CHINA VALVES TECHNOLOGY, INC
Form 10-KT
November 21, 2011

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

FORM 10-K

[ ] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended________________

OR

[X] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from January 1, 2011 to September 30, 2011

Commission File Number: 001-34542

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

NEVADA	**86-0891931**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

21F Kineer Plaza
226 Jinshui Road
Zhengzhou, Henan Province 450008
People s Republic of China
(86) 371-8612-7222
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Securities Registered Pursuant to Section 12(b) of the Act:

(Title of Class)	**(Name of each exchange on which registered)**
Common Stock, $.001 par value	NASDAQ Global Market

Securities Registered Pursuant to Section 12(g) of the Act:

None
(Title Of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

On November 15, 2011, there were 35,869,654 shares of the registrant s common stock outstanding.

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates of the registrant based on the closing sale price of the registrant s common stock as reported on the NASDAQ Global Market was approximately $67.64 million as of June 30, 2011 (the last business day of the registrant s most recently completed second fiscal quarter). Shares of common stock held by each executive officer and director of the registrant and each person who beneficially owns 10% or more of the registrant s outstanding common stock has been excluded from the calculation. This determination of affiliated status may not be conclusive for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Documents Incorporated by Reference: Portions of the registrant s proxy statement for its 2011 annual meeting of stockholders, which the registrant expects to file with the Securities and Exchange Commission within 120 days after September 30, 2011, are incorporated by reference into Part III of this report.

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INTRODUCTORY NOTE

Use of Terms In this report, unless indicated otherwise, references to

- Changsha Valve are references to China Valves Technology (Changsha) Valve Co., Ltd., incorporated in the People s Republic of China;
- China Valves Holdings are references to China Valves Technology Holdings Limited, incorporated in Hong Kong;
- China Valves, the Company, , CVVT , we, us and our are references to the combined business of Chi Technology, Inc. and our PRC and other subsidiaries;
- China Valve Samoa are references to China Valve Holdings Limited, incorporated in Samoa;
- China and PRC are references to the People s Republic of China;
- $ are references to the legal currency of the United States.
- Hanwei Valve are references to Shanghai Pudong Hanwei Valve Co., Ltd., incorporated in People s Republic of China;
- Henan Tonghai Fluid are references to Henan Tonghai Fluid Equipment Co., Ltd.;
- HKD are references to the Hong Kong Dollar;
- Kaifeng Valve are references to Henan Kaifeng High Pressure Valve Co., Ltd.;
- Operating Subsidiaries are references to ZD Valve, Kaifeng Valve, Yangzhou Rock, Taide Valve, Changsha Valve and Hanwei Valve;
- RMB are references to Renminbi, the legal currency of China;
- Taide Valve are references to Taizhou Taide Valve Co., Ltd.;
- The Casting Company are references to Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company;
- Yangzhou Rock are references to Yangzhou Rock Valve Lock Technology Co., Ltd.; and
- ZD Valve are references to Zhengzhou City ZD Valve Co., Ltd.

Forward-Looking Statements

The statements contained in this Report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business, which can be identified by the use of forward-looking terminology, such as estimates, projects, plans, believes, expects, anticipates, intends, or the negative thereof or other variations there discussions of strategy that involve risks and uncertainties. Management wishes to caution the reader of the forward-looking statements that such statements, which are contained in this Report, reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors, including, but not limited to, economic, competitive, regulatory, technological, key employee, and general business factors affecting our operations, markets, growth, services, products, licenses and other factors discussed in our other filings with the Securities and Exchange Commission, and that these statements are only estimates or predictions. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of risks facing us, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. Some of these risks are described in Risk Factors in Item 1A of this Report.

PART I

Item 1. ***Business.***

OVERVIEW

China Valves Technology Inc. is a leading developer, manufacturer and after market service provider of comprehensive flow management products and services in China. Our flow service solutions help customers resolve any problems and questions they may have in critical industries around the world.

As a recognized leader in supplying valves, actuators, forging and castings, valve locks and related services, we support global infrastructure industries, including nuclear power, fossil power, hydropower, oil and gas, chemical and petrochemical, water treatment, mining and metal, as well as general industrial markets where our products and services add value. With approximately 1,900 employees in China and more than 50 distributors in more than 30 countries, we can provide convenient services with a local presence.

China Valves has evolved through organic growth and strategic acquisitions. The Company was created in 2007 with the merger of two leading fluid motion and control companies - ZD Valve and Kaifeng Valve. We continually evaluate acquisitions and other strategic investment opportunities to broaden our product portfolio, service capabilities, geographic presence and/or operational capabilities to meet the growing needs of our customers. Presently, China Valves has six wholly-owned subsidiaries, six heritage brands, and a comprehensive product line including over 800 models and 10,000 series.

Our industry is usually categorized into the following five major distinct industries; our sales mix by industry in the fiscal year 2011 consisted of:

Power Supply	30.2%
Petrochemical and Oil	31.6%
Water Supply	20.7%
Metallurgy	4.1%
Other	13.4 %

Our sales revenue and net income were $161.4 million and $29.6 million, respectively, for the nine months ended September 30, 2011, and $131.4 million and $36.8 million, respectively, for the nine months ended September 30, 2010. Our sales revenue and net income were $183.7 million and $43.2 million, respectively, for the year ended December 31, 2010 and $95.4 million and $23.4 million, respectively, for the year ended December 31, 2009.

CHANGE IN FISCAL YEAR

As previously announced, in 2011, we changed our fiscal year end to September 30 from December 31. We made this change because the first quarter of the calendar year is inefficient for the audit work due to the Chinese New Year holidays. This Transition Report on Form 10-K reports our financial results for the nine-month period from January 1, 2011 through September 30, 2011, which we refer to as fiscal year 2011 throughout this report. Following fiscal year 2011, we will report on a twelve-month fiscal year beginning on October 1 and ending on September 30 of each year. The years ended December 31, 2010 and 2009 reflect the twelve-month results of the respective calendar years.

HISTORY AND DEVELOPMENT

Our heritage trademark dates back to the 1959 founding of Kaifeng High Pressure Valve Factory, later to be Kaifeng Valve. ZD Valve was established in 1993.

Under the name of a predecessor entity, China Valves was incorporated in Nevada on August 1st, 1997. Kaifeng Valve and ZD Valve merged together in 2007 and then China Valves Holdings was established in Hong Kong in September 2007.

In April 2009, China Valves finalized the acquisition of Taide Valve., a gate and butterfly valves manufacturer whose products are mainly used in the water supply industry.

In January 2010, China Valves acquired Yangzhou Rock., a mechanical interlock safety system and triple offset butterfly valves maker.

In February 2010, China Valves announced the acquisition of former Watts Valve (Changsha) Co., Ltd., now renamed as China Valves Technology (Changsha) Co., Ltd, or Changsha Valve. Changsha Valve is one of the main valve suppliers of China's hydropower and fossil power industries.

In April 2010, China Valves acquired Hanwei Valves., a joint venture of PRC and Hong Kong and a famous high-tech valves supplier of oil and gas, petrochemical industries.

SUBSIDIARIES

China Valves owns six operations in China. Below is the current business information of each. In addition to the business operations information presented below, please see the Consolidated Financial Statements of this annual report for more information on our business.

Kaifeng Valve

Kaifeng Valve was founded in 1959, and is located in Kaifeng city (one of the seven ancient capitals of China), Henan province. It used to be a large state-owned valve factory in China. The dominant products include supercritical or ultra critical thermal power plant high pressure and temperature valves, abrasive and corrosive media refinery & petrochemical valves. As a leading valve supplier in the energy industry, the "KF" brand is a leader in the Chinese valve industry, and was awarded "the most competitive valve brand'' by the Chinese Ministry of Commerce in 2006.

Products and services

Kaifeng Valve is a famous valve supplier for the fossil power industry in China. Its products are used in a wide variety of applications in power plants from high temperature steam isolation and high pressure feed water isolation, to the most severe pressure-difference steam extraction duty in turbine.

Its products are used in high levels of corrosion, abrasion, extremely high temperature and high pressure, zero fugitive emissions, and nuclear power plant isolations. The Company believes it makes most reliable domestic high pressure isolation valve in China.

Kaifeng Valve provides engineering, design, inspection, maintenance and repair services for its valves and related products. It sells its products and services in most geographic regions in China directly through the Company's internal sales force as well as through a network of independent distributors.

Product Types

- High temperature and high pressure casting gate, globe, check valves
- High temperature and high pressure forged steel gate, globe, check valves
- API standard casting gate, globe, check valves
- Bleed steam check valves
- High pressure Y-globe, Y-globe check valves
- High vacuum gate, globe, check valves
- Automatic recirculation control valve
- Multi-stage steam control valve
- Feed water heater 3-way isolation valve
- Through way and straight way plunger valve

Customers

Besides fossil power plants, Kaifeng Valve products are widely used in refinery, petrochemical, mining and metal, pulp and paper industries. Kaifeng Valve signed a Strategic Cooperation Agreement with China Dongfang Electric Corporation ("DEC"), the biggest power equipment supplier in the world. Kaifeng Valve is the sole supplier of the pipeline pressure control valve for Shanghai Electric Power Generation Group. Kaifeng Valve is a Tier 1 supplier of China's top 5 power generation companies.

Kaifeng Valve is a qualified supplier of China National Nuclear Corporation ("CNNC") and China Guangdong Nuclear Power Holding Co., Ltd. ("CGNPC"). It provides numerous high pressure, high temperature steam and water isolation valves to nuclear power plants every year.

ZD Valve

ZD Valve is a leading manufacturer of low pressure butterfly valves, eccentric semi-ball valves, non-return valves with damping systems, and valves applied in water treatment and drainage pipelines. Its brand 'ZD" is a leading butterfly valve brand in the water treatment industry of China. ZD Valve occupies a significant market share of butterfly valves in the municipal water treatment of China. ZD Valve is located in Zhengzhou city, the capital of Henan province.

Products and services

ZD Valve is one of the largest low pressure butterfly valve suppliers in China. Besides manufacturing butterfly valves, ZD Valve provides a wide product range for applications in water treatment, petrochemical, mining and metal, and fossil power industries.

ZD Valve provides a complete package of flow control solutions to water treatment customers. In addition to these products, it also offers engineering, design, inspection, installation, commissioning, and repair services.

ZD Valve provides after sale services through its network of sales representatives who cover most of the capital cities and all of the five municipals in China. After sales services are carried out through its production facility, and include 24-hour onsite services, in-house repair, and return manufacturing services.

Product Types

- Resilient seated gate valve
- Multi-functional damping check valve
- Hydraulic damping tilting check valves
- Ventilating butterfly valve
- Triple eccentric metal seated butterfly valve
- High performance metal seated butterfly valve
- Soft seated butterfly valve
- Hydropower station hydraulic and pneumatic butterfly valve
- Eccentric semi-ball valve
- Floating ball air release valve
- 3-way control valve
- Sluice gate valve

Customers

The customer mix of ZD Valve spans several industries, including fossil power, hydropower, petrochemical, mining and metal, pulp and paper and food. However, water treatment is still the biggest market of ZD Valve, and its products are well known in the major city water treatment companies in China.

ZD Valve has an extensive network of sales and distributors in Europe, Middle East and Southeast Asia to support our global customers.

