CHINA VALVES TECHNOLOGY, INC
Form 10-Q
November 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: **September 30, 2009**

£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-34542

CHINA VALVES TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**86-0891913**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification. No.)*
No. 93 West Xinsong Road Kaifeng City, Henan Province People s Republic of China,	**475002**
(Address of principal executive offices)	*(Zip Code)*

(86) 378-2925211
(Registrant s telephone number, including area code)

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 o

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

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

Large accelerated filer £	Accelerated filer £
Non-accelerated filer £	Smaller reporting company x
(Do not check if a 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 o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 31,393,878 shares of common stock, par value $0.001 per share, outstanding on November 12, 2009.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,669,586	$ 16,427,883
Restricted cash	3,180,091	3,191,237
Notes receivable	243,522	880,200
Accounts receivable, net of allowance for doubtful accounts of $1,163,457 and $1,163,457 as of September 30, 2009 and December 31, 2008, respectively	27,483,141	26,119,447
Other receivables	5,082,414	4,841,691
Inventories	10,358,228	11,244,442
Advances on inventory purchases	2,206,656	1,108,512
Advances on inventory purchases - related party	1,281,316	1,367,446
Prepaid expenses	44,777	52,921
Total current assets	66,549,731	65,233,779
PLANT AND EQUIPMENT, net	26,580,568	16,184,894
OTHER ASSETS:		
Accounts receivable - retainage, long term	2,788,490	2,541,418
Deposit for acquisition	6,014,700	-
Advances on equipment purchases	1,405,860	2,001,733
Long term receivable	300,802	382,552
Goodwill - purchased	20,811,767	20,811,767
Intangibles, net of accumulated amortization	8,980,342	823,331
Other investments, at lower of cost or market	764,515	764,515
Total other assets	41,066,476	27,325,316
Total assets	$ 134,196,775	$ 108,743,989
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 8,439,279	$ 6,630,574
Short term loans	4,139,811	7,839,960
Short term loans - related parties	456,511	596,791
Other payables	3,327,025	4,453,881
Other payables - related party	1,470,313	1,975,462
Notes payable	2,347,200	2,934,000
Accrued liabilities	2,984,031	2,382,138
Customer deposits	3,015,111	3,129,708
Taxes payable	2,101,853	1,227,338

Warrant liabilities	478,422	924,291
Total current liabilities	28,759,556	32,094,143
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $0.001 par value; 300,000,000 shares authorized; 31,398,878 shares and 31,192,552 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	31,402	31,192
Additional paid-in-capital	78,971,106	66,935,968
Common stock subscription receivable	-	(9,834,000)
Statutory reserves	4,892,263	2,958,659
Retained earnings	15,399,478	10,399,050
Accumulated other comprehensive income	6,142,970	6,158,977
Total shareholders' equity	105,437,219	76,649,846
Total liabilities and shareholders' equity	$ 134,196,775	$ 108,743,989

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
SALES	$ 27,890,991	$ 21,441,850	$ 70,008,554	$ 46,208,006
COST OF GOODS SOLD	14,191,615	12,884,586	35,565,231	27,702,722
GROSS PROFIT	13,699,376	8,557,264	34,443,323	18,505,284
OPERATING EXPENSES:				
Selling	1,739,431	1,307,590	4,654,287	3,170,950
General and administrative	1,762,085	1,513,622	5,520,928	4,783,324
Research and development	15,677	74,399	38,493	173,105
Non-cash stock compensation expense	3,779,849	-	11,279,336	-
Total operating expenses	7,297,042	2,895,611	21,493,044	8,127,379
INCOME FROM OPERATIONS	6,402,334	5,661,653	12,950,279	10,377,905
OTHER EXPENSE (INCOME):				
Other expense (income), net	224,352	(621,229)	(812,743)	(908,213)
Interest and finance expense, net	11,879	132,026	138,031	423,620
Change in fair value of warrant liabilities	(90,491)	(34,740)	310,143	(34,740)
Total other expense (income), net	145,740	(523,943)	(364,569)	(519,333)
INCOME BEFORE PROVISION FOR INCOME TAXES	6,256,594	6,185,596	13,314,848	10,897,238
INCOME TAX EXPENSE	2,502,624	1,544,268	6,380,816	2,825,542
NET INCOME	3,753,970	4,641,328	6,934,032	8,071,696
OTHER COMPREHENSIVE INCOME:				
Foreign currency translation gain (loss)	65,058	49,582	(16,007)	2,376,660
COMPREHENSIVE INCOME	$ 3,819,028	$ 4,690,910	$ 6,918,025	$ 10,448,356
BASIC EARNINGS PER SHARE:				
Weighted average number of shares	31,398,770	23,244,832	30,559,609	21,124,876
Earnings per share	0.12	0.20	0.23	0.38
DILUTED EARNINGS PER SHARE:				
Weighted average number of shares	31,446,247	23,244,832	30,670,673	21,124,876
Earnings per share	$ 0.12	$ 0.20	$ 0.23	$ 0.38

