China Direct, Inc.
Form 10-Q
May 15, 2009

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

Form 10-Q

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from __________________ to __________________

Commission file number: 001-33694

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

Florida (State or other jurisdiction of incorporation or organization)	13-3876100 (I.R.S. Employer Identification No.)
431 Fairway Drive, Suite 200, Deerfield Beach, Florida (Address of principal executive offices)	33441 (Zip Code)

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

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

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

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

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

Large accelerated filer	[ ]	Accelerated filer	[√]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]
(Do not check if smaller reporting company)			

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. 23,540,204 shares of common stock were issued and outstanding as of May 8, 2009.

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INDEX OF CERTAIN DEFINED TERMS USED IN THIS REPORT

We operate our company in two primary divisions. Our Management Services division acquires controlling interests of Chinese business entities which we consolidate as either our wholly or majority owned subsidiaries. Our Advisory Services division provides consulting services to Chinese entities seeking access to the U.S. capital markets. The following list reflects our primary business entities and operating segments within our two divisions.

When used in this report the terms:

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

Magnesium Segment

- "Chang Magnesium", refers to Taiyuan Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC and a 51% majority owned subsidiary of CDI China;
- "Chang Trading", refers to Taiyuan Changxin YiWei Trading Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of Chang Magnesium;
- "Excel Rise", refers to Excel Rise Technology Co., Ltd., a Brunei company and a wholly owned subsidiary of Chang Magnesium;
- "CDI Magnesium", refers to CDI Magnesium Co., Ltd., a Brunei company and a 51% owned subsidiary of Capital One Resources;
- "Asia Magnesium", refers to Asia Magnesium Co. Ltd., a company organized under the laws of Hong Kong and a wholly owned subsidiary of Capital One Resource;
- "Golden Magnesium", refers to Shanxi Gu County Golden Magnesium Co., Ltd., a company organized under the laws of the PRC and a 52% owned subsidiary of Asia Magnesium;
- "Pan Asia Magnesium", refers to Pan Asia Magnesium Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China;
- "Baotou Changxin Magnesium", refers to Baotou Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC; a 51% owned subsidiary of CDI China, and a 39% owned subsidiary of Excel Rise, effectively China Direct holds a 70.9% interest.

Basic Materials Segment

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

Consulting Segment

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

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

CHINA DIRECT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2009 Unaudited	December 31, 2008 Audited
Current Assets:		
Cash and cash equivalents	$ 11,589,372	$ 14,205,229
Investment in marketable securities available for sale	5,138,731	7,569,333
Investment in marketable securities available for sale - related party	208,691	160,459
Investment in subsidiaries - cost method	290,864	290,864
Accounts receivable, net	3,959,121	9,457,306
Accounts receivable - related parties	4,343,463	1,676,191
Inventories, net	9,659,615	8,559,593
Prepaid expenses and other current assets	5,356,477	8,127,300
Prepaid expenses - related parties	4,619,809	8,007,111
Loans receivable - related parties	1,347,082	1,652,728
Due from related parties	409,329	35,710
Total current assets	46,922,554	59,741,824
Restricted cash	1,808,687	846,197
Property, plant and equipment, net	43,000,157	43,455,683
Prepaid expenses and other assets	2,524,660	2,744,427
Property use rights, net	591,899	591,277
Total assets	$ 94,847,957	$ 107,379,408
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Loans payable-short term	2,183,885	933,735
Accounts payable and accrued expenses	5,009,646	8,590,010
Accounts payable-related parties	2,737,380	7,516,728
Advances from customers	404,577	1,545,273
Other payables	2,130,748	1,624,370
Income taxes payable	1,058,559	1,039,112
Due to related parties	2,209	978,739
Total current liabilities	13,527,004	22,227,967
Loans payable-long term	173,834	186,018
Minority interest	27,395,328	26,940,141
Stockholders' Equity:		
Preferred Stock: $.0001 par value, stated value $1,000 per share; 10,000,000 authorized, 1,006 shares	1,006,250	1,006,250

and 0 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively		
Common Stock: $.0001 par value, 1,000,000,000 authorized, 23,203,272 and 23,545,236 issued and outstanding at March 31, 2009 and December 31, 2008, respectively	2,320	2,353
Additional paid-in capital	50,606,583	51,701,293
Deferred compensation	-	(11,000)
Accumulated comprehensive income	(13,411,582)	(11,711,021)
Retained earnings	15,548,220	17,037,407
Total stockholders' equity	53,751,791	58,025,282
Total liabilities and stockholders' equity	$ 94,847,957	$ 107,379,408

See notes to unaudited consolidated financial statements

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

	For the Quarter Ended March 31, 2009	2008
Revenues	$ 16,056,677	$ 58,660,225
Revenues-related parties	4,629,432	733,921
Total revenues	20,686,109	59,394,146
Cost of revenues	19,317,293	49,414,002
Gross profit	1,368,816	9,980,144
Operating expenses:		
Selling, general, and administrative	3,099,130	1,610,993
Operating (loss) income	(1,730,314)	8,369,151
Other income (expense):		
Other income	71,585	193,618
Interest income	46,114	96,859
Realized loss on sale of marketable securities	(232,711)	(39,461)
Total other (expense) income	(115,012)	251,016
Net (loss) income before income taxes	(1,845,326)	8,620,167
Income tax benefit (expense)	71,579	(323,633)
(Loss) income from continuing operations before minority interest	(1,773,747)	8,296,534
Minority interest	318,216	(3,687,166)
Income from discontinued operation	-	143,508
Net (loss) income	(1,455,531)	4,752,876
Deduct dividends on Series A Preferred Stock:		
Preferred stock dividend	(20,235)	(141,530)
Relative fair value of detachable warrants issued	-	(2,765,946)
Preferred stock beneficial conversion feature	-	(2,451,446)
Loss applicable to common stockholders	$ (1,475,766)	$ (606,046)
Basic and diluted loss per common share after deduction in the first quarter of 2008 of noncash deemed dividends attributable to Series A Preferred Stock as described		

Basic	$	(0.06)	$	(0.03)
Diluted	$	(0.06)	$	(0.03)
Basic weighted average common shares outstanding		23,414,500		21,003,439
Diluted weighted average common shares outstanding		23,414,500		21,003,439

See notes to unaudited consolidated financial statements

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

	For the Three Months Ended March 31, 2009	2008
Cash flows from operating activities:		
Net (loss) income from continuing operations	$ (1,455,531)	$ 4,609,368
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	725,071	410,544
Allowance for bad debt	(290,643)	3,999
Stock based compensation	522,671	207,273
Realized loss on investment in marketable securities	232,711	39,461
Fair value of securities received for services	(145,108)	(94,286)
Minority interest	(318,216)	4,384,952
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	2,767,606	(639,308)
Prepaid expenses - related parties	3,387,302	(3,104,661)
Inventories	(1,100,022)	(6,484,792)
Accounts receivable	5,788,829	(4,434,523)
Accounts receivable - related parties	(2,667,272)	1,284,250
Accounts payable and accrued expenses	(3,593,781)	(1,842,356)
Accounts payable - related parties	(4,779,350)	(530,228)
Advances from customers	(1,140,696)	2,022,992
Other payables	506,378	1,925,295
Income taxes payable	19,447	257,562
Net cash provided by (used in) continuing activities	(1,540,604)	(1,984,458)
Net cash provided by discontinued operations	-	750,815
Net cash used in operating activities	(1,540,604)	(1,233,643)
Cash flows from investing activities:		
Decrease (increase) in notes receivable	-	167,741
Increase (decrease) in loans receivable	305,646	(2,138,931)
Proceeds from the sale of marketable securities available for sale	292,974	239,579
Purchases of property, plant and equipment	(46,561)	(2,300,528)
Net cash provided by (used in) investing activities	552,059	(4,032,139)
Cash flows from financing activities:		
Decrease (increase) in restricted cash	(962,489)	644,160
Proceeds from loans payable	1,250,150	2,082,912
Payment of loans payable	(12,184)	(1,859,423)
Payment of notes payable	-	(592,007)
Payment of notes payable-related party	-	(410,167)
Due from related parties	(373,620)	1,043,185
Due to related parties	(976,530)	(1,653,274)
Gross proceeds from sale of preferred stock	-	12,950,000
Proceeds from exercise of warrants/options	7,791	-
Cash payment for stock repurchase	(1,650,000)	-

Capital contribution from minority interest owners	715,788	-
Offering expenses	-	(1,504,345)
Net cash (used in) provided by financing activities	(2,001,094)	10,701,041
Effects of exchange rate changes on cash	373,782	1,000,269
Net (decrease) increase in cash	(2,615,857)	6,435,528
Cash, beginning of year	14,205,229	20,394,931
Cash, end of period	$ 11,589,372	$ 26,830,459
Supplemental disclosures of cash flow information:		
Cash paid for taxes	$ -	$ 6,166
Cash paid for interest	$ -	$ 27,156
Dividend payment in stock to preferred stock shareholders	$ 20,235	$ -
Non-cash preferred stock deemed dividend	$ -	$ 5,217,392

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Business and Organization

China Direct, Inc., a Florida corporation and its subsidiaries are referred to in this report as the “Company”, “we”, “us”, “our”, or “China Direct”.