Changsha Valve

Changsha Valve's predecessor was founded in 1958. Its leading products include large diameter hydraulic operated butterfly valves, flow control valves, and spherical valves in large size. Changsha Valve is a leading butterfly valves supplier for the hydropower industry in China. It has accumulated abundant experiences in fossil power, hydropower, nuclear and water treatment industries. Changsha Valve established the Chinese industrial standard for metal seated butterfly valves and power plant butterfly valves. Its brand "CSV" has more than fifty years of history and occupies significant market share of butterfly valves in the hydropower industry

Products and services

Changsha Valves is well known for its large size butterfly valve and large size water control valve. It manufactures the most substantial butterfly valve (DN5500mm) in all of China. As one of the main valve suppliers in China's hydropower industry, Changsha Valve provides a broad range of industrial valves, including on/off valves, control valves, and other specialty valves.

As the standard setter of metal seated butterfly valves and power plant butterfly valves, Changsha Valve provides extensive after sales services and strong technical support to our customers.

Product types

- Large size vacuum butterfly valve
- Butt weld butterfly valve
- Hydropower station metal seated butterfly valve
- Hydraulic and pneumatic operated butterfly valve
- TRT Coal gas dust exhaust butterfly valve
- Spherical water control valve
- Top entry trunnion mounted ball valve
- Inline type sleeve water control valve
- Submerged type sleeve control valve
- Y-type and Straight way type sleeve control valve

Customers

Changsha Valve supplies the hydropower stations in China. Its products are widely used in the recycled water systems in fossil power plants, especially in 1000MW ultra-critical power plants. Its products are increasingly used in metal, refinery and chemical plants due to their reliability and excellent after sale services.

Hanwei Valve

Hanwei Valve is a high-tech enterprise located in the Pudong Airport area of Shanghai. It was founded in 1992 as a joint venture between Hong Kong Get Success Investment Limited and Shanghai Hanhuang Valve Co., Ltd. Hanwei Valve is recognized for its advanced R&D capabilities and its strong engineering capabilities. Different from Kaifeng Valve, ZD Valve and Changsha Valve, Hanwei Valve is committed to development in the oil and gas, petrochemical and chemical markets. "Han Wei" is considered to be a leading brand in China’s valve industry.

Products and services

Hanwei Valve is one of the top suppliers in the world that can provide a 24-way rotary valve. The 24-way rotary valve is applied in the simulated moving bed adsorption-separation unit and chromatogram separation unit of petrochemical and biological engineering. Its fully welded pipeline ball valve is widely used in China’s oil &gas industry, and has penetrated markets in the Middle East, Southeast Asia and Central Asia. It has several patented products such as the 24-way rotary valve, district heating ball valve, full welded pipeline ball valve etc.

Hanwei Valve provides design, engineering, commissioning, diagnostic, installation, inspection and repair services to its customers. We believe its ability to offer design and engineering services provides us with a unique competitive advantage.

Product Types

- Axial-flow check valve
- Dual plate check valve
- Parallel slide gate valve
- High performance metal seated butterfly valve
- Trunnion mounted ball valve
- Full welded pipeline ball valve
- Fully welded district heating ball valve
- Top entry trunnion mounted ball valve
- Floating ball valve
- 24-way rotary valve
- Tank bottom valve
- Knife gate valve

Customers

Hanwei Valve is a tier one valve supplier of China National Petroleum Corporation (CNPC). It provides a large amount of fully welded pipeline ball valves and axial-flow check valves to oil and gas pipelines, most of which were key national projects. Hanwei Valve has earned a strong reputation from its services to Sinopec and UOP.

In addition to the Chinese market, Hanwei Valve provides its products to the national petroleum companies of the Middle East, Southeast Asia and Central Asia, and it also provides district heating ball valves to Russia and Eastern Europe through its long-term partners.

Taide Valve

Taide Valve is located in Taizhou city, Jiangsu province. It was initially founded in the 1950s as an agricultural machinery plant, and later became a supplier of castings and valves in the 1990s.

Taide Valve provides resilient seated gate valves, soft seated butterfly valves and metal seated butterfly valves to water treatment and public works.

Product Types

- Resilient seated gate valve
- Soft seated butterfly valve
- Metal seated butterfly valve

Customers

Taide Valve is a qualified supplier for Shanghai Municipal Water Group, KSB China and Fushun Qilong Petrochemical, Shandong Zibo Municipal Water Co. Ltd. and so forth for water industry and petrochemical industry,

Yangzhou Rock

Yangzhou Rock is a high-tech enterprise located in Yangzhou city (one of seven ancient capitals of China), Jiangsu province. It has fourregistered patents for its valve mechanical interlock device. Yangzhou Rock is the only valve mechanical interlock manufacturer in China, and it is considered to be a safe and environmentally friendly company. Yangzhou Rock is gradually emerging in the area of mechanical interlock, intelligent alarm linkage, remote flexible control and mechanical latch delay, etc.

Besides the valve mechanical interlock, it has recently developed a triple-eccentric metal seated cryogenic butterfly, which can be widely used in air separation, liquefied natural gas, and cryogenic treatment industries.

Yangzhou Lock has also developed triple-eccentric metal seated butterfly valve for turbine steam pipe up to 570 centigrade temperature, which is a sole producer in China.

Product Types

- Quarter-turn valve interlock
- Multi-turn valve interlock
- Vessel closure lock
- Actuated valve interlock
- Anti-tamper lock in oil pipeline
- Cryogenic and high temperature triple-offset butterfly valves

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<u>Customers</u>

Yangzhou Rock customers include many famous multi-national companies like Air Product, Air Liquid, Linde, DSM, and BASF. It is also a qualified supplier for CNPC, CNOOC. With its strong engineering and advanced equipment, Yangzhou Rock can provide comprehensive aftermarket services.

ORGANIZATIONAL STRUCTURE

The following chart reflects our organizational structure for our active subsidiaries as of the date of this Annual Report.

(1) Shanghai Hanhuang Valve Co., Ltd. and Get Success Investment Limited, which was formally disclosed as Hong Kong Hanxi Investment Co., Ltd. based on its Chinese name, were former shareholders of Hanwei Valve, both of which were acquired during the acquisition of Hanwei Valve by the Company and were shell companies without any active operations. Shanghai Hanhuang Valve Co., Ltd. was dissolved on October 19, 2011 and Get Success Investment Limited, was dissolved on September 16, 2011.

OUR INDUSTRY

The Chinese valve market is expected to increase at an annual rate of nearly 20% for the next few years according to “2010-2015 China Valve Industry Investment Analysis and Perspective Guidance Report” by China Social Economic Investigation & Research Center. We believe that demand for valves will be driven primarily by energy demand and water treatment system investment and upgrading. We intend to focus our efforts on utilizing our tangible and intangible resources to expand and strengthen our products and increase our market share in response to industry demands.

The other driving force is that China’s central government strongly promotes localization of major equipment. The proportion of domestic use in nuclear power, fossil power and chemical plants has increased quickly, so that China Valves will now have more opportunities to enter into the high-end valves areas, which have been occupied by international companies.

As a supplier to customers in a variety of industries, our performance is largely dependent upon the overall economic conditions and the growth and performance of industries, and companies operating in those industries which purchase our valve products. The following provides a brief overview of the historical and projected performance and growth of the four largest industries in which our customers operate.

Our Involvement in the Power Industry

Fossil power

The Chinese government continues to improve installation of capacity of fossil power plants to meet the growing electricity demand for both industrial and residential uses. Many ultra-critical fossil power plants are either under construction or are being engineered, and smaller sub-critical fossil power plants have either been shut down or are being upgraded to improve energy efficiency and improve the environment.

Kaifeng Valve is the only valve supplier in China to provide main stream isolation valves and main feed water isolation valves in ultra-critical fossil power plants. Benefiting from the government requirement of localization, Kaifeng Valve expects to have an extensive market share in this area.

The increased use of the fossil power demands more and more large size butterfly valves and control valves for circulating the water system. ZD Valve and Changsha Valve expect to receive more orders from ultra-critical fossil power plants

Kaifeng Valve is the initiator of the localization project of high end fossil power application high end valves approved by state council. .

Nuclear power

Nuclear power plants normally demand more valves than the same capacity fossil power plants, and purchase prices and amounts are much greater than for traditional power plants due to higher safety and security requirements. That is the reason why our main competitors invest a large amount of human and financial resources in nuclear power.

As one of the main suppliers of high pressure, high temperature valves in China's nuclear power industry, Kaifeng Valve has been cooperating with the two biggest nuclear investment companies in China-CNNC and CGNPC. In 2004, Kaifang Valve was completed a multi-stage and rigorous certification process that resulted in it becoming a qualified nuclear valve supplier for both companies.

Both Changsha Valve and ZD Valve are qualified suppliers of butterfly valves for nuclear power plants. They seek to steadily expand their market share in the nuclear power industry.

Our Involvement in the Petrochemical, Oil and Gas Industries

Energy preservation is the top priority of the Chinese government in recent years. Long distance oil and gas pipelines, huge LNG and LPG tank farms, and large-scale ethylene and refinery plants will be built in the near future to ensure safe and efficient transportation of energy. In addition, national oil companies like CNPC, Sinopec and CNOOC have increased their investment in overseas oilfields and refineries.

As one of the main valve suppliers of the oil and gas industry, Hanwei Valve will benefit from a large demand for pipeline ball valves, check valves and gate valves. Kaifeng Valve expects to receive more orders due to an increasingly large demand for high pressure valves in ethylene and refinery plants. Yangzhou Rock strives to compete with imported cryogenic butterfly valves in LNG and LPG tank farms with its reliable products and services.

Our Involvement in the Water Treatment Sector

The Chinese government stably increases its investment to upgrade public facilities, including its water pipe network and sewage treatment, in thousands of cities and municipals. The total annual demand for valves in the water treatment industry is about 17 billion RMB in 2010 with further increase as presented in the following table.

2005~2010 China Water Treatment Valve Production and Market size

Year	2005	2006	2007	2008	2009	2010E
Production/in 10K Tons	19.4	23.5	29.7	37.3	45.2	54.7
Market Size/in Billion RMB	5.33	7.78	10.27	13.50	14.98	17.36

Resource: http://china.toocle.com/cbna/item/2011-04-11/5731083.html

Resource: http://china.toocle.com/cbna/item/2011-04-11/5731083.html

As the main valve suppliers in water treatment, ZD Valve and Changsha Valve will improve their production capacities to meet the rapid growth of demand. In addition, we will work closely with our customers and research institutes to develop high quality products to compete with imported products.

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OUR COMPETITIVE STRENGTHS

- ***Broad range of products and leading brands***. From the extreme high/low temperature, extreme high pressure, and extreme abrasion and corrosion, to the most complex smart valves, we believe that we have the most comprehensive range of valve products in our industry. Additionally, we enjoy leading market positions based on the estimated market share of our key products, broad brand recognition, and strong reputation for quality and service within the markets we serve.
- ***Low-cost and high quality manufacturing capabilities.*** We believe our historical capital investment in manufacturing technologies helps us reduce the costs of producing our products. We focus on manufacturing and selling high quality valves at competitive prices. We believe we have a price advantage over most of our competitors.
- ***Highly experienced and incentivized research and development team.*** Our R&D department is composed of engineers with many years of experience; some of them are the most professional engineers in China’s valve industry. We are committed to developing new products and we have, in recent months, generally launched a new model every two months. We have cooperated with universities and institutions to improve and develop products.
- ***Highly experienced, proven management team.*** We are led by an experienced management team with a long and successful track record, enabling us to recognize and capitalize on attractive opportunities in our key markets. Our senior management members have an average of over 18 years of experience in the valve industry; our top management team, including the CEO and CFO, either came from an international valves group or has international management experience.