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional	Common Stock	Retained Earnings		Accumulated other	
	Number of shares	Par Value	Paid-in capital	Subscription receivable	Statutory reserves	Unrestricted	comprehensive income	Total
BALANCE, December 31, 2007	20,053,250	$ 20,053	$ 16,385,083	$ -	$ 1,749,601	$ 15,844,953	$ 3,173,745	$ 37,173,43
Shareholder contribution			1,317,095					1,317,09
Common stock issuance for cash at $3.576	8,389,302	8,389	25,720,661					25,729,05
Net income						8,071,696		8,071,69
Adjustment to statutory reserve					798,019	(798,019)		
Foreign currency translation adjustment							2,376,660	2,376,66
BALANCE, September 30, 2008, unaudited	28,442,552	$ 28,442	$ 43,422,839	$ -	$ 2,547,620	$ 23,118,630	$ 5,550,405	$ 74,667,93
Common stock issuance for real estate acquisition at $3.576	2,750,000	2,750	9,831,250	(9,834,000)				
Stock compensation expense related to Make Good Escrow Agreement			14,998,974					14,998,97
Shareholder contribution returned			(1,317,095)					(1,317,09
Net income						(12,308,541)		(12,308,54
					411,039	(411,039)		

Adjustment to statutory reserve								
Foreign currency translation adjustment							608,572	608,57
BALANCE, December 31, 2008	31,192,552	$ 31,192	$ 66,935,968	$ (9,834,000)	$ 2,958,659	$ 10,399,050	$ 6,158,977	$ 76,649,84
Cashless exercise of warrants	201,326	201	755,811					756,01
Release of shares in escrow related to common stock issued for real estate acquisition				9,834,000				9,834,00
Stock compensation expense related to Make Good Escrow Agreement			11,249,231					11,249,23
Stock based compensation	5,000	9	9,366					9,37
Stock based compensation from options			20,730					20,73
Net income						6,934,032		6,934,03
Adjustment to statutory reserve					1,933,604	(1,933,604)		
Foreign currency translation adjustment						-	(16,007)	(16,00
BALANCE, September 30, 2009, unaudited	31,398,878	$ 31,402	$ 78,971,106	$ -	$ 4,892,263	$ 15,399,478	$ 6,142,970	$ 105,437,21

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(Unaudited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,934,032	$ 8,071,696
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,111,294	683,455
Amortization	175,413	46,359
Bad debt provision	200,595	554,672
Loss (gain) on disposal of fixed assets	52,098	(24,705)
Change in fair value of warrant liabilities	310,143	(34,740)
Stock compensation cost	11,279,336	-
Change in operating assets and liabilities:		
Restricted cash due to sales covenant	(571,331)	(96,857)
Note receivable	636,201	(57,348)
Accounts receivable-trade	(1,609,558)	(7,749,222)
Other receivables	(441,139)	(738,305)
Inventories	885,549	1,146,008
Advance on inventory purchases	(1,097,320)	(212,157)
Advance on inventory purchases-related party	106,946	(122,415)
Prepaid expenses	8,138	347,644
Accounts payable-trade	1,807,350	(107,055)
Long term receivable	81,689	-
Other payables	(1,136,336)	(2,652,648)
Accrued liabilities	601,564	1,653,736
Customer deposits	(114,511)	1,087,270
Taxes payable	873,859	497,363
Net cash provided by operating activities	20,094,012	2,292,751
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of intangible assets	(768,192)	(252,938)
Advance on equipment purchases		(1,485,584)
Purchases of plant and equipment	(8,636,494)	(3,243,024)
Proceeds from sale of equipment	-	62,366
Investment deposit	(6,010,190)	-
Net cash used in investing activities	(15,414,876)	(4,919,180)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash due to covenant	(3,894)	(1,628,130)
Restricted cash due to notes payable	586,360	-
Repayment from notes payable	(586,360)	-
Other payables-related party	(505,130)	(2,246,978)
Proceeds from short term debt	3,037,517	6,904,760
Proceeds from short term loans-related parties	99,307	796,633