We are a U.S. company that manages a portfolio of Chinese entities. We also provide consulting services to Chinese businesses. We operate in three identifiable segments, Magnesium, Basic Materials and Consulting, in accordance with SFAS No. 131, “Disclosure about segments of an Enterprise and Related Information”. In 2006 we established our Magnesium and Basic Materials segments which have grown through acquisitions of controlling interests of Chinese private companies. We consolidate these acquisitions as either our wholly or majority owned subsidiaries. Through this ownership control, we provide management advice as well as investment capital to expand their businesses. We hold a controlling interest in twelve subsidiaries operating in China, five of which comprise our Magnesium segment and five comprise our Basic Materials segment. As of the date of this report, we have a total of 1,287 full-time employees, the majority of which, 1,269, work in the PRC.

In our largest segment, Magnesium, we operate five entities which produce, sell and distribute pure magnesium ingots, magnesium powders and magnesium scraps.

In our Basic Materials segment, we operate five entities which sell and distribute a variety of products including (i) industrial grade synthetic chemicals, (ii) steel products, (iii) non ferrous metals, and (iv) recycled materials. This segment also includes our zinc mining property which has not commenced operations.

In our Consulting segment, we provide a suite of consulting services to U.S. public companies that operate primarily in China. The consulting and transactional fees we charge vary based upon the scope of the services to be rendered.

In 2007 we launched a Clean Technology segment. We discontinued this segment in the third quarter of 2008 when we completed the sale in October 2008 of an 81% interest in CDI Clean Technology and its 51% interest in CDI Wanda and its 52% interest in Yantai CDI Wanda to PE Brothers Corp. for $1,240,000, paid in form of a promissory note. We plan to maintain our 19% ownership interest in CDI Clean Technology we retained. In February, 2009 we have received the first installment payment of approximately $240,000. See Note 6 - Prepaid Expenses and Other Current Assets.

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

Basis of Presentation

Our unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. However, the information included in these interim financial statements reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The consolidated balance sheet information as of December 31, 2008 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008. These interim financial statements should be read in conjunction with our Form 10-K for the year ended December 31, 2008. Certain reclassifications have been made to prior year amounts to conform to the current year presentation and to disclose our reclassification of discontinued operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results when ultimately realized could differ from those estimates. Significant estimates include the allowance for doubtful accounts receivable, certain assumptions underlying the calculation of stock-based compensation, investments in marketable securities available for sale, assets and liabilities held for sale and the useful life of property, plant and equipment.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, we consider all highly liquid investments with original maturities of three months or less to be cash equivalents. The carrying values of these investments approximate their fair value.

Concentration of Credit Risks

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and trade accounts receivable. We deposit our cash with high credit quality financial institutions in the United States and China. As of March 31, 2009, bank deposits in the United States exceeded federally insured limits by $130,068. At March 31, 2009, we had deposits of $6,972,516 in banks in China. In China, there is no equivalent federal deposit insurance as in the United States, so the amounts held in banks in China are not insured. We have not experienced any losses in such bank accounts through March 31, 2009.

At March 31, 2009 and December 31, 2008, bank deposits, (reclassified to reflect discontinued operations), by geographic area were as follows:

Country	March 31, 2009		December 31, 2008	
United States	$ 4,616,856	40%	$ 6,640,672	47%
China	6,972,516	60%	7,564,557	53%
Total cash and cash equivalents	$ 11,589,372	100%	$ 14,205,229	100%

In an effort to mitigate any potential risk, we periodically evaluate the credit quality of the financial institutions at which we hold deposits, both in the United States and China.

Accounts Receivable

Accounts receivable are reported at net realizable value. We have established an allowance for doubtful accounts based upon factors pertaining to the credit risks of specific customers, historical trends, age of the receivable and other information. Delinquent accounts are written off when it is determined that the amounts are uncollectible. At March 31, 2009 and December 31, 2008, allowances for doubtful accounts were approximately $85,000 and $500,000, respectively.

Inventories

Inventories, consisting of raw materials and finished goods, are stated at the lower of cost or market utilizing the weighted average method. Inventories as of March 31, 2009 and December 31, 2008 were $9,659,615 and $8,559,593, respectively. Due to the nature of our business and the short duration of the manufacturing process of our products, there was no work-in-process inventory at March 31, 2009 and December 31, 2008.

Accounts Payable-Related Parties

At March 31, 2009 our consolidated balance sheet reflects accounts payable-related party of $2,737,380. At December 31, 2008, our consolidated balance sheet reflects accounts payable-related party of $7,516,728, comprised of $4,497,180 and $3,019,548 due Chang Magnesium in repayment of customer advances by Pine Capital and Wheaton Group, respectively.

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Fair Value of Financial Instruments

As of January 1, 2008, we adopted on a prospective basis certain required provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157-2, on the effective date of FASB Statement No. 157. Those provisions relate to our financial assets and liabilities carried at fair value and our fair value disclosures related to financial assets and liabilities. SFAS 157 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. Observable market data should be used when available.

Most, but not all, of our financial instruments are carried at fair value, including, all of our cash equivalents, investments classified as available for sale securities and assets held for sale and are carried at fair value, with unrealized gains and losses, net of tax. Virtually all of our valuation measurements are Level 1 measurements. The adoption of SFAS 157 did not have a significant impact on our consolidated financial statements.

Marketable Securities

Marketable securities held for sale and marketable securities held for sale-related party at March 31, 2009 and December 31, 2008 consists of the following:

Company	March 31, 2009	%	December 31, 2008	%
China America Holdings, Inc.	$ 360,557	7%	$ 272,200	4%
China Logistics Group, Inc.	760,999	14%	1,807,357	23%
Dragon International Group Corp.	804,552	15%	704,656	9%
China Armco Metals, Inc.	2,995,971	56%	4,045,002	52%
Sunwin International Neutraceuticals, Inc.	214,572	4%	649,337	8%
Other	210,771	4%	251,240	3%
Marketable securities held for sale	$ 5,347,422	100%	$ 7,729,792	100%

Through our Consulting segment, we receive securities which include preferred stock, common stock and common stock purchase warrants from clients. We classify these securities as investments in marketable securities available for sale or investment in marketable securities available for sale-related party. These securities are stated at their fair value in accordance with SFAS No. 115 “Accounting for Certain Investments in Debt and Equity Securities ”, and EITF 00-8 Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services”. Unrealized gains or losses in investments in marketable securities available for sale are recognized as an element of other comprehensive income on a monthly basis based on fluctuations in the fair value of the security as quoted on an exchange or an inter-dealer quotation system. Realized gains or losses are recognized in the consolidated statements of operations when the securities are liquidated.

Our consulting fees vary based upon the scope of the services to be rendered. Historically, a significant portion of the fees we earned have been paid in the form of our clients’ securities which include preferred stock, common stock and common stock purchase warrants. We categorize securities as investment in marketable securities available for sale and investment in marketable securities available for sale-related party. Some of the securities of China Logistics we own are restricted securities and cannot be readily resold by us absent a registration of those securities under the Securities Act of 1933 (the “Securities Act”) or the availability of an exemption from the registration requirements under the Securities Act.

The securities of one client, Dragon Capital Group Corp. (“Dragon Capital”), accounted for all of the investment in marketable securities available for sale-related party and totaled $160,459 at December 31, 2008. Dragon Capital is a related party. Mr. Lisheng (Lawrence) Wang, the CEO and Chairman of the Board of Dragon Capital, is the brother of Dr. James Wang, CEO and Chairman of China Direct. These securities were issued by Dragon Capital as compensation for consulting services. Dragon Capital is a non-reporting company whose securities are quoted on the Pink Sheets, and as such, under Federal securities laws, securities of Dragon Capital cannot be readily resold by us, generally, absent a registration of those securities under the Securities Act. Dragon Capital does not intend to register the securities.

Other-than-temporary impairment of securities is evaluated periodically to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term “other-than-temporary” is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized.

