



EXPRESS TO CHINA

Two partners blend Wall Street savvy with Asian connections to invest in smaller companies in untapped Chinese cities.

By Doreen Hemlock



China Direct's James Wang (left) and Marc Siegel bring small Asian companies to US financial markets.

THEY MAKE AN UNUSUAL management team: a soft-spoken scientist from China and a fast-talking financier from New York. But together, China Direct Inc. CEO James Wang and President Marc Siegel have become millionaires — at least on paper — leading a South Florida company to the American Stock Exchange and helping its shares soar.

The pair's consulting and investment firm helps small and midsize companies in China expand and adopt United States-style financial systems, with the potential to go public on Wall Street. Following a venture-capital model, they invest in businesses in smaller Chinese cities often overlooked by Chinese banks and other international investment firms. They are keen now on busi-

nesses in the natural resource field, such as producers of zinc and magnesium, that can help meet China's rising demand for metals and other basics.

"Our job is to try to bridge the gap between smaller Chinese companies and US financial markets," Wang says. "And for that, there's more and more demand."

Wang, now based in Boca Raton, provides insights into his booming Asian homeland; Siegel knows the financial ropes. Since teaming up in 2005, the duo has taken the firm from annual revenues of \$1.5 million to \$14 million last year; they project \$150 million this year. Profits reached \$4 million in the first half of this year and should top \$8 million for the full 2007. Shares of China Direct (Amex: CDS) that started trading near

A STAKE IN CHINESE FIRMS: CHINA DIRECT'S STOCK (AMEX: CDS)



Source: Yahoo Finance

\$4 on the Amex in September had more than doubled in price at press time.

During 2008, Wang and Siegel plan to take majority stakes in another half-dozen Chinese companies, thanks largely to relationships Wang is building during the months he spends each year in China. They think revenues could rise 30 percent during 2008 as they continue to buy majority stakes in "not ready for prime time" Chinese companies and "give them an MBA under our umbrella," Siegel says. China Direct keeps the existing Chinese managers and gets their buy-in. "Our whole premise to the Chinese managers is, 'Your 49 percent stake will be worth more than the 100 percent you have now,'" as your company expands with new capital and global know-how, he adds.

"We're hands on. We don't just give them money and say, 'Good luck,'" Wang says, adding that China Direct ties disbursements to performance goals and generally aims to stay three years before selling its stake or taking the venture public.

So far, the formula is paying off. Business is so buoyant that China Direct, outgrowing its Boca Raton headquarters, plans to move to larger offices in Deerfield Beach next year. It will boost its approximately 15-member staff to 25 people, mostly China-born professionals educated in the United States and recruited from Los Angeles, Chicago and other areas with larger Chinese communities. "It's easy to get bilingual, Spanish-English professionals in South Florida, but very difficult to get bilingual Chinese-speakers," says Siegel, who turned to Monster.com and headhunters to find staff willing to relocate to the region.

Yet challenges remain. Some risks relate to Chinese

government policy, says Stanley Ng, an analyst in Hong Kong with Dutton Associates, an issuer-paid research firm that covers China Direct (China Direct pays Dutton to issue reports and recommendations on its stock). The communist-led government could tighten rules on foreign companies buying Chinese firms, especially those in natural resources, Ng says by e-mail.

Then there is the question of finding "a steady stream" of Chinese companies to invest in and rack up big profits, says James Trippon, editor of *China Stock Digest*, which has offices in Houston and Shanghai. Trippon recommended China Direct as a speculative buy this year, when the stock was trading at \$3.85 a share. They "were very fortunate" to happen into magnesium, Trippon says by phone from Houston. "I just don't know if there are a lot of other opportunities to do that." He also says more international investment firms may begin to focus on companies in smaller Chinese cities, meaning competition for China Direct from a more traditional model.

Wang and Siegel, however, see growth management as their immediate challenge, as they aim to buy more Chinese companies, add an office in California and expand to a staff of 30 from a dozen now in China. To do so successfully, they rely on each other. "I'd be done without James," says Siegel during a recent breakfast in their Boca Raton office, where the partners, both in their 40s, wear similar open-collared, preppy-style shirts.

The unlikely partnership developed in part from Northern winters, the pair says. In the late 1990s, Wang, who holds a Ph.D. in immunology from the University of Arizona, was teaching at the University of Minnesota. In his spare time in the bitter cold, he dabbled in stocks online. Siegel, who worked for years for Lehman Bros. in New York, had started a brokerage when he moved to South Florida in 1998 to be near his retired father. The two began doing business long-distance.

In 1999, Wang came to South Florida to write up some recommendations for Siegel's newsletters. Siegel also sold Wang the shell of a dot-com company that the scientist developed into Genesis Technology Group of Boca Raton, a consulting and investment firm specialized in China business. In 2002, Siegel left his brokerage for consulting, and in 2004, Wang left Genesis. By then, Wang's model of helping Chinese companies go public through reverse mergers with already listed shell companies had lost some luster. US authorities required financial audits faster, boosting costs.

So the two decided to form a holding company, solicit cash and start investing directly in Chinese companies to take them public later. Siegel says they raised \$4.6 million by selling shares at \$2 each to hedge funds in New York. Then they listed their company on the over the counter stock exchange in 2006. It eventually became China Direct, moving to the Amex about a year later. ■