Repayments of short term debt	(6,733,530)	(4,994,553)
Repayments of short term loans-related parties	(251,638)	-
Proceeds from shareholder	-	1,317,095
Proceeds from private placement financing		27,288,231
Net cash (used in) provided by financing activities	(4,357,368)	27,437,058
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(80,065)	275,980
INCREASE IN CASH	241,703	25,086,609
CASH and CASH EQUIVALENTS, beginning	16,427,883	2,773,262
CASH and CASH EQUIVALENTS, ending	$ 16,669,586	$ 27,859,871
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 138,133	$ 376,939
Cash paid for income taxes	$ 1,324,470	$ 2,326,037
Additional Non-cash investing and financing activities		
Cashless exercise of warrants	$ 756,012	$ -
Common stock issued for real estate acquisition	$ 9,834,000	$ -

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

Note 1 Organization

China Valves Technology, Inc., (the Company), is incorporated in Nevada in August 1997. Through its direct and indirect subsidiaries, the Company focuses primarily on the development, manufacture and sale of high-quality metal valves for the electricity, petroleum, chemical, water, gas and metal industries in the People s Republic of China (PRC). Our operations are headquartered in Kaifeng, Henan Province, PRC.

China Valve Samoa was incorporated on June 6, 2007 in Samoa and its principle activity was its investment in all of the outstanding capital stock of China Valve Holding Limited, a corporation incorporated under the laws of Hong Kong (China Valve Hong Kong). China Valve Hong Kong, in turn, was the owner of all of the outstanding equity interests in Henan Tonghai Valve Technology Co., Ltd., (Henan Tonghai Valve), a corporation incorporated under the laws of the PRC which in turn owned all of the outstanding equity interests in two entities (the Operating Subsidiaries), namely, Henan Kaifeng High Pressure Valve Co., Ltd., (High Pressure Valve) and Zhengzhou City Zhengdie Valve Co., Ltd., (Zhengdie Valve), both corporations incorporated under the laws of the PRC.

RESTRUCTURING PLAN

The Company undertook a restructuring plan intended to ensure compliance with regulatory requirements of the PRC. Under that plan, on April 1 and 3, 2008, the Company transferred 100% of the equity of the Operating Subsidiaries back to Sipang Fang, the Company s majority shareholder, Chief Executive Officer and President and the other original owners, with the intention that Sipang Fang would transfer the Operating Subsidiaries to a new entity controlled by Mr. Bin Li (a Canadian citizen and Mr. Siping Fang s cousin), and that Mr. Li would then sell such entity to the Company, thereby allowing the Company to reacquire legal ownership of the Operating Subsidiaries.

Under the restructuring plan, on April 10, 2008, Mr. Sipang Fang, the Company s Chief Executive Officer and President, sold 12,150,000 shares of the Company s common stock beneficially owned by him to Mr. Li for HK$10,000 (approximately $1,281). In connection with his acquisition of the Shares, Mr. Li issued to Mr. Fang a HK$10,000 note. The note, which does not bear interest, is due sixty days after a written demand for payment is made by Mr. Fang to Mr. Li, provided that such demand is made on or after October 15, 2008. The sale represented a change of control of the Company and the Shares acquired by Mr. Li represented approximately 60.75% of the then issued and outstanding capital stock of the Company calculated on a fully-diluted basis. Prior to the acquisition, Mr. Li was not affiliated with the Company. However following the acquisition, Mr. Li is deemed an affiliate of the Company as a result of his stock ownership interest in the Company. In connection therewith, Mr. Fang and Mr. Li entered into an Earn-In Agreement (the Earn-In Agreement) pursuant to which Mr. Fang obtained the right and option to re-acquire the shares of the Company from Mr. Li, subject to the satisfaction of four conditions as set forth in the Earn-In Agreement, as follows: (1) 6,075,000 shares, upon the later occurrence of either (i) the date that is six months after April 10, 2008 or (ii) the date upon which Mr. Fang and Henan Tonghai Valve enter into a binding employment agreement for a term of not less than five years for Mr. Fang to serve as Henan Tonghai Valve s chief executive officer and chairman of its board of directors; (2) 2,025,000 shares upon the declaration of effectiveness of a registration statement filed by the Company under the Securities Act of 1933, as amended; (3) 2,025,000 shares when the Operating Subsidiaries achieve after-tax net income of not less than $3,000,000, as determined under United States Generally Accepted Accounting Principles (GAAP) consistently applied for six months ended June 30, 2008; and (4) 2,025,000 of the Shares when the Operating Subsidiaries achieve not less than $7,232,500 in pre tax profits, as determined under GAAP, for the fiscal year ended December 31, 2008. Conditions (3) and (4) have been met. The shares under the Earn-In Agreement are also the subject of a Make-Good Escrow Agreement in connection with the Company s August 26, 2008 private placement (see Note 12).