OUR STRATEGY

Our objective is to increase profitability, cash flow and revenue while developing and enhancing our position as the leading valve manufacturer in China. Our strategy for achieving these objectives includes the following key elements:

Pursue Strategic Acquisitions. China’s valve market is very fragmented. According to the China Valve Industry Association’s statistics, there are more than 6,000 local valve manufacturers in the market. The top ten local valve manufactures have an aggregate Chinese market share of only 12.1% . We anticipate that the fragmented nature of the Chinese valve market will continue to provide opportunities for growth through strategic acquisitions. Our acquisition strategy will continue to focus on entities with products that provide opportunities for us to expand and products that can be marketed through our existing distribution channels or provide us with new distribution channels for our existing products, thereby increasing marketing and distribution efficiency. Furthermore, we seek acquisition candidates that demonstrate a combination of good profit margins, strong cash flow, leading positions in the local markets and products that generate recurring revenue. We will use our brand advantage to consolidate China’s valve market and to increase our market share.

In 2010, we finalized the acquisition of Yangzhou Rock, Changsha Valve and Hanwei Valve. These acquisitions enabled us to expand the product lines and advanced technologies we offer to the growing oil and gas, hydropower and fossil power markets.

Further Penetrate Existing Market Segments. We plan to further penetrate existing market segments to drive sustainable growth by strengthening our existing customer relationships and attracting new customers. We intend to further penetrate existing customers by continuing to:

- provide quality products;
- fulfill logistical requirements and volume demands efficiently and consistently;
- provide comprehensive product support from design to after-market customer service;
- cross-sell our brands across various business segments to our customers;
- leverage strong, established distribution channels.

Enter New Market Segments. To drive organic growth from our existing businesses, we will continue to leverage our customer relationships to develop or acquire new products and product extensions to enter into new market segments. In 2010, we signed a Strategic Cooperation Agreement with China Dongfang Electric Corporation (DEC), the biggest power generation equipment manufacturer of the world. The first order with DEC was over $8 million. We were awarded as qualified nuclear safety grade valve supplier by National Energy Board. Besides the traditional local market, we have established sales headquarter in Shanghai to strengthen our market share in multi-national chemical companies and overseas oil and gas markets.

Focus on High End Products. We will keep focusing on high end, more sophisticated valve products, including high-parameter and special usage valves. The majority of valve companies in China focus only on low end products at lower prices. Because of our technology and R&D strength, we will continue focusing on high end valve products and pursuing higher margins than the industry average. Our 24-way rotary valves have been successfully used in PX, MX. petrochemical plants, and will now be used in chromatogram separation units of biological engineering. Our deep-water ball valve was put into production in 2011, and will be widely used in the deep-sea drilling platform. We also focus on exploring and commercializing new technologies in smart control, like intelligent interlock, remote flexible control, and intelligent alarm link. In many of our research areas, we are working with universities, institutes and experts in the appropriate fields to ensure that the latest technologies will be applied in our products and services.

Strengthen Overseas Market. We have integrated our direct sales teams and distributors in Europe, Russia, the Middle East, Central Asia and Southeast Asia, so that they will represent all of China Valves' products and services versus exclusively representing the products of ZD Valve or Hanwei Valve. We have participated in an increasing number of flow control exhibitions, and have upgraded our website so that overseas customers can reach us easily.

OUR MANUFACTURING PROCESS

Our manufacturing process is a multi-step process involving the following tasks:

- purchasing and depositing of raw materials;
- raw material processing and analysis;
- production of inventory of semi-finished products (or transporting to the next step directly);
- product assembling;
- Painting; and
- product inspection and testing, and placing finished products in inventory.

Our modern computer aided design ("CAD") center can assist in the design of new products. We closely monitor and test the quality of raw materials, including casting steel blank parts, forging steel blank parts and steel. We use a high-speed direct reading spectrograph (32 channels) for the analysis of the chemical components of raw materials. We have cobalt 60y flaw detectors, high-power magnetic particle flaw detectors and ultrasonic flaw detectors, as well as non-destructive equipment that helps to ensure the internal quality of forging blank parts. We have a metal material test room for physical and chemical analysis and the mechanical testing of raw materials. In order to ensure a product's structural capability, we utilize high-precision equipment, including high-precision computer numerical control ("CNC") lathes and advanced welding equipment to satisfy the requirements of our product designs. We have modern product-processing workshops consisting mainly of CNC lathes and approximately 20 units of large-scale, high-precision equipment, including 4 m CNC vertical lathes, CNC horizontal lathes and CNC boring and milling machines. In addition, we have pressure equipment to conduct pressure testing for finished products in accordance with appropriate standards.

We have set up a comprehensive and reliable quality management system with strict material manufacturing procedures and standards of inspection. We have been adhering to a lean production principle. By continuously seeking to improve production, we eliminate non-value added activities, such as excessive waiting time throughout each manufacturing process, and improve design code standards, thus making the production cycle more efficient and reducing the time of products' delivery to our customers. Order-based productions reduce inventory and improve cash flow. In addition, workplace monitoring and certain rules to follow improve the manufacturing efficiency. Because of increasing efficiencies in our production cycle, we have quicker feedback from our customers about our products allowing us to make improvements for their next order.

We also purchased certain lower end valves from third parties produced under our technical specification in order to make up for under-capacity in our manufacturing facilities.

WARRANTIES

We typically warranty all of our products and provide replacement or credit to our customers who are not satisfied with our products for a period of one year from the date of shipment. When we receive an indication that a product did not perform as expected, our quality control specialists and laboratory personnel test the product to determine if our process was correct for the specifications submitted by the customer and if the manufacturing process was completed as planned. If we failed to produce the product according to the customer's specifications or if the manufacturing process was flawed, we provide immediate credit to the customer. If we produced the product to the customer's specifications and if the manufacturing process was not flawed, we send a team to the customer's facilities to see if we can assist the customer in correcting his or her process. Typically a team consists of at least one engineer, at least one experienced production person and the customer's sales representative. If the product was manufactured to the proper specifications, our team works with the customer in developing corrective action to solve his or her problem.

We have not established reserve funds for potential customer claims because, historically, we have not experienced significant customer complaints about our products and none of our customers have requested damages for any loss incurred due to product quality problems. We believe that our customer support teams, our quality assurance and manufacturing monitoring procedures will continue to keep claims at a level that does not support a need for a reserve. We review customer returns on a monthly basis and may establish a reserve as we expand our business by volume and products. If we were to experience a significant increase in warranty claims, our financial results could be adversely affected. Please refer to "Risk Factors - Risks Related to Our Business". We do not maintain a reserve for warranty or defective products claims. Our costs could substantially increase if we experience a significant number of warranty claims.

SUPPLIERS OF OUR RAW MATERIALS

The primary raw materials that are used in the production of these valves include carbon steel, stainless steel, low temperature steel and heat resistant steel, casting blank parts and actuating devices. The prices for such materials fluctuate depending upon market conditions. However, because we have long-term suppliers and clients, the influence of price fluctuations are not currently material to the Company.

We have established long-term relationships with key suppliers. However, we do not exclusively rely on our key suppliers. We have adopted a dual supplier system for raw materials. Therefore, if our primary suppliers cannot supply us with our raw material for any reason, we are able to seamlessly acquire the raw material from another supplier. All of our suppliers must meet our quality standards and delivery requirements consistently in order to remain on our approved supplier list. If deliveries are delayed repeatedly, we terminate the partnership with such supplier.

These flexible sourcing arrangements are designed to ensure the stable supply of raw material and promote healthy competition among our suppliers. We believe our supplier arrangements encourage our suppliers to provide advanced technology and high quality products.

SALES, MARKETING AND DISTRIBUTION

We market our products through regional agents. We provide periodic training to our sales staff. Because we have direct communication with clients and participate in trade exhibitions, our sales staff has produced successful results. As a major supplier of valve products in China, we believe we have established a good reputation in our industry.

We market our products through various ways. Our six operating subsidiaries distribute their valves through two methods: (1) sell our valves directly to our customers through regional agents after winning project contracts through public bids. We provide periodic training to our sales staff with whom we have direct communication, and participate in trade exhibitions; (2) market our valves through approximately 50 distributors across the PRC and marketing headquarters in Shanghai which was set up in 2010. We hired experienced sales personnel who have significant sales and marketing experience from multinational valves companies such as Tyco and Flowserve. Moreover, a professional technical support team was established to enhance after-market service.

Each of the subsidiaries has similar types of customers. Valves produced by the six operating subsidiaries can be used in various industries, including but not limited to water supply, power supply, petrochemical and oil, and metallurgy. Each of the six operating subsidiaries has similar customer base with different industry focus. For instance, Kaifeng Valves sold 40%, 42%, 3% and 15% of their valves to customers in power supply industry, chemical industry, metallurgy industry and others respectively for the nine months ended September 30, 2011. ZD Valves sold 64%, 11%, 7%, 7%, and 11% of their valves to customers in water supply industry, petroleum and oil industry, power supply industry, metallurgy, and others respectively in the same period. Other four operating subsidiaries have the similar but different proportion components in term of customer industry.

Our sales revenue was approximately $161.4 million for the nine months ended September 30, 2011.

OUR RESEARCH AND DEVELOPMENT EFFORTS

China Valves' business is dependent on constantly improving the technology associated with developing and manufacturing valves. Therefore, China Valves has committed itself to the research and development of new valves and developing state of the art valves that improve and advance the valve industry. For the nine months ended September 30, 2011 and 2010, we invested a total of $286,204 and $181,861, respectively, to research and development efforts. For the years ended December 31, 2010 and 2009, we invested a total of $228,858 and $126,750 to research and development efforts, respectively. We also intend to increase the amount of resources we allocate to research and development as the Company continues to grow.

The Company currently has 303 engineering and support technicians and researchers dedicated to actively researching and developing new valves and participating in valve production and improvement. China Valves operates a research and development laboratory with Lanzhou Science and Engineering University (the only university in China that offers a major in valve development and manufacturing). We have also partnered with the Department of Valves Study of Hefei General Mechanical Institute to work to improve the development, manufacturing and quality of valves produced in China. In addition, we focus on the development of valves for nuclear power stations.

COMPETITORS

We compete against a number of international and local valve manufacturers as well as specialized manufacturers on the basis of product capacity, product quality, breadth of product line, delivery, and price. Our major competitors vary by industry and region.

The following is a list of our major competitors in the valve industry:

- Hong Cheng Machinery Co., Ltd. – a manufacturer of medium pressure, big diameter butterfly valves for the water supply industry. We compete with them in the hydropower and fossil power industry.
- Sufa Technology Industry, Co., Ltd. – a leading manufacturer of nuclear safety grade valves. It has a broad product line, which includes on/off valves, control valves and specialized valves. We compete with them in nuclear power, petrochemical and refinery industries.
- Suzhou Neway Valve Co., Ltd. – a leading manufacturer of pipeline ball valves, API gate, globe, check and ball valves in China. Neway is a famous valve brand in the international market. We compete with them in oil and gas, petrochemical and chemical industries.
- Dalian DV Valve Co. Ltd. – a leading manufacturer of high pressure gate, globe and check valves. We compete with them in fossil and nuclear power industries.

