

China Direct, Inc
Form 8-K/A
December 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K/A

Amendment No. 1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 1, 2007

CHINA DIRECT, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation)

0-26415
(Commission
File Number)

13-3876100
(IRS Employer
Identification No.)

5301 North Federal Highway, Suite 120, Boca Raton, Florida 33487

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (561) 989-9171

not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01 **Other Events**

As previously reported in a Current Report on Form 8-K as filed with the Securities and Exchange Commission on October 4, 2007, effective October 1, 2007 CDI China, Inc. (CDI China), a wholly owned subsidiary of China Direct, Inc. (China Direct), entered into a joint venture agreement (the Agreement) with Shanxi Jinyang Coal and Coke Group Co., Ltd. a Chinese limited liability company (Jinyang Group) and Mr. Runlian Tian, a shareholder of Jinyang Group. Jinyang Group and Mr. Tian are the owners of Shanxi Jinyang Metal Chemical Co., Ltd. which, pursuant to the Agreement, was restructured into a foreign invested entity (FIE) CDI Pan Magnesium Co., Ltd. Subsequently, this joint venture entity was renamed Pan Asia Magnesium Co., Ltd. (Pan Asia Mag).

The business operations of Jinyang Group, which was established in March 1996, include mining, coal washing and coking, chemical fertilizer, machine processing and hotel service. Jinyang Group employs approximately 2,000 employees and has 10 subsidiaries including one hotel. Following the transaction, Jinyang Group will discontinue manufacturing of magnesium ingot.

Under the terms of the Agreement, China Direct agreed to contribute a total of \$6.75 million as registered capital of which China Direct has already delivered the initial installment of \$2.1 million. Jinyang Group and Mr. Tian agreed to contribute the assets of Shanxi Jinyang Metal Chemical Co., Ltd. which were valued at \$6.48 million. In exchange for these contributions, CDI China owns 51% of Pan Asia Mag, with Jinyang Group and Mr. Tian owning 27% and 22%, respectively. On November 2, 2007 the Department of Commerce of the Shanxi Province approved this transaction. China Direct is obligated to deliver the balance of its registered capital contributions into the joint venture within two years from the granting of this license. Accordingly, we will be required to provide the remaining \$4,650,000 in registered capital within two years of such date which will be funded from the cash reserves of China Direct.

Following is a brief discussion regarding the business and operations of Pan Asia Mag:

Overview

Pan Asia Mag is engaged in the production and sale of magnesium ingot with a magnesium element in excess of 99.95% in sizes ranging from 2 kg to 30 kg. Pan Asia Mag typically sells its products to foreign entities located in Europe and Asia, with approximately 70% of its production being historically sold to Chinese trading companies who export to foreign countries. Of the remaining product manufactured by Pan Asia Mag, approximately 20% is sold directly to European countries and the remaining approximate 10% directly to Asian countries.

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Magnesium ingot produced by Pan Asia Mag satisfies the standard set forth by the National Quality Supervision Administration Office (GB/T3499-2003). In operations since 2001, Pan Asia Mag reported net revenues of \$7,331,771 and a net loss of \$594,779 for the fiscal year ended December 31, 2006 and net revenues of \$4,567,056 and a net loss of \$735,317 for the fiscal year ended December 31, 2005. For the nine months ended September 30, 2007 (unaudited), it reported net revenues of \$6,792,877 and net income of \$4,517.

According to the China Magnesium Association, in 2006 China produced 526,000 metric tons of primary magnesium, an increase of 12% from 2005. Furthermore, domestic consumption within China increased to 150,000 metric tons, an increase of 50% from 2005. As of September 11, 2007, during 2007 China has produced 412,100 metric tons of magnesium, with 47,900 metric tons produced in August 2007 alone. (1)

Pan Asia Mag's operations are located in the Shanxi Province of China, and most of the magnesium in China is produced in the Shanxi Province which has abundant resources of dolomite, large coal deposits and some ferrosilicon production. In recent years, the Shanxi Province has taken a leadership position in China in various aspects of magnesium extraction technology and related environmental protection work and officials from the Ministry of Commerce (MOC) have designated the Shanxi Province as the central magnesium production region of China. As a result, the Shanxi Province has emerged as an important region for magnesium related companies. The annual output of magnesium in the Shanxi Province is approximately 360,000 metric tons, accounting for 55% of the world's total magnesium output, and 77% of the total output in China. As such the manufacturers in the region have a degree of pricing power of magnesium in both domestic and international markets.