In accordance with the restructuring plan, Mr. Li established China Fluid Equipment Holdings Limited (China Fluid Equipment) on April 18, 2008, to serve as the 100% owner of a new PRC subsidiary, Henan Tonghai Fluid Equipment Co., Ltd. (Henan Tonghai). On June 30, 2008, Henan Tonghai acquired the Operating Subsidiaries from Mr. Fang and the other original owners. The acquisitions were consummated under the laws of the PRC. The former Hong Kong holding company, China Valve Hong Kong and its subsidiary Henan Tonghai Valve, which no longer hold any assets, are now dormant. On July 31, 2008, the Company and Mr. Li completed the restructuring plan when Mr. Li transferred all of the capital stock of China Fluid Equipment to the Company pursuant to an Instrument of Transfer for a nominal consideration of HK$10,000. As a result of these transactions, the Operating Subsidiaries are again the Company s indirect wholly-owned subsidiaries. During the time that the operating subsidiaries were held by the original owners as part of the restructuring plan, Siping Fang made an additional capital contribution of $1,317,095 to Zhengdie Valve which, subsequent to the reacquisition of the subsidiaries, is to be returned to him (see Note 11).

As part of these restructuring transactions, no significant amounts were paid to or received from Mr. Fang or Mr. Li. Mr. Li was not at risk during these transactions and no new capital was introduced. As a result, no new basis in the net assets of the Operating Subsidiaries was established. During this restructuring, Mr. Fang continued to serve as Chairman and Chief Executive of the Company and, together with other management of the Company, continued to direct both the day-to-day operating and management of the Operating Subsidiaries, as well as their strategic direction. Because of this operating and management control and because the restructuring plan effectively resulted in the Company continuing to bear the residual risks and rewards related to the Operating Subsidiaries, the Company continued to consolidate the Operating Subsidiaries during the restructuring. The acquisition by the Company on July 31, 2008 of the new holding company for the Operating Subsidiaries, which represented the return to legal ownership of the Operating Subsidiaries by the Company, represented a transaction between related parties under common control and did not establish a new basis in the assets and liabilities of the Operating Subsidiaries. The Earn-In Agreement will enable Mr. Fang to regain ownership of the Company s shares originally transferred by him to Mr. Li as part of the restructuring arrangements and, accordingly, the Company does not consider his re-acquisition of those shares to represent compensation cost to the Company. However, those shares are also subject to a Make-Good Escrow Agreement in connection with the Company s August 26, 2008 private placement and their release from that escrow may require us to recognize compensation cost (see Note 12).

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

Note 1 Organization (Continued)

NEW ACQUISITIONS

On November 17, 2008, the Company s subsidiary, China Fluid Equipment established a new holding company, Tai Zhou Tai De Valve Co., Ltd. for the purpose of acquiring 100% tangible assets of Taizhou Wote Valve Co., Ltd. On April 17, 2009, Taizhou Tai De Valve Co., Ltd. completed the acquisition of Taizhou Wote Valve Co., Ltd for a total cash consideration of $3 million pursuant to an Asset Purchase Agreement.

On August 18, 2009, Henan Tonghai Fluid Equipment Co., Ltd., a Chinese corporation (the "Subsidiary"), a wholly-owned subsidiary of China Valves Technology, Inc. (the "Company"), prepaid $4.1 million to acquire 100% of the outstanding equity interests of Yangzhou Rock Valve Lock Technology Co., Ltd. ("Yangzhou Rock"). However, the Company is still in the process of completing the acquisition. As of September 30, 2009, our prepaid acquisition totaled $6.0 million. See subsequent events in Note 14 for detailed discussion.