There are, however, certain factors that we believe set us apart from all of our competitors, including the following:

- We are the first manufacturer of main stream gate valves for 300MW and main water supply gate valves for 600MW power stations in China;
- We are the sole domestic designer and manufacturer in China of valves that are used for ultra-critical units of 1000MW power stations;
- We are the first manufacturer of high pressure, large diameter oil pipeline valves in China;
- We are the first domestic manufacturer of 2,500lb high pressure gate valves for hydrogenation in chemical lines, which replace imported products;
- We are the first domestic manufacturer of high pressure, large diameter gate valves for the coal chemical industry;
- We are the sole manufacturer in China that produces all of the following: blowtorch valves, water pressure testing valves, steam controlling valves for high parameter power stations and bypass valves for high pressure heaters;
- We are one of the two suppliers in the world who can provide 24-way rotary; and
- We manufacture the most sizeable butterfly valve in China.

INTELLECTUAL PROPERTY

We own the following six trademarks:

Our six operating subsidiaries own more than 50 patents for water supply and drainage pipes, supply and disposal pipes for water and gas, sewage disposal used for water and gas supply and drainage pipes, etc. The expiration dates for these patents range from 2011 to 2018.

We cannot give any assurance that the protection afforded our intellectual property will be adequate. It may be possible for third parties to obtain and use, without our consent, intellectual property that we own or are licensed to use. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

REGULATION

Because our six operating subsidiaries are located in the PRC, we are regulated by the national and local laws of the PRC.

There is no private ownership of land in China and all land ownership is held by the government of the PRC, its agencies and collectives. Land use rights can be obtained from the government for a period up to 70 years and are typically renewable. Land use rights can be transferred upon approval by the land administrative authorities of the PRC (State Land Administration Bureau) upon payment of the required land transfer fee.

We are also subject to the PRC s foreign currency regulations. The PRC government has control over Renminbi reserves through, among other things, direct regulation of the conversion of Renminbi into other foreign currencies. Although foreign currencies that are required for current account transactions can be bought freely at authorized Chinese banks, the proper procedural requirements prescribed by Chinese law must be met. At the same time, Chinese companies are also required to sell their foreign exchange earnings to authorized Chinese banks, and the purchase of foreign currencies for capital account transactions still requires prior approval of the Chinese government.

We do not face any significant government regulation in connection with the production of our products. We do not require any special government permits to produce our products other than those permits that are required of all corporations in China, such as those products used in nuclear power generation sector.

OUR ADDRESS

The address of China Valves' principal executive office in China is No. 93 West Xinsong Road, Kaifeng City, Henan Province, People's Republic of China 475002 and our telephone number is (86) 378-2925211. Our head office in China is 21 F Kineer Plaza, 226 Jinshui Road, Zhengzhou City, Henan Province and our telephone number is (86) 371 65673777. We maintain a website at www.cvalve.com that contains information about us, but that information is not a part of this Annual Report.

Item 1A. ***Risk Factors.***

These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. All written and oral forward looking statements made in connection with this Report that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Further, the information about our intentions contained in this document is a statement of our intention as of the date of this document and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

RISKS RELATED TO OUR BUSINESS

Our business would be adversely affected by a downturn in government spending related to infrastructure upgrades, repairs and replacements, or by reduced demand in the power, petrochemical, oil or water supply industries.

Our business is primarily dependent upon spending on new infrastructure projects, as well as infrastructure upgrades, repairs and replacement, in the power, petrochemical, oil and water supply industries. We are also subject to general economic conditions, the need for large-scale projects, interest rates and government incentives provided for public work projects. It is not unusual for projects in power, petrochemical, oil or water supply industries to be delayed and rescheduled for a number of reasons, including changes in project priorities and difficulties in complying with environmental and other government regulations. We cannot assure you that economic growth experienced by China will continue or that is if it does, state and local governments will address deferred infrastructure needs. Any significant decline in the project spending in the key industries or governmental spending on infrastructure could have a material adverse effect on our financial condition and results of operations.

Our industry is very competitive in China.

The domestic market for valve products is fragmented and highly competitive. We compete with over 160 medium-sized, local Chinese valve manufacturers, although we are aware of only two that have similar manufacturing capacities as our company. The number of these companies varies from time to time. While we may have greater resources than our smaller competitors, it is possible that these competitors have better access in certain local markets to customers and prospects and lower production and raw material costs. Some of our valve products compete on the basis of price and are sold in fragmented markets with low barriers to entry, allowing less expensive domestic producers to gain market share and reduce our margins.

Our revenue will decrease if the industries in which our customers operate experience a protracted slowdown.

Our products mainly serve as key components in projects and machines operated by our customers which are mostly in the oil, power, water supply, petrochemical, and metallurgy industries. Therefore, we are subject to the general changes in economic conditions affecting those industry segments of the economy. If the industry segments in which our customers operate do not grow or if there is a contraction in those industries, demand for our valve products will decrease. Demand for our products is typically affected by a number of overarching economic factors, including, but not limited to, interest rates, the availability and magnitude of private and governmental investment in infrastructure projects and the health of the overall global economy. If there is a decline in economic activity in China and the other markets in which we operate or a protracted slowdown in industries on which we rely for our sales, demand for our products and our revenue will likewise decrease.

Foreign competition is intense and could have a material adverse effect on our financial condition and results of operations.

In addition to domestic competition, we face intense competition from foreign competitors. The intensity of foreign competition is affected significantly by fluctuations in the value of the U.S. dollar against Chinese currency and by the level of import duties imposed by the Chinese government on certain products. Our major international competitors are Velan Inc., KSB Group and Tyco Flow Inc. Many of our competitors have more resources and greater brand recognition than we enjoy.. If our competitors are able to gain greater market share or improve their sales efforts, our sales may decrease, we may be forced to lower our prices, or our marketing costs may increase, all of which could negatively impact our financial results.

Any decline in the availability, or increase in the costs of raw materials could materially affect our earnings.

Our valve manufacturing operations depend heavily on the availability of various raw materials and energy resources. The mix of raw materials used in the production of valves is mainly composed of casting steel blank parts, forging steel blank parts and steel, which represent 60% of all raw materials used in the production of valves. The fuel costs in our manufacturing operations, particularly heavy oil and electricity, account for over 2% of total manufacturing costs. The availability of raw materials and energy resources may decline and their prices may fluctuate greatly. We have long-term relationships with several suppliers; however, we do not have long term supply contracts and if our suppliers are unable or unwilling to provide us with raw materials on terms favorable to us, we may be unable to produce certain products. This could result in a decrease in profit and damage to our reputation in our industry. In the event our raw material and energy costs increase, we may not be able to pass these higher costs on to our customers in full or at all. Any increase in the prices for raw materials or energy resources could materially increase our costs and therefore lower our earnings.

We depend on a group of major distributors for a significant portion of our sales; any loss of these distributors could reduce our sales and continuing consolidation of distributors could cause price pressure.

In 2011, approximately 76% of our sales revenue was generated from our direct sales teams throughout China and 24% was generated from our distributors. Sales through distributors were highly concentrated in a few distributors, with 60% of distributor sales coming from our ten largest distributors, and 40% from the three largest distributors. Our business relationships with most of our major distributor branches may be terminated at the option of either party upon 30 days' notice.

Although our relationships with our ten largest distributors have been long-lasting, distributors in our industry have experienced significant consolidation in recent years, and we cannot assure you that our distributors will not be acquired by other distributors who buy products from our competitors. Our ability to retain these customers in the face of other competitors generally depends on a variety of factors, including the quality and price of our products and our ability to market these products effectively. We cannot assure you that, as consolidation among distributors continues, distributors will not be able to force us to lower our prices, which would have an adverse impact on our financial condition or results of operations.

Any disruption in the supply chain of raw materials and our products could adversely impact our ability to produce and deliver products.

As a manufacturing company, we face serious challenges in supply chain management for raw materials and delivery of our products. Supply chain fragmentation and local protectionism within China further complicates supply chain disruption risks. Local administrative bodies and physical infrastructure built to protect local interests pose transportation challenges for raw material transportation as well as product delivery. In addition, profitability and volume could be negatively impacted by limitations inherent within the supply chain, including competitive, governmental, legal, natural disasters, and other events that could impact both supply and price. Any of these occurrences could cause significant disruptions to our supply chain, manufacturing capability and distribution system that could adversely impact our ability to produce and deliver products.

We do not maintain a reserve for warranty or defective products claims. Our costs could substantially increase if we experience a significant number of warranty claims.

We typically warrant all of our products and provide replacement or credit to our customers who are not satisfied with our products for a period of one year from the date of shipment. We have not established a reserve for potential customer claims because, historically, we have not experienced significant customer complaints about our products and none of our customers have requested damages for any loss incurred due to product quality problems.

We believe that our customer support teams, our quality assurance and manufacturing monitoring procedures will continue to keep claims at a level that does not support a need for a reserve. However, if we were to experience a significant increase in warranty claims, our financial results could be adversely affected.

Our rapid expansion could significantly strain our resources, management and operational infrastructure which could impair our ability to meet increased demand for our products and hurt our business results

To accommodate our anticipated growth, we will need to expend capital resources and dedicate personnel to implement and upgrade our accounting, operational and internal management systems and enhance our record keeping and contract tracking system. Such measures will require us to dedicate additional financial resources and personnel to optimize our operational infrastructure and to recruit more personnel to train and manage our growing employee base. If we cannot successfully implement these measures efficiently and cost-effectively, we will be unable to satisfy the demand for our products, which will impair our revenue growth and hurt our overall financial performance.

We must manage growth in operations to maximize our potential growth and achieve our expected revenues and any failure to manage growth will cause a disruption of our operations and impair our ability to generate revenue.

In order to maximize potential growth in our current and potential markets, we believe that we must expand the scope of our valve manufacturing and production facilities and capabilities and continue to develop new and improved valves. This expansion will place a significant strain on our management and our operational, accounting, and information systems. We expect that we will need to continue to improve our financial controls, operating procedures and management information systems. We will also need to effectively train, motivate and manage our employees. Our failure to manage our growth could disrupt our operations and ultimately prevent us from generating the revenues we expect.

We cannot assure you that our internal growth strategy will be successful, which may result in a negative impact on our growth, financial condition, results of operations and cash flow.

One of our strategies is to grow internally through increasing the development of new products, as we continue to improve the quality of existing products. However, many obstacles to this expansion exist, including, but not limited to, increased competition from similar businesses, our ability to improve our products and product mix to realize the benefits of our research and development efforts, international trade and tariff barriers, unexpected costs, costs associated with marketing efforts abroad and maintaining attractive foreign exchange rates. We cannot, therefore, assure you that we will be able to successfully overcome such obstacles and establish our services in any additional markets. Our inability to implement this internal growth strategy successfully may have a negative impact on our growth, future financial condition, results of operations or cash flows.

We cannot assure you that our acquisition growth strategy will be successful, resulting in our failure to meet growth and revenue expectations.

