yiwei Magnesium Industry Co., Ltd. ("Yiwei Magnesium"). Under the terms of the Lingshi Transfer Agreement, Ruiming Magnesium agreed to acquire the Lingshi Shares from Yiwei Magnesium in exchange for the Company's payment to Yiwei Magnesium of aggregate consideration of \$17,532,051 (the "Total Lingshi Purchase Price"). CDI China will pay 80% of the Total Lingshi Purchase Price of \$14,025,641 (the "Lingshi Purchase Price") and Pine Capital, a company owned by Ms. Lifei Huang, Mr. Huang's daughter, has agreed to pay Yiwei Magnesium the sum of \$3,506,410 in cash. Pine Capital owns the 20% interest in Ruiming Magnesium not owned by the Company.

The Lingshi Purchase Price, which is based on 100% of Lingshi Magnesium's net stockholder equity reported on Lingshi Magnesium's financial statements as of June 30, 2011, is payable by:

- the Company's payment to Yiwei Magnesium, within 15 business days following the closing, of \$2,454,487 in cash or the proceeds from an intercompany loan receivable of the Company in such amount;
- the Company's payment to the Yiwei Magnesium, within 15 business days following satisfaction of the conditions described in the Lingshi Transfer Agreement (i.e., delivery of technical information, financial statements and other information), of \$2,210,291 in cash or 2,336,460 Shares valued at \$0.946 per share;
- the Company's payment to the Yiwei Magnesium of \$ 4,664,778 by issuing 4,931,055 Shares valued at \$0.946 per share, one-half of which shall be due and payable within 15 business days following the closing and the balance of which shall be due and payable within 15 business days following satisfaction of the conditions described in the Lingshi Transfer Agreement (i.e., delivery of technical information, financial statements and other information); and
- the Company's payment to the Yiwei Magnesium, within 15 business days following satisfaction of the conditions described in the transfer agreement (including delivery of technical information, financial statements and other information), of \$4,696,085 by the assignment to Yiwei Magnesium of the Company's ownership interest in Excel Rise.

The Total Lingshi Purchase Price is subject to adjustment to reflect the difference between the net stockholders' equity of Lingshi Magnesium set forth on its June 30, 2011 balance sheet and the net stockholders' equity to be set forth on a balance sheet of Lingshi Magnesium to be delivered within 30 days following the closing. The amount of any increase in net stockholders' equity shall be paid to Yiwei Magnesium by CDI China and Pine Capital, pro-rata to they paid towards the purchase price. Conversely, the amount of any decrease in net stockholders' equity shall be paid by Yiwei Magnesium to CDI China and Pine Capital, in the same proportions.

Consummation of the transactions contemplated under the Lingshi Transfer Agreement is subject to (a) the Company's receipt of shareholder approval to issue the China Direct Shares under the Nasdaq Rule, and (b) satisfaction of the other conditions precedent described elsewhere in this discussion. The equity transfer agreement provides that a closing of the transactions contemplated by the agreement shall take place at a mutually agreeable time and place following satisfaction of the conditions precedent to closing and upon payment of the purchase price as described in the agreement, but not later than February 29, 2012 .

Provisions Common to the Transfer Agreements

Except as set forth above, the provisions of the Transfer Agreements are substantially identical. The following is a description of the provisions common to the Transfer Agreements:

Exchange Rate

The Transfer Agreements generally provide for the payment of the transfer consideration in Renminbi Yuan (RMB), the official currency of the People's Republic of China. For purposes of this proxy statement, RMB have been translated into United States Dollars at the official rate of exchange of \$US1 = RMB6.3883, as authorized by the China Foreign Exchange Trading Center and published by the People's Bank of China on August 29, 2011, the day prior to the execution of the Transfer Agreements.

Value of Shares

For purposes of the Transfer Agreements, the China Direct Shares have been valued at \$0.946 per share, the average closing price of the Company's common stock on the Nasdaq Stock Market during the ten trading day period from August 15, 2011 to August 26, 2011.

Representations, Warranties and Indemnification

Each of the Transfer Agreements contains limited representations and warranties by the parties. Each of the Transfer Companies and its Holders make representations and warranties about a number of matters including:

- the absence of third-party consents necessary to consummate the transactions contemplated by the Transfer Agreement;
 - the absence of certain changes to the business or operations or the Transfer Company since the date of its financial statements; and
- the Transfer Company's compliance with applicable laws.

In addition, each of the Transfer Agreements contains representations and warranties of the parties to each other on such matters as:

- Due organization, existence and good standing;
- Due authorization to enter into and perform the Transfer Agreement;
- Due authorization of parties' representatives;
- Validity of Transfer Agreement and parties' binding obligations thereunder;
- Compliance with Chinese laws and regulations on investors in the scope of business operated by the Transfer Company;
- Compliance of the Transfer Agreement with organizational documents, business licenses, applicable laws, court or regulatory orders and other agreements of the parties;
- Absence of certain legal proceedings; and
- The existence of any documents from regulatory authorities that may have a material adverse effect on the Transfer Company or the transactions under the Transfer Agreement.

Each of the Transfer Agreements also contains reciprocal indemnification provisions whereby the parties indemnify each other against damages that may be caused by breaches of representations and warranties. Each of the Transfer Agreements also permits us to offset amounts owed by us under the Transfer Agreement against amounts due to us for the other party's breach of any of its representations, warranties or covenants under the Transfer Agreement.

Conditions to Closing

In addition to the conditions precedent to closing described elsewhere in this proxy statement, the Company's obligations under each of the Transfer Agreements are subject to the satisfaction, at or prior to closing, of the

following conditions:

- The representations and warranties of the Transfer Company and the Holders under the Transfer Agreement were true and correct when made and at the time of closing;
- The Transfer Company and the Holders shall have performed and/or complied with all of their respective obligations under the Transfer Agreement;