Note 2 Summary of significant accounting policies

THE REPORTING ENTITIES

The accompanying consolidated financial statements include the following subsidiaries:

Name of entity	Place of incorporation	Capital		Ownership	Principle business
		Local currency	USD		
Henan Kai Feng High Pressure Valve Co., Ltd.	PRC	RMB 60,000,000	$7,260,000	100% Indirectly	Manufacturing
Zhengzhou City ZhengDie Valve., Ltd.	PRC	RMB 50,000,000	$6,454,174	100% Indirectly	Manufacturing
Tai Zhou Tai De Valve Co., Ltd.	PRC	RMB 20,468,819	$3,000,000	100% Indirectly	Holding Company
Henan Tonghai Fluid Equipment Co., Ltd.	PRC	RMB 146,793,400	$21,500,000	100% Indirectly	Holding Company
China Fluid Equipment Holdings Limited	Hong Kong	HKD 10,000	$1,282	100% Directly	Holding Company

BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). In the opinion of management, the accompanying balance sheets, and statements of income, stockholders equity and cash flows include all adjustments, consisting only of normal recurring items, considered necessary to give a fair presentation of operating results for the periods presented. All material inter-company transactions and balances have been eliminated in consolidation.

Management has included all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation of operating results for the periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the 2008 annual report filed on Form 10-K.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

Note 2 Summary of significant accounting policies (Continued)

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with US GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company s revenue recognition policies are in accordance with generally accepted accounting principles regarding revenue recognition.. Sales revenue is recognized when all of the following have occurred: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable, and (iv)the ability to collect is reasonably assured. These criteria are generally satisfied at the time of shipment when risk of loss and title passes to the customer.

The Company recognizes revenue when the goods are delivered and title has passed. Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company s products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by the VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.

The Company allows its customers to retain 5% to 10% of the contract prices as retainage during the warranty period, usually 12 or 18 months, to guarantee product quality. Historically, the Company has experienced very few actual warranty claims resulting in the Company having to repair or exchange a defective product. Due to the infrequency and insignificant amount of warranty claims, the ability to collect retainage is reasonably assured and is recognized at the time of shipment.

COST OF GOODS SOLD

Cost of goods sold consists primarily of direct material costs, direct labor costs, direct depreciation and related direct expenses attributable to the production of the products. Inbound shipping and handling costs and purchasing are included in direct material costs. Manufacturing overhead includes expenses such as indirect labor, depreciation as it relates to the cost of production, rent, utilities, receiving costs, and equipment maintenance and repairs.

SHIPPING AND HANDLING

Shipping and handling costs incurred for shipping of finished products to customers are included in selling expense and totaled $94,011 and $59,262 for the three months ended September 30, 2009 and 2008, respectively. Shipping and handling costs amounted to $306,650 and $138,117 for the nine months ended September 30, 2009 and 2008, respectively.

SELLING EXPENSE

Selling expense includes transportation expense, advertising, salaries, conference fees and sales commissions.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses include insurance expense, administrative and management salaries, bad debt expense, depreciation, rent, travel expense, welfare expense, office expenses, meal and entertainment expense, conference expense, and repairs and maintenance expense.

ADVERTISING

Advertising costs are expensed as incurred and totaled $24,975 and $3,465 for the three months ended September 30, 2009 and 2008, respectively and $32,819 and $19,000 for the nine months ended September 30, 2009 and 2008, respectively.

FOREIGN CURRENCY TRANSLATION AND OTHER COMPREHENSIVE INCOME

The reporting currency of the Company is the US dollar. The functional currency of the Company and the local currency of its operating subsidiaries, High Pressure Valve and Zhengdie Valve, is the Chinese Renminbi (RMB).

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

Note 2 Summary of significant accounting policies (Continued)

FOREIGN CURRENCY TRANSLATION AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For those entities whose currency is other than the US dollar, all assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date; shareholders equity is translated at historical rates and items in the statements of income and of cash flows are translated at the average rate for the period. Because cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported in the statement of cash flows will not necessarily agree with changes in the corresponding balances in the balance sheet. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

The balance sheet amounts with the exception of equity at September 30, 2009 and December 31, 2008 were translated at 6.82 RMB and 6.83 RMB to $1.00, respectively. The average translation rates applied to the statements of income and of cash flows for the three months ended September 30, 2009 and 2008 were 6.82 RMB and 6.83RMB to $1.00, respectively, and for the nine months ended September 30, 2009 and 2008 were 6.82 RMB and 6.97 RMB to $1.00, respectively.