In addition to our internal growth strategy, we have also explored the possibility of growing through strategic acquisitions. We intend to pursue opportunities to acquire businesses in the PRC that are complementary or related in product lines and business structure to us. We may not be able to locate suitable acquisition candidates at prices that we consider appropriate or to finance acquisitions on terms that are satisfactory to us. If we do identify an appropriate acquisition candidate, we may not be able to negotiate successfully the terms of an acquisition, or, if the acquisition occurs, integrate the acquired business into our existing business. Acquisitions of businesses or other material operations may require debt financing or additional equity financing, resulting in leverage or dilution of ownership. Integration of acquired business operations could disrupt our business by diverting management away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures.

We also may not be able to retain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits we anticipated when selecting our acquisition candidates. In addition, we may need to record write-downs from future impairments of intangible assets, which could reduce our future reported earnings. At times, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition. In addition to the above, acquisitions in the PRC, including state owned businesses, will be required to comply with the laws of the PRC, to the extent applicable. There can be no assurance that any given proposed acquisition will be able to comply with PRC requirements, rules and/or regulations, or that we will successfully obtain governmental approvals that are necessary to consummate such acquisitions, to the extent required. If our acquisition strategy is unsuccessful, we will not grow our operations and revenues at the rate that we anticipate.

We may have difficulty defending our intellectual property rights from infringement, resulting in lawsuits requiring us to devote financial and management resources that would have a negative impact on our operating results.

We regard our service marks, trademarks, trade secrets, patents and similar intellectual property as critical to our success. We rely on trademark, patent and trade secret law, as well as confidentiality and license agreements with certain of our employees, customers and others to protect our proprietary rights. We have received patent protection for certain of our products in the PRC. No assurance can be given that our patents, trademarks and licenses will not be challenged, invalidated, infringed or circumvented, or that our intellectual property rights will provide competitive advantages to us. There can be no assurance that we will be able to obtain a license from a third-party for technology that we may need to conduct our business or that such technology can be licensed at a reasonable cost.

Presently, we provide our valves mainly in the PRC. To date, no trademark or patent filings have been made other than in the PRC. To the extent that we market our services in other countries, we may have to take additional action to protect our intellectual property. The measures we take to protect our proprietary rights may be inadequate and we cannot give you any assurance that our competitors will not independently develop formulations, processes and services that are substantially equivalent or superior to our own or copy our products.

We depend on our key management personnel and the loss of their services could adversely affect our business.

We place substantial reliance upon the efforts and abilities of our executive officers. The loss of the services of any of our executive officers could have a material adverse effect on our business, operations, revenues or prospects. We do not maintain key man life insurance on the lives of these individuals.

We may incur significant costs to ensure compliance with United States corporate governance and accounting requirements.

We may incur significant costs associated with our public company reporting requirements, costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the Securities and Exchange Commission. We expect all of these applicable rules and regulations to significantly increase our legal and financial compliance costs and to make some activities more time consuming and costly. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

We may not be able to meet the accelerated filing and internal control reporting requirements imposed by the Securities and Exchange Commission, resulting in a possible decline in the price of our common stock and our inability to obtain future financing.

Companies that file reports with the SEC, including us, are subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404. SOX 404 requires management to establish and maintain a system of internal control over financial reporting and annual reports on Form 10-K filed under the Exchange Act to contain a report from management assessing the effectiveness of a company's internal control over financial reporting. Separately, under SOX 404, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, public companies that are large accelerated or accelerated filers must include in their annual reports on Form 10-K an attestation report of their regular auditors attesting to and reporting on management's assessment of internal control over financial reporting.

Although we continue to expend significant resources in developing the necessary documentation and testing procedures required by Section 404 of the Sarbanes-Oxley Act, there is a risk that we may not be able to comply timely with all of the requirements imposed by this rule. In the event that we are unable to receive a positive attestation from our independent registered public accounting firm with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements and our stock price and ability to obtain equity or debt financing as needed could suffer.

In addition, in the event that our independent registered public accounting firm is unable to rely on our internal controls in connection with its audit of our financial statements, and in the further event that it is unable to devise alternative procedures in order to satisfy itself as to the material accuracy of our financial statements and related disclosures, it is possible that we would be unable to file our Annual Report on Form 10-K with the Securities and Exchange Commission, which could also adversely affect the market price of our common stock and our ability to secure additional financing as needed.

We may have difficulty raising necessary capital to fund operations as a result of market price volatility for our shares of common stock.

In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies has experienced wide fluctuations that have not necessarily been related to the operations, performance, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we may require additional financing to continue to develop and exploit existing and new products and services related to our industries and to expand into new markets. The expansion of our products and services may, therefore, be dependent upon our ability to obtain financing through debt and equity or other means.

Failure to comply with the United States Foreign Corrupt Practices Act and Chinese anti-corruption laws could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies and their intermediaries from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business or otherwise obtaining favorable treatment. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. The PRC also strictly prohibits bribery of government officials. Our activities in China create the risk of unauthorized payments or offers of payments by our employees, independent contractors, subcontractors or agents of our Company, even though they may not always be subject to our control.

We are currently in the process of developing and implementing formal controls and procedures to ensure that we are in compliance with the FCPA, China's anit-corruption laws, and similar sanctions, laws and regulations. The implementation of such procedures may be time consuming and expensive, and could result in the discovery of issues or violations with respect to the foregoing by us or our employees, independent contractors, subcontractors or agents of which we were previously unaware. If our employees, independent contractors, subcontractors or agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations. In addition, our brand and reputation, our sales activities or our stock price could be adversely affected if we become the target of any negative publicity as a result of actions taken by our employees or other agents.

RISKS RELATED TO DOING BUSINESS IN CHINA

Adverse changes in political and economic policies of the PRC government could impede the overall economic growth of China, which could reduce the demand for our products and damage our business.

We conduct substantially all of our operations and generate most of our revenue in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- a higher level of government involvement;

- an early stage of development of the market-oriented sector of the economy;
- a rapid growth rate;
- a higher level of control over foreign exchange; and
- the control over the allocation of resources.

As the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Although these measures may benefit the overall PRC economy, they may also have a negative effect on us.

Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways.

Any adverse change in economic conditions or government policies in China could have a material adverse effect on the overall economic growth in China, which in turn could lead to a reduction in demand for our products and services and consequently have a material adverse effect on our business and prospects.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiaries in the PRC. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, all of our executive officers and all of our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States.

As a result, it could be difficult for investors to effect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

If we are found to have failed to comply with applicable laws, we may incur additional expenditures or be subject to significant fines and penalties.

Our operations are subject to PRC laws and regulations applicable to us. However, many PRC laws and regulations are uncertain in their scope, and the implementation of such laws and regulations in different localities could have significant differences. In certain instances, local implementation rules and/or the actual implementation are not necessarily consistent with the regulations at the national level. Although we strive to comply with all the applicable PRC laws and regulations, we cannot assure you that the relevant PRC government authorities will not later determine that we have not been in compliance with certain laws or regulations.

Our failure to comply with the applicable laws and regulations in China could subject us to administrative penalties and injunctive relief, as well as civil remedies, including fines, injunctions and recalls of our products. It is possible that changes to such laws or more rigorous enforcement of such laws or with respect to our current or past practices could have a material adverse effect on our business, operating results and financial condition. Further, additional environmental, health or safety issues relating to matters that are not currently known to management may result in unanticipated liabilities and expenditures.

The PRC government exerts substantial influence over the manner in which we must conduct our business activities.

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

Restrictions on currency exchange may limit our ability to receive and use our sales revenue effectively.

All our sales revenue and expenses are denominated in RMB. Under PRC law, the RMB is currently convertible under the "current account" which includes dividends and trade and service-related foreign exchange transactions, but not under the "capital account" which includes foreign direct investment and loans. Currently, our PRC operating subsidiary may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange ("SAFE") by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future. Because a significant amount of our future revenue will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in RMB to fund our business activities outside China that are denominated in foreign currencies.

Foreign exchange transactions by PRC operating subsidiaries under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if our PRC operating subsidiaries borrow foreign currency through loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance the subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce ("MOFCOM") or their respective local counterparts. These limitations could affect our ability to obtain foreign exchange through debt or equity financing.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our earnings and cash assets are denominated in RMB and the net proceeds from our August 2008 private placement were, and the proceeds we receive from the exercise of warrants we have issued if and when those warrants are exercised for cash will be, denominated in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect the relative purchasing power of these proceeds, our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Although we have no current intention to pay any dividends in the foreseeable future, fluctuations in the exchange rate would also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars as well as earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, the RMB has no longer been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. Although we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Currently, some of our raw materials and major equipment are imported. In the event that the U.S. dollar appreciates against the RMB, our costs will increase. If we cannot pass the resulting cost increases on to our customers, our profitability and operating results will suffer. In addition, because our sales to international customers are growing rapidly, we are increasingly subject to the risk of foreign currency depreciation.

Future inflation in China may inhibit our ability to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and highly fluctuating rates of inflation. During the past ten years, the rate of inflation in China has been as high as 5.9% and as low as -0.8% . These factors have led the Chinese government to adopt, from time to time, various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products and our company.

Restrictions under PRC law on our PRC subsidiaries' ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to our shareholders, and otherwise fund and conduct our businesses.

Substantially all of our revenues are earned by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to make dividends and other payments to their offshore parent company. PRC legal restrictions permit payments of dividends by our PRC subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Each of our PRC subsidiaries is also required under PRC laws and regulations to allocate at least 10% of its annual after-tax profits, determined in accordance with PRC GAAP, to a statutory general reserve fund until the amounts in said fund reaches 50% of our registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends.

Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

Under the New EIT Law, China Valves Technology Inc. and its subsidiaries China Fluid Equipment and Henan Tonghai Fluid may be classified as a "resident enterprise" of China. Such a classification would likely result in unfavorable tax consequences to us and our non-PRC stockholders.

China passed a new Enterprise Income Tax Law, or the New EIT Law. The new law and its implementing rules both became effective on January 1, 2008. Under the New EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise" meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the New EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. Because the New EIT Law and its implementing rules are new, no official interpretation or application of this new "resident enterprise" classification is available. Therefore, it is unclear how tax authorities will determine tax residency based on the facts of each case.

Our operating subsidiaries Kaifeng Valve, ZD Valve, Taizhou Taide Valve, Yangzhou Valve, Changsha Valve, and Shanghai Hanwei Valve are already designated as "resident enterprises" for PRC enterprise income tax purposes. However, if the PRC tax authorities determine that China Valves Technology Inc. and its subsidiaries China Fluid Equipment and Henan Tonghai Fluid are also "resident enterprises" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on offering proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as "tax-exempt income," we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new "resident enterprise" classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares. We are actively monitoring the possibility of "resident enterprise" treatment for the 2011 tax year and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

If we were treated as a "resident enterprise" by PRC tax authorities, we would be subject to taxation in both the U.S. and China, and our PRC tax may not be credited against our U.S. tax.

If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that CSRC approval is required in connection with our 2007 reverse acquisition, the reverse acquisition may be cancelled, or we may become subject to penalties.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the "M&A Rule") which became effective on September 8, 2006. The M&A Rule, among other things, requires that an offshore company controlled by PRC companies or individuals that have acquired a PRC domestic company for the purpose of listing the PRC domestic company's equity interest on an overseas stock exchange must obtain the approval of the CSRC prior to the listing and trading of such offshore company's securities on an overseas stock exchange. On September 21, 2006, the CSRC, pursuant to the M&A Rule, published on its official website procedures specifying documents and materials required to be submitted to it by offshore companies seeking CSRC approval of their overseas listings.

