

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

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

SCHEDULE 14A INFORMATION

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

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

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

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

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

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

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

[X], 2012

Dear Shareholder:

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

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

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

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

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

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

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

Sincerely

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

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

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

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

Dear Shareholder:

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

At the Meeting, our shareholders will be asked:

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

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

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

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

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

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Lazarus Rothstein

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

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Shareholders to be held on [X], 201 2 .

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

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

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QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING

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

When is the Meeting and where will it be held?

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

Why am I receiving these proxy materials?

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

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

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

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

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

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

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

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

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

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

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

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

What does the Share Transfer Consideration consist of?

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

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

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

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

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

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

Why are we seeking to acquire the Transfer Companies?

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

Why is shareholder approval of Proposal No. 1 required?

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

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

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

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

Why is shareholder approval of Proposal No. 2 required?

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

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

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

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

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

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

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

Why is the Company Proposing to Acquire the Transfer Companies?

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

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

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

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

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

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

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

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

How does the Board recommend I vote on the Proposals?

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

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

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

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

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

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

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

What other matters may arise at the Meeting?

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

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

Who is entitled to vote at the Meeting?

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

How do I vote?

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

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

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

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

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

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

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

How can I revoke my vote?

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

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

· Attending the Meeting and voting in person.

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

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

What is a "quorum"?

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

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

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

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

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

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

Who counts the votes?

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

Who will solicit and pay the cost of soliciting proxies?

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

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

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

Where can I obtain access to these proxy materials?

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

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

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

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

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

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

SUMMARY OF THE SHARE TRANSFER AND RELATED MATTERS

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

The Companies

China Direct Industries, Inc. (Page 39)

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

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

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

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

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

Marvelous Honor Holding, Inc. (Page 43)

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

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

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

Summary of the Share Transfer (Page 18)

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

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

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

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

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

Fixed Assets Appraisal Summaries (Page 24)

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

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

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

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

Why We are Seeking Shareholder Approval (Page 30)

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

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

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

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

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

The Transfer Agreements (Page 34)

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

Golden Trust Transfer Agreements (Page 34)

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

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

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

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

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

Lingshi Magnesium Transfer Agreement (Page 36)

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

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

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

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

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

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

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

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

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

No Appraisal Rights (Page 33)

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

Conditions to the Share Transfer (Page 37)

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

Representations, Warranties, and Indemnification (Page 37)

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

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

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

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

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

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

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

Risks Relating to the Share Transfer (Page 12)

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

Relating to Proposal No. 1:

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

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

Relating to the Company's Business Generally:

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