PLANT AND EQUIPMENT

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated life of the asset, ranging from five to thirty years.

Construction in progress represents direct costs of construction as well as acquisition and design fees incurred. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. Interest incurred during construction is capitalized into construction in progress. All other interest is expensed as incurred. No depreciation is provided until construction is completed and the asset is ready for its intended use. Maintenance, repairs and minor renewals are charged directly to expenses as incurred. Major additions and betterments to property and equipment are capitalized.

INTANGIBLE ASSETS

Intangible assets consist of goodwill, patents, software and land use right. The Company records goodwill when the purchase price of the net assets acquired exceeds their fair value. In accordance with the accounting standard regarding accounting for goodwill and other intangible assets, goodwill has an indefinite life and therefore costs are not amortized but reviewed for impairment. Patents and software are subject to amortization. Patents, which have a legal life of 10 years in the PRC, are being amortized over 5 years as management believes that five years is the estimated useful life of the patents currently owned by the Company. Land use rights are carried at cost and charged to expense on a straight-line basis over the period the rights are granted, 46.4 years. Software is amortized over 10 years, its estimated useful life.

LONG-LIVED ASSETS

The Company reviews the carrying amount of its long-lived assets, including intangibles, for impairment, each reporting period. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is considered not recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. As of September 30, 2009, the Company determined no impairment charges were necessary.

INVENTORY

The Company values its inventory at the lower of cost or market, determined on a weighted average method, or net realizable value. The Company reviews its inventories periodically to determine if any reserves are necessary for potential obsolescence or if a write down is necessary because the carrying value exceeds net realizable value.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred. The costs of material and equipment that are acquired or constructed for research and development activities and which have alternative future uses, either in research and development, marketing, or sales, are classified as property and equipment and depreciated over their estimated useful lives.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

Note 2 Summary of significant accounting policies (Continued)

RETIREMENT BENEFIT COSTS

Amounts payable for the PRC state managed retirement benefit programs are expensed in the financial statements following the accrual basis of accounting.

INCOME TAXES

The Company applies the accounting standard regarding accounting for income taxes and the accounting standard regarding accounting for uncertainty in income taxes for income taxes. This accounting standard requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consist of taxes currently due plus deferred taxes. Because the Company has no operations within the United States, there is no provision for US income taxes and there are no deferred tax amounts as of September 30, 2009 and December 31, 2008.

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred taxes are accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred taxes are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred taxes are charged or credited in the income statement, except when they relate to items credited or charged directly to equity, in which case the deferred taxes are also recorded in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Under the accounting standard regarding, accounting for uncertainty in income taxes, a tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

RESTRICTED CASH

The Company s restricted cash consists of cash in the bank as security for its exported products, notes payable and cash in held escrow pursuant to the Securities Purchase Agreement entered into on August 26, 2008. For restricted cash held in bank, the restriction is released after the customers have received and inspected the products. The Company has notes payable outstanding with various banks and is required to keep certain amounts on deposit that are subject to withdrawal restrictions. Cash held in escrow pursuant to the Securities Purchase Agreement is released after the Company satisfies certain covenants as stated in the Securities Purchase Agreement, see note 12. Restricted cash amounted to $3,180,091 and $3,191,237 as of September 30, 2009 and December 31, 2008, respectively.

CONCENTRATION RISKS

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, restrictions on currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Certain financial instruments may subject the Company to concentration of credit risk. The Company maintains bank deposits within state-owned banks within the PRC and Hong Kong. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of September 30, 2009 and December 31, 2008, the Company s cash and restricted cash balances, totaling $15,274,633 and $11,984,233 respectively at those dates, were not covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

Note 2 Summary of significant accounting policies (Continued)

CONCENTRATION RISKS (CONTINUED)