Because we did not obtain authorities approval for our 2007 reverse acquisition, if the CSRC or another PRC governmental agency subsequently determines that we must obtain CSRC approval of the reverse acquisition, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in China and limit our operating privileges in China, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares.

The M&A Rule establishes more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The M&A Rule establishes additional procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the PRC Ministry of Commerce be notified in advance of any change-of-control transaction and in some situations, require approval of the PRC Ministry of Commerce when a foreign investor takes control of a Chinese domestic enterprise. In the future, we may grow our business in part by acquiring complementary businesses, although we do not have any plans to do so at this time. The M&A Rule also requires PRC Ministry of Commerce anti-trust review of any change-of-control transactions involving certain types of foreign acquirers. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the PRC Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

You may have difficulty enforcing judgments against us.

We are a Nevada holding company and most of our assets are located outside of the United States. All of our current operations are conducted in the PRC. In addition, nearly all of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. Courts in China may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security or the public interest. Accordingly, it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

RISKS RELATED TO THE MARKET FOR OUR STOCK

Although publicly traded, the trading market in our common stock has been substantially less liquid than the average trading market for a stock quoted on the Nasdaq Stock Market and this low trading volume may adversely affect the price of our common stock.

Our common stock started trading on the Nasdaq Global Market under the symbol "CVVT" in November 2009. The trading volume of our common stock has been comparatively low to other companies listed on Nasdaq. Limited trading volume will subject our shares of common stock to greater price volatility and may make it difficult for you to sell your shares of common stock at a price that is attractive to you.

The market price of our common stock is volatile, leading to the possibility of its value being depressed at a time when you want to sell your holdings.

The market price of our common stock is volatile, and this volatility may continue. Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include:

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the steel industries;
- customer demand for our products;
- investor perceptions of the steel industries in general and our company in particular;

Securities class action litigation is often instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs to us and divert our management's attention and resources. Moreover, securities markets may from time to time experience significant price and volume fluctuations for reasons unrelated to operating performance of particular companies. These market fluctuations may adversely affect the price of our common stock and other interests in our company at a time when you want to sell your interest in us.

We do not intend to pay dividends for the foreseeable future.

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board deems relevant such as:

- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;

- sales of our common stock, including sales by our directors, officers or significant stockholders; and
- additions or departures of key personnel.

Techniques Employed by Manipulative Short Sellers on Chinese Stocks May Drive Down the Market Price of Our Common Stock

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller s best interests for the price of the stock to decline, a number of short sellers (sometime known as disclosed shorts) publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog (blogging) have allowed many disclosed shorts to publicly attack a company s credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firm and independent research analysts. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers with business operations based in the PRC and who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks, can be particularly vulnerable to such short attacks.

These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed shorts will continue to issue such reports.

While we intend to strongly defend our public filings against any such short seller attacks, oftentimes we are constrained, either by principles of freedom of speech, applicable state law (often called Anti-SLAPP statutes), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy oftentimes blogging from outside the U.S. with little or no assets or identity requirements should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

There is no private ownership of land in China and all land ownership is held by the government of the PRC, its agencies and collectives. Land use rights can be obtained from the government for a period up to 70 years and are typically renewable. Land use rights can be transferred upon approval by the land administrative authorities of the PRC (State Land Administration Bureau) upon payment of the required land transfer fee.

We did not previously own the building and land of Kaifeng Valve we operate on. Those buildings and the land use rights were owned by the Casting Company, one of our major suppliers and the land use rights and the buildings from which Kaifeng Valve operates were leased from the Casting Company. The Casting Company is located on the same piece of land. As a condition precedent to the consummation of the Securities Purchase Agreement related to the private placement of our common stock, on August 26, 2008, Kaifeng Valve and the Casting Company entered into an

Agreement for the Transfer of Land Use Right and Housing Titles (the Real Estate Transfer Agreement) for the transfer of the land use rights for all the land and all the buildings on the land to Kaifeng Valve (the Real Estate). As the transfer was expected to take up to ten months to complete with relevant Chinese government agencies, on August 26, 2008, Kaifeng Valve and the Casting Company also entered into a Lease Agreement (the Lease Agreement) pursuant to which the Casting Company agreed to lease the Real Estate to Kaifeng Valve until the latter acquires title to the Real Estate. In addition, Kaifeng Valve and the Casting Company entered into a Leaseback Agreement (the Leaseback Agreement) pursuant to which Kaifeng Valve agreed to lease back to the Casting Company the portion of the Real Estate and the buildings used by the Casting Company, for a period of one year starting on the date of the acquisition of title to the Real Estate by Kaifeng Valve.

In connection with the Real Estate Transfer Agreement, on August 26, 2008, the Company entered into a Real Estate Share Escrow Agreement with the shareholder of the Casting Company, Mr. Bin Fang, Brean Murray, Carret & Co., LLC and Escrow, LLC (the Real Estate Escrow Agreement), pursuant to which the Company issued and placed in escrow, for the benefit of Mr. Fang or his designee, 2,750,000 shares of the Company s common stock in exchange for Mr. Fang s agreement to cause the Casting Company to transfer the Real Estate under the Real Estate Transfer Agreement. On March 6, 2009, the land use right for the Real Estate was transferred from the Casting Company to Kaifeng Valve and the 2,750,000 shares were released to Mr. Bin Fang.

All the onsite buildings and workplaces are utilized for manufacturing, R&D and administrative purposes. In addition, there is land available onsite for future expansion of Kaifeng Valve.

The Company owns land use rights at Changsha Valve, Hanwei Valve, Yangzhou Valve and Taide Valve. The following lease expenses were incurred in 2011 and 2010 with respect to the operating entities: Nine Months Ended September 30, 2011

Usage	**ZD Valve US $**	**Henan Tonghai Fluid US $**
Office	$ 58,867	167,947
Production & Operation Facilities	179,965	-
Total Cost	$ 238,832	167,947

Nine Months Ended September 30, 2010 (Unaudited)

Usage	**ZD Valve US $**	**Henan Tonghai Fluid US $**
Office	$ 56,266	$ 48,570
Production & Operation Facilities	221,161	-
Total Cost (Unaudited)	$ 277,427	$ 48,570

Item 3. ***Legal Proceedings.***

On February 4, 2011, a plaintiff filed a purported class action naming the Company, its Chairman and certain present and former senior executives as defendants, asserting claims for certain violations of the securities laws and seeking unspecified damages. The complaint, which was styled Donald Foster, et al. v. China Valves Technology, Inc., et al., was filed in the U.S. District Court for the Southern District of New York. Several substantially identical complaints were subsequently filed in the same court. On or about June 29, 2011, the Court consolidated the three cases referenced above and appointed Bristol Investment Fund, LTD (Bristol) as lead plaintiff. In the consolidation order the Court renamed the case In re China Valves Technology Securities Litigation. On August 29, 2011, Bristol filed a consolidated class action complaint, which named additional defendants including an individual shareholder of the Company and the Company s auditor.

The consolidated complaint purports to assert claims on behalf of a purported class of persons and entities who purchased shares of the Company s common stock at allegedly artificially high prices during the period between December 1, 2009 and January 13, 2011 and who suffered damages as a result of such purchases. The allegations in the consolidated complaint relate to the Company s acquisitions of Able Delight and Hanwei Valves and include allegations regarding the Company s financial statements and press releases. The complaint alleges, among other things, that the Company s statements about the nature and quality of the Company s acquisition of Able Delight were materially false and misleading and that the Company s statements failed to describe the role in the transaction of an alleged related party. In addition, the complaint alleges that the Company s statements about the Hanwei Valves acquisition were materially false and misleading because they failed to disclose the alleged involvement of certain related parties and allegedly misdescribed the transaction as a purchase of assets rather than as a purchase of an entity. The Company intends to contest the allegations and to defend itself vigorously.

On September 14, 2011, a plaintiff filed an action, derivatively and on behalf of the Company, naming its Chairman and certain senior executives as defendants, and naming the Company as a nominal defendant. The complaint, which is styled Gervat v. Fang et al., was filed in the U.S. District Court for the Southern District of New York, and asserts claims for breach of fiduciary duty, gross mismanagement, and other common law claims, and seeks unspecified damages. On October 11, 2011, the plaintiff filed an Amended Complaint with substantially similar claims. The parties have stipulated to a scheduling order that would stay all proceedings in the derivative action pending resolution by the Court of the defendants motion to dismiss the class action consolidated complaint.

The Company and the individual defendants intend to file a motion to dismiss the consolidated complaint on November 21, 2011.

The Company intends to contest the allegations and to defend itself vigorously.

Item 4. ***(Removed and reserved).***

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

<u>Market for our Common Stock</u>

Our common stock, having $0.001 par value per share ("Common Stock"), is traded on Nasdaq Global Market under the symbol "CVVT". On July 24, 2009, the Company amended its articles of incorporation with the State of Nevada to effect a one-for-two reverse stock split (the Reverse Split). The Reverse Split affects all issued and outstanding shares of the Company's common stock immediately prior to the effectiveness of the Reverse Split with any fractional shares rounded up to the next highest whole share. The Reverse Split took effect on August 13, 2009.

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock as reported by www.nasdaq.com and www.quotemedia.com. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	Closing Prices	
	High	**Low**
Nine months Ending September 30, 2011		
3rd Quarter	$ 3.99	$ 2.01
2nd Quarter	$ 4.83	$ 2.89
1st Quarter	$ 10.57	$ 4.39

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	Closing Prices			
	High		Low	
Year Ending December 31, 2010				
4th Quarter	$	12.64	$	7.08
3rd Quarter	$	11.45	$	7.44
2nd Quarter	$	13.75	$	7.53
1st Quarter	$	14.85	$	9.14

Reports to Stockholders

We plan to furnish our stockholders with an annual report for each fiscal year containing financial statements audited by our independent certified public accountants. Additionally, we may, in our sole discretion, issue unaudited quarterly or other interim reports to our stockholders when we deem appropriate. We intend to maintain compliance with the periodic reporting requirements of the Exchange Act.

Approximate Number of Holders of Our Common Stock

On November 15, 2011, there were 89 stockholders of record of our common stock.

Dividend Policy

We have never declared dividends or paid cash dividends. Our board of directors will make any future decisions regarding dividends. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the near future.

Item 6. ***Selected Financial Data.***

The selected Consolidated Statement of Earnings data for the nine months ended September 30, 2011 and 2010, and the years ended December 31, 2010 and 2009 and the Consolidated Balance Sheet data as of September 30, 2011 and December 31, 2010 should be read in conjunction with the audited financial statements, Management s Discussion and Analysis of Results of Operations and Financial Condition (MD&A) and other financial information presented elsewhere in this transition report. The selected Consolidated Statement of Earnings data for the years ended December 31, 2008 and 2007 and the Consolidated Balance Sheet data as of December 31, 2009, 2008 and 2007 have been derived from audited financial statements not included herein.