Pan Asia Mag utilizes a production method known as the silicothermic manufacturing process, sometimes referred to as the pigeon process, as the primary production method of its magnesium products. The primary raw materials for this production method are dolomite, ferrosilicon and coal. The pigeon process, a common method of manufacturing magnesium in China, offers several advantages including reduced cost, shorter production cycles, and environmentally friendly production methods when compared with alternative production methods. Pan Asia Mag produced and sold 4,873 metric tons and 4,500 metric tons of magnesium ingots in 2005 and 2006, respectively. In August 2007, it received a license from Environmental Protection Administration of the Shanxi Province. While it is not currently mandatory for manufacturers to obtain such a state-issued license, in an effort to accommodate mounting global pressure to reduce pollution, it is expected that the state government will implement such measures by December 2008.

Pan Asia Mag sells to customers on a product availability basis due to the demand of magnesium. Customers typically will provide advance notice of intended future purchases in an effort to ensure supply. Pan Asia Mag's customers pay full amount of the order before the goods are loaded and shipped, and in most cases payments are made in the form of telegraphic transfer or cash and occasionally pursuant to a letter of credit). For overseas customers Pan Asia Mag generally processes and ships on a free on board (FOB) basis, but it may occasionally ship on a cost plus insurance plus freight (CIF) basis. When an order is shipped FOB, it means that Pan Asia Mag pays for transportation of the goods to the port of shipment, plus loading costs, and its customer pays freight, insurance, unloading costs and transportation from the arrival port to the final destination. The passing of risks occurs when the goods pass the ship's rail at the port of shipment. When an order is requested CIF, the buyer pays Pan Asia Mag the cost of the product plus transportation (freight) and insurance for the products to reach the destination. Pan Asia Mag then arranges transportation and pays insurance during transit. If the shipment is lost, Pan Asia Mag will receive benefit of insurance for shipment and be responsible for replacing the lost shipment to its customer.

On sales made using trading companies in China, Pan Asia Mag will typically collect payment in full for the order two to three weeks prior to shipment, and its long term customers who have an established credit history with the company will pay Pan Asia Mag one to two days prior to shipment.

(1) <http://www.chinamagnesium.net/news.asp?id=669&lm=%CD%B3%BC%C6%CA%FD%BE%DD>

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The overall operations of Pan Asia Mag will be the overseen by Mr. Wuliang Zhang, who will serve as its CEO. Mr. Zhang is currently employed by us as Vice General Management of CDI Magnesium Co., Ltd., a majority owned subsidiary of CDI China. Mr. Zhang is a minority owner of CDI Magnesium Co., Ltd. Messrs. Haixin Zhao and Chunxi Yan, officers of Jinyang Group, are the Chairman and General Manager, respectively, of Pan Asia Mag.

Employees

Pan Asia Mag currently employs approximately 351 persons in the following positions:

| <u>Position</u> | <u>No. of Employees</u> |
|---------------------|-----------------------------|
| General Manager | 1 |
| Operations | 8 |
| Manufacturing | 302 |
| Quality control | 12 |
| Administration | 12 |
| Accounting | 6 |
| Sales and marketing | <u>10</u> |
| Total | 351 |

As with all companies in China, Pan Asia Mag is required to contribute a portion of its employees' total salaries to the Chinese government's social insurance funds, including medical insurance, unemployment insurance and job injuries insurance, and a housing assistance fund, in accordance with relevant regulations.

Facilities

Pan Asia Mag leases a manufacturing complex from Jinyang Group, which includes one manufacturing plant comprising approximately 500,000 square feet under a 30 year lease which was entered into in March 2000. The lease for the complex is based upon a fixed rate at RMB 1,000/Chinese Acre which is approximately \$132 for every 7,000 sq. ft. The annual expense is approximately \$14,550 (RMB 110,000). Included in the complex are two additional 500,000 square foot magnesium plants under construction, a 33,000 square foot warehouse, a 28,000 foot dormitory, 4,300 square feet of office space, and a 3,300 square foot quality control lab.

The manufacturing plant is a 500,000 square foot magnesium ingot plant with an annual estimated capacity of 6,000 metric tons. The two additional magnesium ingot plants, which are under construction; are each comprised of 500,000 square foot with an annual estimated capacity of 6,000 metric tons. Pan Asia Mag expects to commence operations following the completion of two additional 500,000 square foot magnesium ingot plants.

Jinyang Group commenced construction of two additional 500,000 square foot magnesium plants in March 2006. Presently Jinyang Group estimates the plants are 60 % completed. Pan Asia Mag expects the total cost for the construction of the two additional plants will be approximately \$6,600,000. To date, Jinyang Group has invested approximately \$3,960,000 to construct the new plants, with a total estimated cost of the project at \$6,600,000. Pan Asia Mag will fund the balance of the project using a portion of the investment from our company.

Construction is estimated to be completed by April 1, 2008.