In January 2009, the FASB issued FSP EITF 99-20-1 to amend the impairment guidance in EITF Issue No. 99-20 in order to achieve more consistent determination of whether other-than-temporary impairment (“OTTI”) has occurred. This FSP amended EITF 99-20 to more closely align the OTTI guidanceto the guidance in Statement No. 115. Retrospective application to a prior interim or annual period is prohibited. The guidance in this FSP was considered in the assessment of OTTI for various securities at March 31, 2009.

All securities (exclusive of preferred stock and common stock purchase warrants) received from our clients as compensation are quoted either on the Over-the-Counter Bulletin Board or the Pink Sheets. The securities are typically restricted as to resale. Our policy is to liquidate securities received as compensation when market conditions are favorable for sale. As these securities are often restricted, we are unable to liquidate these securities until the restriction is removed. We recognize revenue for common stock based on the fair value at the time common stock is granted and for common stock purchase warrants based on the Black-Scholes valuation model. Unrealized gains or losses on marketable securities available for sale and on marketable securities available for sale-related party are recognized as an element of comprehensive income on a monthly basis based on changes in the fair value of the security as quoted on an exchange or an inter-dealer quotation system. Once liquidated, realized gains or losses on the sale of marketable securities available for sale and marketable securities available for sale-related party are reflected in our net income for the period in which the security was liquidated.

The unrealized loss on marketable securities available for sale, net of the effect of taxes, for the first quarter of 2009 and 2008 was $14,382,854 and $1,590,347, respectively. The realized loss on investments in marketable securities available for sale for the first quarter of 2009 and 2008 was $232,711 and $39,461, respectively.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of (i) prepayments to vendors for merchandise that had not yet been shipped, (ii) the fair value of securities received from client companies associated with our Consulting segment assigned to our executive officers and employees as compensation, (iii) value added tax refunds available from the Chinese government, (iv) loans receivable and (v) other receivables. At March 31, 2009 and December 31, 2008, our consolidated balance sheets include prepaid expenses and other current assets of $5,356,477 and $8,127,300, respectively.

Prepaid expenses-related parties were $4,619,809 and $8,007,111 at March 31, 2009 and December 31, 2008, respectively. This item is discussed in further detail in Note 10, Related Party Transactions.

Non-current prepaid expenses and other assets consist of (i) the fair value of the securities of our client companies assigned to executive officers and employees as compensation for services to be rendered over the term of the respective consulting agreement which will be amortized beyond the twelve month period, and (ii) other assets acquired in connection with the acquisition of Pan Asia Magnesium. This item is discussed in further detail in Note 6-Prepaid Expenses and other current assets. Accordingly, non-current prepaid expenses totaled $2,024,660 and $2,744,427 at March 31, 2009 and December 31, 2008, respectively.

Property, Plant and Equipment

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

Acquisitions

We account for acquisitions using the purchase method of accounting in accordance with the provisions of SFAS No. 141. In each of our acquisitions for the periods presented, we determined that fair values were equivalent to the acquired historical carrying costs. Acquisitions to be made after December 15, 2008 will be accounted for under the provisions of SFAS 141R.

Advances from Customers and Deferred Revenues

Advances from customers represent (i) prepayments to us for merchandise that had not yet been shipped to customers, and (ii) the fair value of securities received as compensation which will be amortized over the term of the respective consulting agreement. We will recognize these advances as revenues as customers take delivery of the goods or when the services have been rendered, in compliance with our revenue recognition policy. Advances from customers totaled $404,577 and $1,545,273 at March 31, 2009 and December 31, 2008 (reclassified to reflect discontinued operation), respectively.

Comprehensive Income

We follow Statement of Financial Accounting Standards No. 130 (SFAS 130) "Reporting Comprehensive Income" to recognize the elements of comprehensive income. Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. Comprehensive income for the first quarter of 2009 and 2008 included net income, foreign currency translation adjustments, unrealized gains or losses on marketable securities available for sale, net of income taxes, and unrealized gains or losses on marketable securities available for sale-related party, net of income taxes.

Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of our Chinese subsidiaries is the Renminbi, the official currency of the People's Republic of China, ("RMB"). Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred. Assets and liabilities are translated at the exchange rates as of the balance sheet date. Income and expenditures are translated at the average exchange rates for the first quarter of 2009 and 2008. A summary of the conversion rates for the periods presented is as follows:

	March 31,	
	2009	2008
Quarter end RMB : U.S. Dollar exchange rate	6.8456	7.0222
Average year-to-date RMB : U.S. Dollar exchange rate	6.8466	7.1757

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through PRC authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at the rates applied in the translation.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. We recognize an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the estimated fair value and the book value of the underlying asset. We did not record any impairment charges during first quarter of 2009 and 2008.

Subsidiaries Held for Sale

Long-lived assets are classified as held for sale when certain criteria are met. These criteria include management's commitment to a plan to sell the assets; the availability of the assets for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets has been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets. We measure long-lived assets to be disposed of by sale at the lower of carrying amount or fair value, less cost to sell.

Minority Interest

Under generally accepted accounting principles when losses applicable to the minority interest in a subsidiary exceed the minority interest in the equity capital of the subsidiary, the excess is not charged to the majority interest since there is no obligation of the minority interest to make good on such losses. We, therefore, absorbed all losses applicable to a minority interest where applicable. If future earnings do materialize, we shall be credited to the extent of such losses previously absorbed.

Income Taxes

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

Basic and Diluted Earnings per Share

Basic income per common share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock or other contracts to issue common stock resulted in the issuance of common stock that would then share in our income, subject to anti-dilution limitations.

Revenue Recognition

We follow the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin (“SAB”) No. 104 and SAB Topic 13 for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

Stock-based Compensation

We account for the grant of stock options and restricted stock awards in accordance with SFAS 123R, “Share-Based Payment, an Amendment of FASB Statement No. 123” (“SFAS 123R”). SFAS 123R requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity based compensation.

Recent Pronouncements

In April 2009, the FASB issued three final Staff Positions “FSPs” intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, Fair Value Measurements. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. We are currently evaluating the requirements of these FSPs, as well as the impact of the adoption on our consolidated financial statements, if any.

In January 2009, the FASB issued FSP EITF 99-20-1 to amend the impairment guidance in EITF Issue No. 99-20 in order to achieve more consistent determination of whether an other-than-temporary impairment ("OTTI") has occurred. This FSP amended EITF 99-20 to more closely align the OTTI guidance therein to the guidance in Statement No. 115. Retrospective application to a prior interim or annual period is prohibited. The guidance in this FSP was considered in the assessment of OTTI for various securities at March 31, 2009.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities " ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We have evaluated the requirements of SFAS 161 and it had no impact on the preparation of our consolidated financial statements as of March 31, 2009.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)("FSP APB 14-1) . FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants . Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt FSP APB 14-1 beginning in the first quarter of fiscal 2009, and this standard must be applied on a retrospective basis. We have evaluated the requirements of APB 14-1 and it had no impact on the preparation of our consolidated financial statements as of March 31, 2009.

In May 2008, the FASB SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission of the Public Company Accounting Oversight Board's amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles . We do not expect SFAS No. 162 to have a material impact on the preparation of our consolidated financial statements.

On September 16, 2008, the FASB issued final FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ,??to address the question of whether instruments granted in share-based payment transactions are participating securities prior to vesting. The FSP determines that unvested share-based payment awards that contain rights to dividend payments should be included in earnings per share calculations. The guidance will be effective for fiscal years beginning after December 15, 2008. We have evaluated the requirements of EITF 03-6-1 and it had no impact on the preparation of our consolidated financial statements as of March 31, 2009.

On October 10, 2008, the FASB issued SFP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This FSPclarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FASB Statement No. 157 was issued in September 2006, and is effective for financial assets and financial liabilities for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We have adopted SFAS 157-3 and determined that it had no impact as of March 31, 2009, and we will continue to evaluate the impact, if any, of SFAS 157-3 on our financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to our consolidated financial statements.

NOTE 3 - EARNINGS PER SHARE

Under the provisions of SFAS 128, “Earnings Per Share”, basic income (loss) per common share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the company, subject to anti-dilution limitations.