CONSOLIDATED STATEMENT OF EARNINGS DATA

	Nine Months Ended September 30,		Years Ended December 31,			
	2011	2010 (Unaudited)	2010	2009	2008	2007
	(In thousands, except per share amounts)					
Selected Income Statement Data:						
Net Sales	$ 161,395	$ 131,367	$ 183,696	$ 95,370	$ 66,555	$ 37,036
Gross Profit	65,642	61,972	80,419	46,843	26,473	14,986
	37,703	46,054	54,156	33,039	(9)	8,637

Income From Operations (Loss)												
Net Income (Loss)	$	29,558	$	36,789	$	43,198	$	23,353	$	(4,237)	$	7,143
Net Income per Common Share:												
Basic	$	0.83	$	1.07	$	1.25	$	0.76	$	(0.18)	$	0.18
Diluted	$	0.83	$	1.06	$	1.25	$	0.75	$	(0.18)	$	0.18

CONSOLIDATED BALANCE SHEET DATA

	September 30, 2011 (In thousands)	Years Ended December 31, 2010	2009	2008	2007
Selected Balance Sheet Data:					
Total Assets	$ 293,446	$ 238,508	$ 140,103	$ 108,744	$ 64,767
Total Liabilities	$ 58,750	$ 49,901	$ 26,674	$ 32,094	$ 27,593
Total Equity	$ 234,696	$ 188,607	$ 113,429	$ 76,650	$ 37,174

	Nine Months Ended September 30,		Years Ended December 31,			
	2011 (In thousands)	2010 (Unaudited)	2010	2009	2008	2007
Selected Operating Data:						
Gate Valves	$ 28,595	$ 21,408	$ 32,771	$ 26,559	$ 18,478	$ 10,593
Check Valves	8,111	6,972	9,778	6,840	5,488	3,355
Globe Valves	6,011	5,646	8,037	5,073	3,058	2,387
Safety Valves	3,948	1,539	2,307	1,915	859	1,013
Butterfly Valves	66,777	57,983	77,213	36,998	22,841	12,390
Ball Valves	30,824	22,066	30,477	5,960	3,155	1,473
Vent Valves	335	418	487	325	1,927	567
Other	16,793	15,335	22,626	11,700	10,749	5,258
Total Sales Revenue	$ 161,395	$ 131,367	$ 183,696	$ 95,370	$ 66,555	$ 37,036

	Nine Months Ended September 30,		Years Ended December 31,			
	2011	2010 (Unaudited)	2010	2009	2008	2007
			(In thousands)			
Selected Operating Data:						
Power Supply	$ 48,814	$ 38,798	$ 51,964	$ 28,206	$ 16,263	$ 11,462
Petrochemical and Oil	51,007	37,346	55,635	16,250	14,808	9,728
Water Supply	33,408	34,548	43,626	28,301	19,506	8,190
Metallurgy	6,581	6,236	8,998	6,173	6,460	3,858
Other	21,585	14,439	23,473	16,440	9,518	3,798
Total Sales Revenue	$ 161,395	$ 131,367	$ 183,696	$ 95,370	$ 66,555	$ 37,036

Item 7. ***Management s Discussion and Analysis of Results of Operations and Financial Condition.***

The following discussion is an overview of the important factors that management focuses on in evaluating our business, financial condition and operating performance, and should be read in conjunction with the financial statements included in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward looking statements as a result of any number of factors, including those set forth under the section entitled Risk Factors and elsewhere in this Annual Report.

Executive Summary

The following executive summary is intended to provide significant highlights of the discussion and analysis that follows.

- ***Sales***: Sales increased $30.0 million, or 22.9%, to $161.4 million for the nine months ended September 30, 2011, from $131.4 million for the same period in 2010.
- ***Gross profit***: Gross profit increased $3.7 million, or 5.9%, to $65.6 million for the nine months ended September 30, 2011, from $62.0 million for the same period in 2010.
- ***Income from operations***: Income from operations decreased $8.4 million, or 18.1%, to $37.7 million for the nine months ended September 30, 2011, from $46.1 million for the same period in 2010.
- ***Net income***: Net income decreased $7.2 million, or 19.7%, to $30.0 million for the nine months ended September 30, 2011, from $36.8 million for the same period in 2010.
- ***Fully diluted net income per share***: Fully diluted net income per share was $0.83 for the nine months ended September 30, 2011, as compared to $1.06 for the same period in 2010.

OVERVIEW Summary

Through our subsidiaries and commercial and contractual relationships and arrangements with other Chinese companies, we operate companies in China that develop, manufacture and distribute high quality metal valves for a variety of different industries. We are headquartered in Zhengzhou, Henan Province and do business throughout

China, Southeast Asia, the Middle-East and Europe. We produce over 800 models of valves and service numerous industries, including the thermal power, water supply, municipal construction, sewage disposal, oil and chemical, metallurgy, heat power, and nuclear power industries. We are the leader in valve sales for the thermal power, water supply industries, oil and chemical, and valve lock markets in China.

Change in Fiscal Year

As previously announced, in 2011, we changed our fiscal year end to September 30 from December 31. We made this change to better align with our financial reporting periods, as well as our annual planning and budgeting process. This Transition Report on Form 10-K reports our financial results for the nine-month period from January 1, 2011 through September 30, 2011, which we refer to as fiscal year 2011 throughout this report. Following fiscal year 2011, we will report on a twelve-month fiscal year beginning on October 1 and ending on September 30 of each year. The years ended December 31, 2010 and 2009 reflect the twelve-month results of the respective calendar years.

RESULTS OF OPERATIONS

Comparison of Nine Months Ended September 30, 2011 and September 30, 2010

Our summary consolidated results of operations are presented below for the nine months ended September 30, 2011 and 2010.

(In thousands)	Nine Months Ended September 30, 2011	2010 (Unaudited)	$ Change	% Change
SALES	$ 161,395	$ 131,367	$ 30,028	22.9%
COST OF GOODS SOLD	95,753	69,395	26,358	38.0%
GROSS PROFIT	65,642	61,972	3,670	5.9%
OPERATING EXPENSES:				
Selling Expenses	10,134	6,651	3,483	52.4%
General and Administrative Expenses	17,519	9,086	8,433	92.8%
Research and Development Expenses	286	182	104	57.1%
Total Operating Expenses	27,939	15,919	12,020	75.5%
INCOME FROM OPERATIONS	37,703	46,053	(8,350)	(18.1)%
OTHER (INCOME) EXPENSES:				
Other Income, net	(522)	(491)	(31)	6.3%
Gain from Acquisition	-	(1,016)	1,016	(100.0)%
Interest and Finance Expenses, Net	208	82	126	153.7%
Change in Fair Value of Warrant Liabilities	(990)	263	(1,253)	(476.4)%
Total Other Income, Net	(1,304)	(1,162)	(142)	12.2%
INCOME BEFORE PROVISION FOR INCOME TAXES	39,007	47,215	(8,208)	(17.4)%
PROVISION FOR INCOME TAXES	9,449	10,426	(977)	(9.4)%
NET INCOME	$ 29,558	$ 36,789	$ (7,231)	(19.7)%

Sales Revenue. Our sales revenue for the nine months ended September 30, 2011 amounted to $161.4 million, which is approximately $30.0 million, or 22.9%, more than that of the same period in 2010, when we had revenue of $131.4 million. In aggregate, Hanwei Valve and Changsha Valve contributed 7.1%, or approximately $9.3 million to our sales revenue increase from the nine months ended September 30, 2011 to the same period in 2010. The increase was attributed to Hanwei Valve which contributed $6.6 million to our sales revenue. On April 8, 2010, we acquired Hanwei Valve, which operated fully under our control during the nine months ended September 30, 2011, as compared with only 176 days operation in the same period of 2010. Meanwhile, Changsha Valves contributed $2.8 million to our sales revenue. Changsha Valve was acquired on February 3, 2010, and operated fully during the nine months ended September 30, 2011, while it operated eight months in the same period in 2010. Organic growth in sales for the nine months ended September 30, 2011 was 15.8% compared with the same period in 2010. Strong demand for products in the petrochemical and oil sector, and the power supply sector also contributed to the growth in sales. Sales increases in both sectors for the nine months ended September 30, 2011 were 36.6 % and 25.8%, respectively, as compared with the same period in 2010. Sales of ball valves, gate valves and butterfly valves for the nine months ended September 30, 2011 increased by 39.7%, 33.6% and 15.2%, respectively, compared to the same period in 2010. The following tables set forth our sales by valve types, in terms of sales revenues for the nine months ended September 30, 2011 and 2010.

(All amounts in thousands of U.S. dollars)	Nine Months Ended September 30, 2011	2010 (Unaudited)	Change	% of Change
Gate valves	$ 28,595	$ 21,408	$ 7,187	33.6%
Check valves	8,111	6,972	1,139	16.3%
Globe valves	6,011	5,646	365	6.5%
Safety valves	3,948	1,539	2,409	156.5%
Butterfly valves	66,777	57,983	8,794	15.2%
Ball valves	30,824	22,066	8,758	39.7%
Vent valves	335	418	(83)	(19.9)%
Other valves and accessories	16,794	15,335	1,458	9.5%
Total sales revenue	$ 161,395	$ 131,367	$ 30,208	22.9%

The China Valve Industry Association divides the valve market into five primary segments; (i) power; (ii) petrochemical; (iii) oil; (iv) water supply; and (v) metallurgy. Our revenues in these markets are as follows:

(All amounts in thousands of U.S. dollars)	Nine Months Ended September 30, 2011	2010 (Unaudited)	% of Change
Power Supply	$ 48,184	$ 38,798	25.8%
Petrochemical and Oil	51,007	37,346	36.6%
Water Supply	33,408	34,548	(3.3)%
Metallurgy	6,581	6,236	5.5%
Other	21,585	14,439	49.5%
Total sales revenue	$ 161,395	$ 131,367	22.9%

The following table sets forth the impact of Changsha Valve and Hanwei Valve on the overall operation.

INCOME STATEMENT ITEMS

($ in thousands)	**Operation for the periods ended**						**Operation for the nine months ended September 30,**	
	February 3, 2011 Changsha Valve (1)	**April 8, 2011 Hanwei Valve (2)**	**Total I ncremental**	**% of 2011 operation**	**CVVT other operation 2011 (3)**	**% of 2011 operation**	**2011**	**2010**
	A	**B**	**C = A+B**	**D = C/G**	**E = G-C**	**F = E/G**	**G**	**H**
REVENUE	2,760	6,565	9,325	5.8%	152,070	94.2%	161,395	131,367
COST OF GOODS SOLD	1,500	4,657	6,157	6.4%	89,596	93.6%	95,753	69,395
GROSS PROFIT	1,261	1,908	3,169	4.8%	62,473	95.2%	65,642	61,972
GROSS PROFIT RATE	45.7%	29.1%	34.0%		41.1%		40.7%	47.2%
GENERAL AND ADMINISTRATIVE EXPENSES	311	352	663	3.8%	16,856	96.2%	17,519	9,267
SELLING EXPENSES	234	94	329	3.2%	9,805	96.8%	10,134	6,651
INCOME FROM OPERATIONS	715	1,462	2,177	5.8%	35,812	95.0%	37,703	46,054
OTHER (INCOME) EXPENSES, NET	4	(7)	(3)	0.2%	(1,301)	99.8%	(1,304)	(1,162)
NET INCOME	534	1,196	1,730	5.9%	27,828	94.1%	29,558	36,789

(1) Changsha valves was acquired on Feb. 3, 2010. Therefore, it contributed one more month operation under CVVT's control for nine months ended Septem compared with the same period in 2010.
(2) Hanwei valves was acquired on Apr. 8, 2010. Therefore, it contributed 98 days more operation under CVVT's control for nine months ended September 3 with the same period in 2010.
(3) Represented operation result for the organization structure of the Company as the same one as of September 30, 2010 for comparative purpose.