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Certain Relationships and Related Party Transactions

In addition to the lease of the manufacturing facilities from Jinyang Group, from time to time Pan Asia Mag has engaged in transaction with related parties. From time to time, as a private company, Pan Asia Mag has borrowed funds from or advanced funds to related parties for working capital purposes. These advanced are non interest bearing, unsecured and payable on demand. At September 30, 2007, the unaudited financial statements of Pan Asia Mag appearing elsewhere herein reflect a due from related party in the amount of \$2,831,026, which represents amounts due from Shanxi Jinyang Coal and Coke Group Co., and a due to related party in the amount of \$1,379,093, which represents funds borrowed from Tianning Hotel of \$1,362,440 and Runlian Tian of \$16,653. As of the date of the report, Pan Asia Mag's financial statements reflect a due from related party in the amount of \$1,468,586, which represents amounts due from Shanxi Jinyang Coal and Coke Group Co., and a due to related party in the amount of \$16,653, which represents funds borrowed from Runlian Tian of \$16,653. Following our acquisition of Pan Asia Mag, the practice of making loans to related parties has been discontinued.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of businesses acquired.

Included in this Current Report on Form 8-K/A are the audited financial statements of Pan Asia Mag for the fiscal years ended December 31, 2006 and 2005 and the unaudited financial statements for the nine months ended September 30, 2007 and 2006.

(b) Pro forma financial information.

The following pro forma financial information for Pan Asia Mag as required by Article 11 of Regulation S-X is filed herewith:

Pro forma Consolidated Balance sheet at September 30, 2007 (unaudited),
Pro forma Consolidated Statement of Operations for the nine months ended September 30, 2007 (unaudited), and
Pro forma Consolidated Statement of Operations for the year ended December 31, 2006 (unaudited).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CHINA DIRECT, INC.

Date: December 13, 2007

By: /s/ James Wang
James Wang,
Chief Executive Officer

SHANXI JINYANG METAL CHEMICAL CO., LTD.

FINANCIAL STATEMENTS

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SHANXI JINYANG METAL CHEMICAL CO., LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Directors

Shanxi Jinyang Metal Chemical Co., Ltd

We have audited the accompanying balance sheet of Shanxi Jinyang Metal Chemical Co., Ltd. as of December 31, 2006 and 2005, and the related statements of operations, members' equity and cash flows for the year ended December 31, 2006 and 2005. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shanxi Jinyang Metal Chemical Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years ended December 31, 2006 and 2005 in conformity with accounting principles generally accepted in the United States.

/s/ Sherb & Co., LLP

Certified Public Accountants

Boca Raton, Florida

November 30, 2007

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SHANXI JINYANG METAL CHEMICAL CO., LTD.**BALANCE SHEETS**

| | December 31, 2006 | 2005 | September 30, 2007 (unaudited) |
|--|------------------------------|-------------|---|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$66,760 | \$4,013 | \$76,807 |
| Notes receivable | 32,268 | | 6,651 |
| Accounts receivable, net of allowance for doubtful accounts of \$69,472, \$66,807 and \$64,690 for 2007, 2006 and 2005, respectively | 149,946 | 63,319 | 108,723 |
| Other receivables | 12,086 | 14,938 | 24,594 |
| Inventories, net | 532,851 | 650,719 | 438,476 |
| Prepaid expenses and other assets | 121,154 | 159,637 | 254,619 |
| Due from related parties | 2,309,498 | | 2,831,026 |
| Total Current Assets | 3,224,563 | 892,626 | 3,740,896 |
| PROPERTY AND EQUIPMENT - Net of accumulated depreciation of \$1,982,060, \$1,620,305 and \$1,238,935 for 2007, 2006 and 2005, respectively | 3,907,032 | 4,002,150 | 3,860,945 |
| OTHER ASSETS | 129,198 | 121,386 | 134,351 |
| Total Assets | \$7,260,793 | \$5,016,162 | \$7,736,192 |
| LIABILITIES AND MEMBERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Notes payable and short-term loans | \$1,611,768 | \$371,591 | \$2,075,131 |
| Accounts payable and accrued expenses | 1,396,709 | 1,020,208 | 1,312,015 |
| Other payables | 15,867 | 12,443 | 17,377 |
| Advances from customers | 123,709 | 92,962 | 82,434 |
| Due to related parties | 1,315,920 | 458,162 | 1,379,093 |
| Taxes payable | 243,116 | | 209,952 |
| Total Current Liabilities | 4,707,089 | 1,955,366 | 5,076,002 |
| MEMBERS' EQUITY: | | | |
| Members' Equity | 3,406,248 | 3,406,248 | 3,406,248 |
| Accumulated deficit | (949,485) | (354,706) | (944,968) |
| Other comprehensive income - foreign currency | 96,941 | 9,254 | 198,910 |