	For the Three Months Ended March 31,			
	2009	Per Share	2008	Per Share
Numerator:				
Net (loss) income	$ (1,455,531)		$ 4,752,876	
Series A preferred stock:				
Preferred stock dividend	(20,235)		(141,530)	
Relative fair value of detachable warrants issued	-		(2,765,946)	
Preferred stock beneficial conversion feature	-		(2,451,446)	
Numerator for basic EPS, loss applicable to common stock holders	$ (1,475,766)	$ (0.06)	$ (606,046)	$ (0.03)
Denominator:				
Denominator for basic earnings per share - weighted average number of common shares outstanding	23,414,500		21,003,439	
Stock Awards, Options, and Warrants	-		-	
Denominator for diluted earnings per share - adjusted weighted average outstanding average number of common shares outstanding*	23,414,500		21,003,439	
Basic and Diluted loss Per Common Share:				
Earnings per share - basic	$ (0.06)		$ (0.03)	
Earnings per share - diluted	$ (0.06)		$ (0.03)	

* The denominator in diluted earnings per share in 2009 and 2008 does not include shares that were assumed to be outstanding prior to conversion under the “if converted” method, 122,240 shares issuable under the unconverted preferred stock as dividends, and 352,638 of non-vested restricted shares and stock options, as such inclusion would be anti-dilutive.

EITF Issue No. 03-6, “Participating Securities and the Two-Class Method under FASB Statement No. 128 ” (EITF 03-6) requires companies with participating securities to calculate earnings per share using the two-class method. Our shares of Series A Convertible Preferred Stock are considered to be participating securities as these securities are entitled to dividends declared on our common stock; therefore, EITF 03-6 requires the allocation of a portion of undistributed earnings to the Series A Convertible Preferred Stock in the calculation of basic earnings per share.

NOTE 4 - COMPREHENSIVE INCOME

Comprehensive income is comprised of net income and other comprehensive income or loss. Other comprehensive income or loss refers to revenue, expenses, gains and losses that under accounting principles generally accepted in the United States are included in comprehensive income but excluded from net income as these amounts are recorded directly as an adjustment to stockholders’ equity.

Our other comprehensive income consists of currency translation adjustments, unrealized loss on marketable securities available for sale, net of taxes and unrealized loss on marketable securities available for sale-related party, net of taxes. The following table sets forth the computation of comprehensive income for the first quarter of 2009 and 2008, respectively:

	For the Three Months Ended March 31,	
	2009	2008
Comprehensive Income		
Net (loss) income	$ (1,455,531)	$ 4,752,876
Other Comprehensive Income (Loss)		
Foreign currency translation gain	316,792	1,797,699
Unrealized loss on marketable securities held for sale, net of income taxes	(2,065,585)	(1,128,124)
Unrealized gain (loss) on marketable securities held for sale-related parties, net of income taxes	48,232	(462,223)
Total Comprehensive (loss) Income	$ (3,156,092)	$ 4,960,228

NOTE 5 - INVENTORIES

Inventories March 31, 2009 and December 31, 2008consisted of the following:

	March 31, 2009	December 31, 2008
Raw materials	$ 4,858,930	$ 6,081,259
Finished goods	4,800,685	3,038,956
Inventory Reserve	-	(560,622)
	$ 9,659,615	$ 8,559,593

Due to the nature of our business and the short duration of the manufacturing process for our products, there is no work in progress inventory at March 31, 2009 and December 31, 2008.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

At March 31, 2009 and December 31, 2008, prepaid expenses and other current assets, (reclassified to reflect discontinued operations), consist of the following:

Description	March 31, 2009	December 31, 2008
Prepayments to vendors for unshipped merchandise or services that had not been performed	$ 2,245,141	$ 2,173,989
Other receivables	1,191,998	2,434,578
Fair value of securities received from client companies associated with our Consulting segment assigned to employees as compensation	-	524,907
Loans receivable	2,422,555	2,987,615
Other assets acquired in connection with acquisition, net	2,006,853	2,745,525
Other	14,590	5,114
Total	7,881,137	10,871,727
Less: Current Portion	(5,356,477)	(8,127,300)
Prepaid expenses and other assets, non-current	$ 2,524,660	$ 2,744,427

Loans receivable includes a promissory note in the original principal amount of $1,240,000 we received in connection with the sale of our 81% interest in CDI Clean Technology Group, Inc. (“CDI Clean Technology”) to PE Brothers Corp. (“PE Brothers”). Yang Li who is the president of CDI Wanda is also the president of PE Brothers. This note bears interest at the rate of 1% per annum and the principal payments are due as follows: $240,000 on December 31, 2008, $500,000 on December 31, 2009 and $500,000 on June 30, 2010. We received the $240,000 principal payment as scheduled.

In accordance with FAS 141 we have reallocated a portion of our purchase price to our acquisition of a 51% interest in Pan Asia Magnesium, which we acquired on September 29, 2007. During the fourth quarter in 2008, we reallocated $2,229,837, (net of accumulated amortization of $445,967) worth of fixed assets acquired in the transaction to other assets. The value of the reallocation represents the intangible value of a coke gas supply agreement amongst Pan Asia Magnesium and Shanxi Jinyang Coal and Coke Group Co., Ltd., (“Jinyang Group”) a minority shareholder of Pan Asia Magnesium. In September 2007 Jinyang Group and CDI China entered into Joint Venture Investment Supplementary Agreement (“Pan Asia JV Agreement”) establishing Pan Asia Magnesium as a foreign invested entity. Under the terms of the Pan Asia JV Agreement Jinyang Group has a commitment to provide coke gas to Pan Asia Magnesium at a fixed price until July, 2011; thereafter the price of the coke gas should be at a discount to prevailing market prices. Pan Asia Magnesium utilizes coke gas as fuel to operate its magnesium production facility. The relationship with Jinyang Group affords Pan Asia Magnesium with a stable supply of energy at advantageous prices, given the rising cost of fuel. The value of the reallocation, $2,229,837 represents the intangible value of this coke gas supply commitment. At March 31, 2009 and December 31, 2008, the intangible value, net of accumulated amortization was $2,006,853 and $2,229,837, respectively.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

At March 31, 2009 and December 31, 2008, property, plant and equipment, (reclassified to reflect discontinued operations), consisted of the following:

Description	Useful Life	March 31, 2009	December 31, 2008
Building	10-40 years	$ 7,944,041	$ 7,792,403
Manufacturing equipment	10 years	12,965,286	12,635,161
Office equipment and furniture	3-5 years	656,178	636,621
Autos and trucks	5 years	396,674	334,630
Construction in progress	N/A	25,761,032	26,277,835
Total		47,723,211	47,676,650
Less: Accumulated Depreciation		(4,723,054)	(4,220,967)
Property, Plant and Equipment, Net		$ 43,000,157	$ 43,455,683

For the first quarter in 2009 and 2008 depreciation expense totaled $725,071 and $426,320, respectively.

NOTE 8 - PROPERTY USE RIGHTS

Property use rights, consisting of mining and property use rights amounted to $591,899 and $591,277 at March 31, 2009 and December 31, 2008, respectively.

CDI Magnesium holds property use rights valued at $96,078 for the use of magnesium alloy manufacturing equipment located in a magnesium alloy facility in China which is owned by Shangxi Jinyang Coal and Coke Group Co., Ltd. We will begin to amortize the value of the property use rights over the useful life of equipment when the magnesium refinery commences operations.

In connection with our acquisition of CDI Jixiang Metal in December 2007, we acquired mining rights to 51 acres located in the Yongshun Kaxi Lake Mining area of China. CDI Jixiang Metal is presently in the exploration stage of its business operations and is engaged in the evaluation of mineral deposits or reserves. We have not established a reserve. There is no assurance that commercially viable mineral deposits exist on this property and further exploration will be required before a final evaluation as to the economic feasibility is determined.

Mineral property acquisition costs, site restoration costs and development costs on mineral properties with proven and probable reserves are capitalized and will be depleted using the units-of-production method over the estimated life of the reserves. If there are insufficient reserves to use as a basis for depleting such costs, they will be written off as mineral property or mineral interest impairment in the period in which the determination is made. Site restoration costs are depleted over the term of their expected life. The development potential of mining properties is established by the existence of proven and probable reserves, reasonable assurance that the property can be permitted as an operating mine and evidence that there are no metallurgical or other impediments to the production of saleable metals.

Exploration costs incurred on mineral interests, other than acquisition costs, prior to the establishment of proven and probable reserves are charged to operations as incurred. Development costs incurred on mineral interests with proven and probable reserves will be capitalized as mineral properties. We regularly evaluate our investments in mineral interests to assess the recoverability and/or the residual value of the investments in these assets. All mineral interests and mineral properties are reviewed for impairment whenever events or circumstances change which indicate the carrying amount of an asset may not be recoverable, utilizing established guidelines based upon undiscounted future net cash flows from the asset or upon the determination that certain exploration properties do not have sufficient potential for economic mineralization.