Cost of sales. Our cost of sales was $95.8 million for the nine month period ended September 30, 2011, an increase of $26.4 million, or 38.0%, as compared with $69.4 million for the nine month period ended September 30, 2010. Cost of sales as a percentage of total sales were 59.3% and 52.8% for the nine month periods ended on September 30, 2011 and 2010, respectively. The increase was mainly due to the incremental operation of Hanwei Valve and Changsha Valve for the nine months ended September 30, 2011, which contributed an aggregate of $6.2 million, 8.9% of the increase in the cost of sales. The rest increase was in line with the increase in sales revenues and was also attributable to higher raw material and labor costs.

Gross profit and gross margin. Gross profit was $65.6 million for the nine months ended September 30, 2011, an increase of $3.7 million, or 5.9%, as compared with $62.0 million for the nine month period ended September 30, 2010. Our gross profit margin decreased to 40.7% as compared to 47.2% in the same period of 2010. The decrease in gross margin was Hanwei Valve, had a lower gross profit margin of 33.8% . Specially, the products sold by Hanwei Valve, such as gate valves and ball valves, had lower gross profit margins than those of the butterfly valves and highpressure valves sold by ZD Valve and Kaifeng Valve. In addition, the costs increased in the range of 5% to 20%

for raw materials such as purchase prices of casting and forging steel, steel bars, shafts, bolts and nuts, resulting in a lower overall gross profit margin which generally accounts for around 70% of the unit cost of our valves during the period Labor cost for the nine months ended September 30, 2011 increased more than 10% compared with the same period in 2010. Furthermore, during the period we sold more medium to low pressure valves, with lower sales prices, which also contributed to the decrease in gross profit margin.

Operating expenses. Our total operating expenses increased by $12.0 million, or 75.5%, to $27.9 million for the nine months ended September 30, 2011, from $15.9 million for the same period in 2010. The increase was primarily attributable to a 52.4% increase in our selling expenses and a 92.8% increase in our general and administrative expenses during the 2011 period. Total expenses as a percentage of sales increased to 17.3% for the nine months ended September 30, 2011 from 12.1% for the same period in 2010.

Selling expenses. Our selling expenses were $10.1 million for the nine month period ended September 30, 2011, compared with $6.7 million for the period ended September 30, 2010, an increase of $3.5 million, or approximately 52.4%, while, incremental operation of Hanwei Valve and Changsha Valve, contributed an aggregate of $0.3 million or 8.6% of the increase. As overall sales increased, sales commissions and marketing and promotion expenses have increased as well. Sales commission and related expenses increased from $4.1 million for the nine month period ended September 30, 2010 to $5.0 million for the same period in 2011. As a percentage of sales, total selling expenses increased to 6.3% for the nine months ended September 30, 2011 from 5.1% for the same period in 2010.

General and administrative expenses. Our general and administrative expenses were $17.5 million for the nine month period ended September 30, 2011, compared with $9.1 million for the period ended September 30, 2010, an increase of $8.4 million, or approximately 92.8% . The increase was primarily due to an increase of $2.8 million in bad debt expenses from $0.2 million for the period ended September 30, 2010 to $3.0 million for the nine month period ended September 30, 2011Higher labor costs also contributed to higher general and administrative expenses. Salary and welfare expenses were $3.8 million for the nine month period ended September 30, 2011, compared with $2.5 million for the period ended September 30, 2010, an increase of $1.3 million. In addition, we had $0.8 million stock-based compensation expense for the shares granted to directors and officers for the nine months ended September 30, 2011, as compared with $0.04 million for the same period in 2010. Incremental operation of Hanwei Valve and Changsha Valve for the nine months ended September 30, 2011, contributed an aggregate of $0.7 million to the general and administrative expenses.

Income from Operations. Income from operations was $37.7 million for the nine month period ended September 30, 2011, compared with $46.1 million for the period ended September 30, 2010. The decrease was primarily attributable to lower gross margin, higher selling expenses and general and administrative expenses in the 2011 period.

Income taxes. We incurred income taxes of $9.4 million for the nine month period ended September 30, 2011. This is a decrease of $1.0 million, or 9.4%, from the taxes we incurred in the 2010 period, which were $10.4 million. This is in line with the decrease of income from operations.

Net income. As a result of the foregoing factors, our net income decreased by $7.2 million, or 19.7%, to $29.6 million for the nine month period ended September 30, 2011, from $36.8 million for the same period in 2010. Net income as a percentage of sales was 18.3% and 28.0% for the nine month periods ended September 30, 2011 and 2010, respectively.

Comparison of Year Ended December 31, 2010 and December 31, 2009

Our summary consolidated results of operations are presented below for the year ended December 31, 2010 and 2009.

	Years Ended December 31,		**$**	**%**
(In thousands)	**2010**	**2009**	**Change**	**Change**
SALES	$ 183,696	$ 95,370	$ 88,326	92.6%
COST OF GOODS SOLD	103,277	48,527	54,750	112.8%
GROSS PROFIT	80,419	46,843	33,576	71.7%
OPERATING EXPENSES:				
Selling Expenses	10,414	6,318	4,096	64.8%
General and Administrative Expenses	15,620	7,359	8,261	112.3%
Research and Development Expenses	229	127	102	80.3%
Total Operating Expenses	26,263	13,804	12,459	90.3%
INCOME FROM OPERATIONS	54,156	33,039	21,117	63.9%
OTHER (INCOME) EXPENSES:				
Other Income, net	(669)	(511)	(158)	30.9%
Gain from Acquisition	(3,715)	-	(3,715)	0.0%

Interest and Finance Expenses, Net	101	129	(28)	-21.7%
Change in Fair Value of Warrant Liabilities	785	1,509	(724)	-48.0%
Total Other Income, Net	(3,498)	1,127	(4,625)	-410.4%
INCOME BEFORE PROVISION FOR INCOME TAXES	57,654	31,912	25,742	80.7%
PROVISION FOR INCOME TAXES	14,457	8,559	5,898	68.9%
NET INCOME	$ 43,197	$ 23,353	$ 19,844	85.0%

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The following tables set forth our sales by valve types, in terms of sales revenues for the periods indicated.

	Years Ended December 31, 2010		2009	
Sales revenue	(in thousands)			
Gate valves	$	32,771	$	26,559
Check valves		9,778		6,840
Globe valves		8,037		5,073
Safety valves		2,307		1,915
Butterfly valves		77,213		36,998
Ball valves		30,477		5,960
Vent valves		487		325
Other		22,626		11,700
Total sales revenue	$	183,696	$	95,370

The China Valve Industry Association divides the valve market into five primary segments: (i) power; (ii) petrochemical and oil; (iii) water supply; (iv) metallurgy; and (v) other areas. Our revenues in these markets are as follows:

	Years Ended December 31, 2010		2009	
	(in thousands)			
Power Supply	$	51,964	$	28,206
Petrochemical and Oil		55,635		16,250
Water Supply		43,626		28,301
Metallurgy		8,998		6,173
Other		23,473		16,440
Total sales revenue	$	183,696	$	95,370

Sales Revenue Sales revenue increased $88.3 million, or 92.6%, to $183.7 million in 2010 from $95.4 million in 2009. The strong sales growth resulted from the following factors: 1) The three equity acquisitions of Yangzhou Valve, Changsha Valve and Hanwei Valve (the New Subsidiaries) contributed $68.4 million, or 77.4% to the total sales growth. Among the 77.4% growth rate, Changsha Valve and Hanwei Valve contributed 32.8% and 32.6% to our sales increase, respectively. 2) $20.0 million in organic sales growth was generated through ordinary operation of the original operating subsidiaries during the year ended December 31, 2010, and was attributable to increased demand for our products fueled by rapid industrialization and governmental capital expenditure on China s infrastructure. In addition, our innovations in high temperature, high pressure power station gate valves and two-way metal sealing butterfly valves, which are popular among our customers, also contributed to sales volume increases as compared to sales in the same period last year. We also made efforts to expand sales in the petrochemical, oil and nuclear areas, while strengthening the current thermal power and hydro-power market for our products. Our success in adding new types of valves, such as the large diameter, high pressure valves used in power stations, for nuclear power plants, and other large governmental water-pipe projects requiring supplies of 3.5+ meter diameter valves, also helped fuel demand for our products and contributed to our sales increase.

In 2010, revenues from butterfly valves, gate valves and ball valves constituted 76.5% of our total revenues.

Revenue from butterfly valves for 2010 amounted to $77.2 million, which was $40.2 million or 108.7% more than revenue for the same period ended December 31, 2009. This increase was mainly attributable to Changsha Valve whose key product is the butterfly valve. The increase was also attributable to the fact that we are the sole manufacturer and distributor for the integrated two-way metal sealed butterfly valves used to control municipal water and sewage flow. These new generation butterfly valves have achieved around 90% market share in the ten largest cities in China.

Revenue from gate valves for 2010 amounted to $32.8 million, which was $6.2 million, or 23.4%, more than that of 2009. These increases were attributable to the large increase in power station construction projects in China. By the end of 2007, the Company had developed the capability to manufacture high quality, technology intensive forged steel valves for use in ultra supercritical thermal power generators in 1,000MW power stations. The Company is the sole designer and manufacturer in China for this type of valve, which can replace the imported valves used in the thermal power industry. The newly developed, high-margin valves perform as well as the comparable overseas products and brought in a large amount of orders in 2010. Continued extensive use of gate valves in the petro-chemical and nuclear power industries also contributed to our sales increase in 2010.

Revenue from ball valves for 2010 amounted to $30.5 million, which was $24.5 million or 411.4% more than that for 2009. This increase was attributable to Hanwei Valve.

INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2010

REVENUE	YZ	% contributed to overall	CS	% contributed to overall	HW	% contributed to overall	Consolidated 2010
Total Revenue	5,983,351	3.3%	31,265,638	17.0%	31,116,982	16.9%	183,696,126
COST OF GOODS SOLD	3,282,485	3.2%	18,139,730	17.6%	19,023,043	18.4%	103,276,910
GROSS PROFIT	2,700,866	3.4%	13,125,908	16.3%	12,093,939	15.0%	80,419,216
EXPENSES:							
Selling expense	98,479	0.9%	2,608,774	25.0%	514,005	4.9%	10,414,293
G&A expense	504,593	3.2%	2,976,715	19.1%	809,797	5.2%	15,563,906
Other expense							284,877
Total Operating Expenses	603,072	2.3%	5,585,489	21.3%	1,323,802	5.0%	26,263,076
INCOME FROM OPERATIONS	2,097,794	3.9%	7,540,419	13.9%	10,770,137	19.9%	54,156,140
OTHER (INCOME) EXPENSE:							
Other income, net	(966,108)	144.3%	(3,188,752)	476.3%	7,260	-1.1%	(669,462)
Gain from acquisition							(3,714,840)
Interest expense, net	54	0.1%	(1,263)	-1.3%	(16,646)	-16.5%	100,997
Change in fair value of derivative instruments							785,350
Total Other (Income) Expense, net	(966,054)	27.6%	(3,190,015)	91.2%	(9,386)	0.3%	(3,497,955)