The estimates of mineral prices and operating, capital and reclamation costs, when available, are subject to certain risks and uncertainties, which may affect the recoverability of mineral property costs. Although we make our best estimates of these factors, it is possible that changes could occur in the near term, which could adversely affect the future net cash flows to be generated from our mineral properties.

NOTE 9 - LOANS PAYABLE

Loans payable at March 31, 2009 and December 31, 2008 consisted of the following:

Description		March 31, 2009		December 31, 2008
Loan due to China Industry Bank., an unrelated party. Due July 2012. 6.06375% annual interest rate	$	173,834	$	186,018
Commerical Bank due May 2009, related to Lang Chemica, (Lang Chemical deposited Principal amount to guarantee this note)		1,219,762		262,613
Mingsheng Bank Due October 2009, interest is LIBOR plus 25%		673,618		671,122
Shanghai Bank Due January 2010, interest is 5.84%		290,505		-
Total		2,357,719		1,119,753
Less: Current Portion		(2,183,885)		(933,735)
Loans payable, long-term	$	173,834	$	186,018

NOTE 10 - RELATED PARTY TRANSACTIONS

We have specified the following persons and entities as related parties with ending balances as of March 31, 2009 and December 31, 2008:

List of Related Parties

- Yuwei Huang is executive vice president of our Magnesium segment, a member of the board of directors, chief executive officer and chairman of Chang Magnesium, chairman of Baotou Changxin Magnesium, chairman of YiWei Magnesium, and chief executive officer and vice chairman of Golden Magnesium;
- Taiyuan YiWei Magnesium Industry Co., Ltd., a company organized under the laws of the PRC (“YiWei Magnesium”), is a minority interest owner in Chang Magnesium;
- Lifei Huang is the daughter of Yuwei Huang;
- Huihuan Huang is the sister of Yuwei Huang;
- Lifei Huang is a registered representative of Pine Capital Enterprises Inc., a company organized under the laws of the Cayman Islands (“Pine Capital”);
- Lifei Huang is a registered representative of Wheaton Group Corp., a company organized under the laws of Brunei Darussalam (“Wheaton”);
- Nippon Magnetic Dressing Co., Ltd., a company organized under the laws of the Japan (“Nippon Magnetic”), is a minority interest owner of YiWei Magnesium;
- LuCheng Haixu Magnesium Co., Ltd., a company organized under the laws of the PRC (“Haixu Magnesium”), is legally represented by an officer of Chang Magnesium;
- LingShi County Yihong Magnesium Co., Ltd., a company organized under the laws of the PRC (“Yihong Magnesium”), is legally represented by an officer of Chang Magnesium;
- Shanxi Senrun Coal Chemistry Co., Ltd., a company organized under the laws of the PRC (“Senrun Coal”), is a minority interest owner in Golden Magnesium;
- Shanxi Jinyang Coal and Coke Group Co., Ltd., a company organized under the laws of the PRC (“Jinyang Group”), is a minority interest owner of Pan Asia Magnesium;

- Japan Material Industry Co., Ltd., a company organized under the laws of the PRC, (“Japan Material”), is a minority interest owner of YiWei Magnesium;
- Runlian Tian is a director of Pan Asia Magnesium;
- Hiubiao Zhao is the brother of an officer of Pan Asia Magnesium;
- NanTong Langyuan Chemical Co., Ltd., a company organized under the laws of the PRC (“NanTong Chemical”), is jointly owned by Jingdong Chen and Qian Zhu, the minority interest owners of Lang Chemical;
- Jingdong Chen, is vice president of our Basic Materials segment and chief executive officer of Lang Chemical;
- Qian Zhu is chief financial officer of Lang Chemical. Jingdong Chen and Qian Zhu are husband and wife;
- Zhou Weiyi is the minority interest owner in CDI Metal Recycling;
- Chen Chi is a vice president of our Basic Materials segment and minority interest owner of CDI Beijing; and
- Lisheng (Lawrence) Wang is the chief executive officer and chairman of Dragon Capital Group Corp., a Nevada corporation, (“Dragon Capital”) and is the brother of Dr. Wang, CEO and Chairman of China Direct and Xiaowen Zhuang, a key employee.

Accounts Receivable – related parties

At March 31, 2009 we reflected accounts receivable – related parties of $4,343,463 comprised of the following:

- $1,691,352 due Baotou Changxin Magnesium from YiWei Magnesium, for inventory provided;
- $1,144,861 due Golden Magnesium from YiWei Magnesium for inventory provided;
- $921,142 due Chang Magnesium from Pine Capital for inventory provided; and,
- $586,107 due Chang Magnesium from YiWei Magnesium for inventory provided.

At December 31, 2008 we reflected accounts receivable – related parties of $1,676,191 comprised of the following:

- $1,628,896 due Baotou Changxin Magnesium from YiWei Magnesium, for inventory provided; and,
- $47,295 due Golden Magnesium from YiWei Magnesium for inventory provided.

Prepaid Expenses – related parties

At March 31, 2009 we reflected prepaid expenses – related parties of $4,619,809 comprised of the following:

- $2,925,054 prepaid by Chang Magnesium to YiWei Magnesium for future delivery of inventory;
- $824,825 prepaid by Chang Magnesium to Yihong Magnesium to for future delivery of inventory;
- $818,793 prepaid by Golden Magnesium to Senrun Coal for future delivery of coke gas for fuel; and,
- $51,137 prepaid by Chang Magnesium to Haixi Magnesium for future delivery of inventory.

At December 31, 2008 we reflected prepaid expenses – related parties of $8,007,111 comprised of the following:

- $5,830,717 prepaid by Chang Magnesium to YiWei Magnesium for future delivery of inventory;
- $940,699 prepaid by Golden Magnesium to Senrun Coal for future delivery of coke gas for fuel;
- $520,397 prepaid by Chang Magnesium to Nippon Magnetic to for future delivery of inventory;
- $389,225 prepaid by Pan Asia Magnesium to Jinyang Group for the future delivery of coke gas; and,
- $326,073 prepaid by Golden Magnesium to YiWei Magnesium for future delivery of inventory.

Loan Receivable ?C related parties

At March 31, 2009 we reflect loan receivables – related parties of $1,347,082 comprised of the following:

- $1,303,258 due Lang Chemical from NanTong Chemical for funds advanced for working capital purposes, this loan is due on 9/9/2010 and carries an annual interest rate of 6%; and,
- $43,824 due CDI Shanghai Management from Dragon Capital for funds advanced for working capital purposes, this loan was due on January 4, 2009, and currently is in process of being extended, and carries an annual interest rate of 5%.

At December 31, 2008 we reflected loan receivables – related parties of $1,652,728 comprised of the following:

- $1,608,959 due Lang Chemical from NanTong Chemical for funds advanced for working capital purposes; and,
- 43,769 due CDI Shanghai Management from Dragon Capital for funds advanced for working capital purposes.

Due from related parties

At March 31, 2009 we reflect due from related parties of $409,329 comprised of the following:

- $215,577 due Pan Asia Magnesium from Jinyang Group for working capital purposes;
- $151,750 due Golden Magnesium from Senrun Coal for working capital purposes; and,
- $42,002 due China Direct from a China Direct employee for the exercise price of exercised options and related taxes.

At December 31, 2008 we reflected due from related parties of $35,710 comprised of the following:

- $21,125 due China Direct from a China Direct employee for the exercise price of exercised options; and,
- $14,585 due CDI Metal Recycling from Zhou Weiyi, for the contribution of registered capital related to the formation of CDI Metal Recycling.

Accounts Payable – related parties

At March 31, 2009 we reflect accounts payable – related party of $2,737,380 comprised of the following:

- $2,150,193 due from Chang Magnesium to Pine Capital in repayment of an advance from customer for the expected delivery of inventory; and,
- $587,187 due from Chang Magnesium to Wheaton Group in repayment of an advance form customer for the expected delivery of inventory.

At December 31, 2008 we reflected accounts payable – related party of $7,516,728 comprised of the following:

- $4,497,180 due from Chang Magnesium to Pine Capital in repayment of an advance from customer for the expected delivery of inventory; and,
- $3,019,548 due from Chang Magnesium to Wheaton Group in repayment of an advance form customer for the expected delivery of inventory.

Due to related parties

At March 31, 2009 we reflect due to related parties balance of $2,209 comprised of the following:

- $2,209 due to James Wang, our CEO and Chairman, to return an overpayment related to an exercise of options.

At December 31, 2008 we reflected due to related parties balance of $978,739 comprised of the following:

- $832,843 due to Chen Chi, this amount is made of up $729,257 due from Capital One Resource, and $103,586 from CDI Beijing for fund advances for working capital purposes; and
- $145,896 advanced by Huihuan Huang to Chang Magnesium for working capital purposes.

NOTE 11 - STOCKHOLDERS' EQUITY

Preferred Stock

We have 10,000,000 shares of preferred stock, par value $.0001, authorized, of which we designated 12,950 as our Series A Convertible Preferred Stock in February 2008. At March 31, 2009 and December 31, 2008 there were 1,006 shares of Series A Convertible Preferred Stock issued and outstanding.

Series A Preferred Stock and Related Dividends

On February 11, 2008, we entered into a Securities Purchase Agreement with accredited investors to sell, in a private placement transaction, 12,950 shares of our Series A Convertible Preferred Stock ("Series A Preferred Stock") together with common stock purchase warrants to purchase an aggregate of 1,850,000 shares of our common stock. At closing, we received gross proceeds of $12,950,000. The Series A Preferred Stock has a stated value per share of $1,000, carries an 8% per annum dividend rate payable quarterly in arrears and is convertible into common stock at $7.00 per share. The dividends are payable in cash or shares of our common stock, at our option, subject to certain provisions. If paid in shares of common stock, the stock shall be valued at the lower of the conversion price or the average of the weighted average price of the 10 consecutive trading days immediately preceding the dividend date.

Upon conversion of the Series A Preferred Stock, we are required to pay an amount (the “Make-Whole Additional Amount”) equal to 8% of the stated value of the shares converted or redeemed - essentially an extra year’s dividend. This amount shall be paid in shares valued at the lower of the conversion price or 90% of the weighted average price of our common stock for the 10 consecutive trading days immediately preceding the date of notice.

A registration statement covering the public resale of the shares of common stock underlying the Series A Preferred Stock and the warrants was declared effective by the Securities and Exchange Commission on April 23, 2008.

As of March 31, 2009, holders of our Series A Preferred Stock have converted 11,944 shares of the 12,950 shares of the Series A Preferred Stock. Each share of Series A Preferred stock was convertible into 142.8541 shares of common stock. As a result of the conversion of the Series A Preferred Stock, we have issued 1,706,250 shares of our common stock, 10,346 shares of common stock in payment of the accrued dividends, and 136,500 shares of common stock, the Make-Whole Additional Amount.

The 1,850,000 warrants issued to purchasers of the Series A Preferred Stock, exclusive of the 300,000 warrants issued to Roth Capital Partners, LLC ("Roth Capital") as a fee, were determined to have a fair value of $2.07 per warrant with a total valuation of $3,829,500. Inputs used in making this determination included:

- Value of $6.83 per share of common stock;
- Expected volatility factor of 90%;
- $0 dividend rate on the common stock;
- Warrant exercise price of $8.00;
- Estimated time to exercise of 1 year; and
- Risk free rate of 2.06%.

The relative fair value of the warrants of $2,765,946 has been recorded as a dividend in the year ended December 31, 2008

In addition, under the provisions of EITF 98-5 'Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios' (EITF 98-5"),and EITF 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments'" ("EITF 00-27"), the Series A Preferred Stock issuance carried an embedded beneficial conversion feature at issuance. Accordingly, after first allocating the proceeds received from the Series A Preferred Stock offering to the preferred shares and detachable warrants on a relative fair value basis, we derived an intrinsic value of the conversion feature of $2,451,446. As the Series A Preferred Stock does not have a stated redemption date or finite life, the deemed dividend was recognized immediately as a non-cash charge during 2008. This non-cash one-time preferred stock deemed dividend was calculated as the difference between the average of our common stock price of $6.83 per share and the calculated effective conversion price of the Series A Preferred Stock. The effective conversion price of the Series A Preferred Stock was determined with reference to the relative fair value allocation of proceeds between the Series A Preferred Stock and Warrants issued. The non-cash deemed dividend did not have an effect on net earnings, or cash flows for the three months ended March 31, 2009. The estimated fair market value of the Warrants of $2,765,946 has been recorded as additional paid-in capital and a reduction to the recorded amount of the Series A Preferred Stock.

We paid Roth Capital a fee of $1,295,000 for serving as the placement agent in the Series A Preferred Stock Offering. Roth Capital also received 300,000 common stock purchase warrants, exercisable at $8.00 per share for five years as part of their fee. At February 11, 2008, the warrants granted to Roth Capital had a fair value of $2.07 per share, totaling $621,000. The warrants issued to Roth Capital have the same terms, and were valued in the same manner as the warrants issued to the purchasers of the Series A Preferred Stock.

Common Stock

We have 1,000,000,000 shares of common stock, par value $.0001, authorized. At March 31, 2009 there were 23,424,172 shares of common stock issued and outstanding and there were 23,530,642 shares of common stock issued and outstanding at December 31, 2008.

For the three months ended March 31, 2009 and 2008, amortization of stock-based compensation amounted to $180,591 and $207,273, respectively.

During the three months ended March 31, 2009, we did not issue any shares of common stock in connection with the exercise of common stock purchase warrants. During the three months ended March 31, 2008, we issued 25,000 shares of common stock in connection with the exercise of common stock warrants at an exercise price of $4.00 per share.

During the three months ended March 31, 2009, we issued 779,100 shares of common stock in connection with the exercise of common stock options at an exercise price of $.01 per share.

Stock Repurchase Program

On September 10, 2008, our board of directors authorized a stock repurchase program to repurchase up to $2.5 million of our common stock through March 31, 2009. The stock repurchase program was announced on September 12, 2008. The amount and timing of specific repurchases were subject to market conditions, applicable legal requirements and other factors deemed appropriate by our CEO and President. Repurchases may be in open-market transactions or through privately negotiated transactions, and our board of directors may discontinue the repurchase program at any time. In January 2009, we purchased 1,500,000 shares of our common stock at a price of $1.10 per share under this program from Marc Siegel, our former president and director. This stock repurchase program expired on March 31, 2009.

Reverse Split/Forward Split

On September 10, 2008, our board of directors approved a 1 for 100 shares reverse split of our common stock (the “Reverse Split”) to be immediately followed by a 100 for 1 forward split of our common stock (the “Forward Split”). The Reverse Split/Forward Split was announced on September 19, 2008. Shareholders who held in the aggregate less than one share of common stock following the Reverse Split were not included in the Forward Split. Rather, such shares received a cash payment of $5.07 per share, the closing price of our common stock as of September 19, 2008. Accordingly in 2008, we purchased 69,583 shares at a purchase price of $5.07 per share, which were redeemed. These stock purchases were not part of the stock repurchase program.

Stock Incentive Plans

On August 16, 2006, our board of directors authorized the 2006 Equity Plan (the “2006 Equity Plan”) covering 10,000,000 shares of our common stock, which was approved by a majority of our shareholders on August 16, 2006. At March 31, 2009 and December 31, 2008 there were options outstanding to purchase an aggregate of 276,250 and 365,000 shares, respectively, of common stock outstanding under the 2006 Equity Plan at exercise prices ranging from $2.50 to $7.50 per share.

On October 19, 2006, our board of directors authorized the 2006 Stock Compensation Plan (the “2006 Stock Compensation Plan”) covering 2,000,000 shares of our common stock. As the 2006 Stock Compensation Plan was not approved by our shareholders prior to October 19, 2007, we may no longer award incentive stock options under this plan and any incentive stock options previously awarded under the 2006 Stock Plan were converted into non-qualified options upon terms and conditions determined by the board of directors, as nearly as is reasonably practicable in their sole determination, to the terms and conditions of the incentive stock options being so converted. At March 31, 2009 and December 31, 2008, there were options outstanding to purchase an aggregate of 556,740 and 414,590 shares, respectively of common stock outstanding under the 2006 Stock Plan at exercise prices ranging from $.01 to $5.00 per share.

During 2008, we granted 240,000 options under the 2006 Equity Plan to employees with an exercise price of $5.00 to $7.50 per share, of these options, 231,000 options were canceled as of March 31, 2009. The options were valued on the date of grant using the Black-Scholes option-pricing model, in accordance with SFAS No. 123R using the following weighted-average assumptions: expected dividend yield 0%, risk-free interest rate of 2.51%, volatility of 78% and expected term of 1.31 years.

On April 25, 2008, our board of directors adopted the 2008 Executive Stock Incentive Plan covering 1,000,000 shares of our common stock, which was approved by a majority vote of our shareholders on May 30, 2008. As of March 31, 2009 no awards had been granted under this plan.

On April 25, 2008, our board of directors adopted the 2008 Non-Executive Stock Incentive Plan covering 3,000,000 shares of our common stock, which was approved by a majority vote of our shareholders on May 30, 2008. As of March 31, 2009 we granted 268,648 shares of restricted stock with vesting dates ranging from August 2008 to September 2010 under this plan.

The following table sets forth our stock option activity during the three months ended March 31, 2009:

	Shares underlying options	Weighted average exercise price
Outstanding at December 31, 2008	6,440,220	$ 5.71
Granted	-	-
Exercised	779,100	0.01
Expired or cancelled	88,750	5.30
Outstanding at March 31, 2009	5,572,370	$ 5.65

The weighted average remaining contractual life and weighted average exercise price of options outstanding at March 31, 2009, for selected exercise price ranges, are as follows:

Range of exercise prices		Number of options outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price		Options Exercisable	Weighted average exercise price of options exercisable	
$	0.01	270,900	1.40	$	0.01	270,900	$	0.01
	2.25	400	6.06		2.25	400		2.25
	2.50	492,490	3		2.50	492,490		2.50
	3.00	50,000	2		3.00	50,000		3.00
	5.00	1,221,000	3		5.00	1,221,000		5.00
	7.50	1,402,000	4		7.50	1,375,000		7.50
	10.00	1,375,000	5		10.00	-		-
	15.00	500	1.68		15.00	500		15.00
	30.00	760,000	4		30.00	760,000		30.00
	56.25	80	6.17		56.25	80		56.25
		5,572,370	3.56	$	8.44	4,170,370	$	8.00

During the first quarter of 2009, 779,100 options were exercised at an average exercise price of $.01 per share with an intrinsic value of $973,875. At March 31, 2009, the aggregate intrinsic value of outstanding and exercisable options was $338,625. As of March 31, 2009, the unrecognized expense of options that have not vested is $77,808.

Common Stock Purchase Warrants

As of March 31, 2009, we granted 25,000 common stock purchase warrants to consultants, exercisable immediately at an exercise price of $11.00. These warrants were fair valued in the first quarter of 2008 and valued on the date of grant at $103,707 using the Black-Scholes option-pricing model, in accordance with SFAS No. 123R using the following weighted-average assumptions: expected dividend yield of 0%, risk-free interest rate of 3.0%, volatility factor of 100% and expected term of 3 years. The fair value of these grants was recognized as selling, general and administrative expenses.

In February 2008, in connection with the $12,950,000 Series A Preferred Stock offering, we issued a total of 2,150,000 common stock purchase warrants, including 1,850,000 warrants issued to investors and 300,000 warrants issued to Roth Capital as the placement agent as part of their fee. The warrants are exercisable at $8.00 per share for a period of five years and were fair valued at $2.07 per warrant using the Black-Scholes Option-pricing model. Assumptions used in the calculation included: expected dividend yield of 0%; risk-free interest rate of 2.06%; volatility factor of 90% and expected term of 1 year.

A summary of the status of our outstanding common stock purchase warrants granted as of March 31, 2009 and changes during the period is as follows:

	Shares underlying	Weighted average

	warrants		exercise price
Outstanding at January 1, 2009	4,618,312	$	8.49
Granted	-		-
Exercised	-		-
Expired or cancelled	-		-
Outstanding at March 31, 2009	4,618,312	$	8.49
Exercisable at March 31, 2009	4,618,312	$	8.49

The following information applies to all warrants outstanding at March 31, 2009.

Rang of Exercise prices	Shares	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 2.50	50,000	3.17	$ 2.50	50,000	$ 2.50
$ 4.00	473,750	3.04	4.00	473,750	4.00
$ 7.50	60,000	1.64	7.50	60,000	7.50
$ 8.00	2,050,000	4.37	8.00	2,050,000	8.00
$ 10.00	1,869,562	2.99	10.00	1,869,562	10.00
$ 11.00	25,000	2.52	11.00	25,000	11.00
$ 15.00	90,000	1.64	$ 15.00	90,000	$ 15.00
	4,618,312	3.56		4,618,312	

NOTE 12 - SEGMENT INFORMATION

The following information is presented in accordance with SFAS No. 131, “Disclosure about segments of an Enterprise and Related Information”. For first quarter of 2009, we operated in three reportable business segments as follows:

Magnesium segment:

- Chang Magnesium;
- Chang Trading;
- Excel Rise;
- CDI Magnesium;
- Asia Magnesium;
- Golden Magnesium;
- Pan Asia Magnesium;
- Baotou Changxin Magnesium; and
- Capital One Resource.

Basic Materials segment:

- Lang Chemical;
- CDI Jingkun Zinc;
- CDI Jixiang Metal; and
- CDI Metal Recycling.

Consulting segment:

- China Direct Investments;
- CDI Shanghai Management; and
- Capital One Resource*.

* Capital One Resource generated revenues in two reporting segments, Magnesium and Consulting.

Our reportable segments are strategic business units that offer different products and services. Each segment is managed and reported separately based on the fundamental differences in their operations. CDI Metal Recycling was formerly in our Clean Technology Segment, which we exited during the third quarter in 2008. CDI Metal Recycling is in its start up phase and has no significant operations. Condensed consolidated information with respect to these reportable segments after giving effect to our decision to exit the clean technology segment for the first quarter of 2009 and 2008 are as follows:

For the three months ended March 31, 2009:

(In thousands)	Magnesium	Basic Materials	Consulting	Consolidated
Revenues	$ 3,804	$ 11,895	$ 358	$ 16,057
Revenues – related party	4,629	-	-	4,629
	8,433	11,895	358	20,686
Interest income (expense)	25	(69)	90	46
Net income (loss)	2	(40)	(1,418)	(1,456)
Segment Assets at March 31, 2009	$ 43,528	$ 10,464	$ 40,856	$ 94,848

For the three months ended March 31, 2008:

(In thousands)	Magnesium	Basic Materials	Consulting	Consolidated
Revenues	$ 43,944	$ 12,398	$ 2,318	$ 58,660
Revenues – related party	734			734
	44,678	12,398	2,318	59,394
Interest income (expense)	(20)	6	111	97
Net income	3,757	252	744	4,753
Segment Assets at December 31, 2008	$ 67,413	$ 14,350	$ 25,616	$ 107,379

NOTE 13 - FOREIGN OPERATIONS

As of March 31, 2009 the majority of our revenues and assets are associated with subsidiaries located in the People's Republic of China. Assets at March 31, 2009 and 2008, reclassified to reflect discontinued operations, as well as revenues for the first quarter of 2009 and 2008 were as follows:

(In thousands)	March 31, 2009 (in thousands)		
	United States	People's Republic of China	Total
Revenues	$ 358	$ 15,699	$ 16,057
Revenues – related party	-	4,629	4,629
	358	20,328	20,686
Identifiable assets at March 31, 2009	$ 40,856	$ 53,992	$ 94,848

(In thousands)	March 31, 2008 (in thousands)		
	United States	People's Republic of China	Total
Revenues	2,302	56,358	$ 58,660
Revenues – related party	—	734	734
	2,302	57,672	59,394
Identifiable assets at December 31, 2008	25,616	81,763	$ 107,379

NOTE 14 – DISCONTINUED OPERATIONS

During the third quarter of 2008, we elected to exit the alternative energy and recycling business conducted by CDI Clean Technology. We devised a formal plan of disposal of a majority ownership in these subsidiaries. The business of CDI Clean Technology and its subsidiaries comprised substantially all of the business of our Clean Technology segment. We classified the assets and liabilities of CDI Clean Technology and its subsidiaries as “Subsidiaries held for sale” in accordance with the provisions of FASB No. 144.

On September 30, 2008, we ceased depreciating the assets of CDI Clean Technology and its subsidiaries and as a result of the held for sale classification, we assessed the estimated fair value of the subsidiary and no impairment charge was recognized. The results of operations from CDI Clean Technology and its subsidiaries are classified as discontinued operations in 2008 and previously reported results of operations of CDI Clean Technology have been reclassified to reflect this subsidiary as "Discontinued operations, net of tax". On October 30, 2008, we completed the sale of an 81% interest in our wholly owned subsidiary CDI Clean Technology to PE Brothers Corp., for $1,240,000, recorded a gain of $238,670 on the sale during the fourth quarter. We plan to maintain our 19% ownership interest in CDI Clean Technology and recognize our investment using the cost method.

The following table sets forth the components of discontinued operations for the three months ended March 31, 2008.

Subsidiaries Held for Sale

	For the three months ended March 31, 2008
Revenues	$ 580,573
Cost of revenues	65,812
Gross profit	514,761
Selling, general, and administrative	88,977
Operating income	425,784
Other income (expenses)	(6,157)
Net (loss) income before income tax and minority interest	419,627
Income tax expense	(128,847)
Net income (loss) before minority interest	290,780
Minority Interest in income of subsidiary	(147,272)
Discontinued operation's net income	$ 143,508

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the information contained in our unaudited consolidated financial statements and the notes thereto appearing elsewhere herein and in conjunction with the Management’s Discussion and Analysis set forth in our Annual Report on Form 10-K for the year ended December 31, 2008.

We are on a calendar year, as such the three month period ending March 31, is our first quarter. The year ended December 31, 2008 is referred to as “2008” and the coming year ending December 31, 2009 is referred to as “2009”.

OVERVIEW OF OUR PERFORMANCE AND OPERATIONS

Our Business

We are a U.S. company that manages a portfolio of Chinese entities. We also provide consulting services to Chinese businesses. We operate in three identifiable segments, Magnesium, Basic Materials and Consulting, in accordance with SFAS No. 131, “Disclosure about segments of an Enterprise and Related Information”. In the fourth quarter of

2006 we established our Magnesium and Basic Materials segments which have grown through acquisitions of controlling interests of Chinese private companies. We consolidate these acquisitions as either our wholly or majority owned subsidiaries. Through this ownership control, we provide management advice as well as investment capital to expand their businesses. We hold a controlling interest in twelve subsidiaries operating in China, five of which comprise our Magnesium segment and five comprise our Basic Materials segment. We have a total of 1,286 full-time employees, of which 1,269 work in the PRC.

Our Magnesium segment is currently our largest segment by revenues and assets. We manufacture and sell pure magnesium and related by-products. We also purchase and resell magnesium products manufactured by third parties. Magnesium is used in a variety of markets and applications due to the physical and mechanical properties of the element and its alloys. Magnesium is the lightest of the structural metals; it is one fourth the weight of steel and two thirds the weight of aluminum. Various forms of magnesium are also used in the manufacture of electronic equipment such as computers, cameras, and cell phones. Magnesium powder is also used in flares, flashes and pyrotechnics. Global production of magnesium was estimated to be approximately 805,000 metric tons. China produced an estimated 630,000 metric tons in 2008, of which 160,000 metric tons were consumed domestically. During the first quarter of 2009 our Magnesium segment produced, sold or distributed approximately 2,781 metric tons of magnesium generating revenues of $8.4 million compared to the production, sale and distribution of 14,169 metric tons and revenues of $44.7 million in the first quarter of 2008.

Our Basic Materials segment engages in the sale and distribution of basic resources within Asia. Our Basic Materials segment includes the sale and distribution of a variety of products including (i) industrial grade synthetic chemicals, (ii) steel products (iii) non ferrous metals, and (iv) recycled materials. As well, within this segment we hold the rights to mining properties and are awaiting an independent valuation of the ore deposits prior to completion of construction. Presently we do not have a timetable for when our operations will commence. In the first quarter of 2009 this segment generated revenues of $11.9 million compared to $12.9 million in the first quarter of 2008.

Our 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, coordination of Sarbanes-Oxley compliance, and corporate asset evaluations. In the first quarter of 2009 this segment generated revenues of $358,000 compared to $2.3 million in the first quarter of 2008.

Our Performance

Total revenues for the first quarter of 2009 totaled $20.7 million compared to $59.4 million during the first quarter in 2008. This decrease of 65.2% was mainly due to the global economic slowdown which has adversely affected the demand for magnesium and to a lesser extent affected our sales of basic materials and revenues in our Consulting segment. Our gross profit for the first quarter of 2009 totaled $1.4 million compared to $9.9 million in the first quarter of 2008. This decrease in our profit margin was mainly in our magnesium segment due to the rapid decrease in the market price of magnesium, higher costs of raw materials and the fixed costs of production and higher operating expenses in our Consulting segment.

Our Outlook

Over the course of the last six months we have witnessed a severe downturn in the demand for and the price of our magnesium products due to the weak global economy and the effects of a 10% export tax on magnesium products which became effective in January 2008. Furthermore, in 2008 domestic magnesium consumption decreased to 160,000 metric tons, the first domestic decline since 2003. The average price of magnesium during the first quarter of 2009 was $2,400 compared to $4,500 during the first quarter of 2008, or a decrease of 46%. We are also faced with other challenges in growing our business, such as the continuing integration of our PRC based subsidiaries. While magnesium prices have shown signs of stabilization, demand remains weak and the outlook for future growth remains unclear. Our past investments to increase production at our magnesium facilities has positioned us to currently have substantial excess production capacity. As a result, we believe we have devoted a sufficient amount of capital to our Magnesium segment until the market conditions and capacity utilization rates improve significantly. We will seek to continue to purchase and resell magnesium from third parties only if demand permits or opportunistic transactions arise.

We intend to continue to explore external expansion, however, in basic materials related businesses in an effort to further diversify our revenue base in China. We also continue to work with the management of our subsidiaries to identify strategies to maximize their potential within their segment and to the consolidated group.

The worldwide economic slowdown continues to negatively impact the market price for zinc. At current market prices for zinc, it is not economically feasible for us to commence operations at our zinc property or to complete construction of a planned zinc minning facility. We believe that prices for lead and lead concentrate will remain stable in 2009 because the uses for lead are more widespread than zinc. We will continue to operate as a distributor of steel and non ferrous metals and believe that demand for these materials will increase as worldwide economic activity increases.

We continue to evaluate the feasibility of the development of a proposed facility to create aluminum powder from recycled aluminum. While the current market price of aluminum does not support the economic viability of a recycling operation, we believe aluminum wire recycling will become viable as natural resources continue to be depleted.

While we have made efforts to improve the caliber of the clients within our Consulting segment, the global economy and severe liquidity crisis in the capital markets have created a difficult environment for smaller companies to attract interest in the financial community. While we continue to provide services to our existing clients, we do not anticipate this segment will grow in 2009.

PRC Government Programs. In November 2008, the Chinese government announced a $586 billion domestic economic stimulus program aimed at bolstering economic activity in China. The two year program includes tax rebates, spending in housing, infrastructure, agriculture, health care and social welfare, and a tax deduction for capital spending by companies. In addition, in February 2009, China's State Council announced support plans for the country's nonferrous metals and logistics sectors. The support plans include subsidized loans to support technical innovations within the nonferrous metals sector, adjustments to export rebate rates of nonferrous products, and the establishment of a national reserve system for the industry. These programs adopted by the PRC government are aimed towards supporting growth in some of the sectors in which we operate. Furthermore, there have been signs that these programs, along with China’s significant foreign currency reserves, have resulted in heavy accelerated spending on building infrastructures and domestic spending on automobiles and appliances. It is, however, difficult to predict if any of our businesses will benefit. It remains to be seen if domestic consumption can compensate for slower worldwide demand, and the impact this will have on our future revenues.

Presentation of Financial Statements. The presentation of the statements of operations included in this Form 10-Q have been modified to allow for the reporting of deductions from net income to arrive at income (loss) applicable to common stockholders. Items reflected in our comprehensive income for the periods reported are now included in our notes to the consolidated financial statements included in this Form 10-Q. In addition, a portion of our consolidated financial statements have been reclassified to recognize discontinued operations treatment reflecting the sale of an 81% interest in CDI Clean Technology.

RESULTS OF OPERATIONS

Consolidated revenues and operating expenses by segment for the first quarter of 2009 and 2008 are as follows:

Consolidated Revenues

(Dollars in thousands)	For the First Quarter of 2009		For the First Quarter of 2008		
	Revenues	% of Revenues	Revenues	% of Revenues	% increase (decrease)
Magnesium segment	$ 8,433	41%	$ 44,678	75%	-81%
Basic Materials segment	11,895	58%	12,398	21%	-4%
Consulting segment	358	2%	2,318	4%	-85%
Total Consolidated	$ 20,686	100%	$ 59,394	100%	-65%

Total consolidated revenues for the first quarter of 2009 were $20.7 million, a decrease of 65% compared to the first quarter of 2008. This decrease was primarily a result of a decrease in revenues within our Magnesium segment as a result of weak world-wide demand for magnesium, a decline in revenues in our Lang Chemical subsidiary, the absence of one-time transaction fees in our Consulting segment in the first quarter of 2009 that we recognized in the first quarter of 2008 partially offset by increases in revenues from our CDI Beijing subsidiary we acquired in June 2008.

Consolidated Operating Income and Expenses

	For the First Quarter of				
(Dollars in thousands)	2009		2008		
	Amount	% of Revenues	Amount	% of Revenues	% increase (decrease)