Five major suppliers, represented approximately 27% and 32% of the Company s total purchases for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, five major suppliers, represented approximately 18% and 28%, respectively of the Company s total purchases.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The accounting standards regarding disclosures about fair value of financial instruments defines financial instruments and required fair value disclosure of those instruments. This accounting standard defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. Receivables, investments, payables, short and long term debt and warrant liabilities qualified as financial instruments. Management believes the carrying amounts of receivables, payables and debt are a reasonable estimate of fair value because of the short period of time between the origination of such instruments, their expected realization, and if applicable, their stated interest rate is equivalent to interest rates currently available. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The Company analyzes all financial instruments with features of both liabilities and equity under the accounting standards regarding accounting for certain financial instruments with characteristics of both liabilities and equity, accounting for derivative instruments and hedging activities, accounting for derivative financial instruments indexed to, and potentially settled in, a company s own stock, and the accounting standard regarding determining whether an instrument (or embedded feature) is indexed to an entity s own stock. The accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company s own stock and (b) classified in stockholders equity in the statement of financial position would not be considered a derivative financial instrument. This standard provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer s own stock and thus able to qualify for this accounting standard scope exception. All warrants issued by the Company are denominated in U.S. dollars; because the Company s functional currency is the Renminbi, the Company accounts for these warrants as derivative instrument liabilities and marks them to market each period. Because there is no quoted or observable market price for the warrants, the Company used level 3 inputs for its valuation methodology.

The Company invested in China Perfect Machinery Industry Co., Ltd. in 1996 and Kaifeng Commercial Bank in 1997. There is no quoted or observable market price for these investments; therefore, the Company used level 3 inputs for its valuation methodology. Based on its proportionate share of the underlying book value of the investees, the Company believes the fair value of the investments is at least equal to the original cost. The determination of the fair value was

based on the capital investment that the Company contributed. There has been no change in the carrying value since inception, other than the effects of translating the balances to US dollars.

A discussion of the valuation technique used to measure the fair value of the warrant liabilities is provided in Note 12.

	Carrying Value as of September 30, 2009	Fair Value Measurements at September 30, 2009 using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Investments	$ 764,515			$ 764,515
Warrant liabilities	$ 478,422			$ 478,422

Except for the warrant liability and investments, the Company did not identify any other asset and liability that are measured at fair value on a recurring basis in accordance with the accounting standard.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

Note 2 Summary of significant accounting policies (Continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 Valuation Reconciliation:

		Warrant liabilities
Balance, December 31, 2008	$	924,291
Exercised Warrants reclassified to APIC		(756,012)
Current period fair value change of exercised warrants		229,673
Current period fair value change		80,470
Balance, September 30, 2009 (Unaudited)	$	478,422

		Long term Investment
Balance, December 31, 2008	$	764,515
Current period investment		-
Distribution of previous year dividend		-
Current period investment gain		-
Foreign currency exchange loss		-
Balance, September 30, 2009 (Unaudited)	$	764,515

RECEIVABLES

The Company s business operations are conducted in the PRC by selling on various credit terms. Management reviews its receivables on a quarterly basis to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against the allowance for doubtful accounts when identified. The Company s existing reserve is consistent with its historical experience and considered adequate by management.

EARNINGS PER SHARE

The Company reports earnings per share in accordance with the provisions of the accounting standard regarding "Earnings per Share." This accounting standard requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution (using the treasury stock method) that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method, at either the beginning of the respective period presented or the date of issuance, whichever is later, and only if the common stock equivalents are considered dilutive based upon the Company's net income (loss) position at the calculation date.

As described in Notes 11 and 12, on August 26, 2008, the Company issued 2,750,000 shares as consideration for the transfer to the Company of certain land use rights and property. The shares were in escrow, pending PRC governmental approval of the transfer for the year ended December 31, 2008. In accordance with this accounting standard, outstanding common shares that are contingently returnable (that is, subject to recall) are treated in the same manner as contingently issuable shares. Therefore, the 2,750,000 shares were excluded from diluted earnings per share for the year ended December 31, 2008. On March 6, 2009, the land use rights and property were transferred to the Company and the shares were released from escrow, thus resolving the contingency and the 2,750,000 shares have been included in basic and diluted earnings per share for the period ended September 30, 2009.

As described in Note 12, the placement agent, Brean Murray, Carret & Co., LLC converted 352,349 warrant shares to 201,149 shares of common stock on February 18, 2009. A total of $756,012 of carrying value and warrant liability had been reclassified into equity and have been included in basic and diluted earnings per share for the periods ended September 30, 2009.

All share and per share amounts used in the Company's consolidated financial statements and notes thereto have been retroactively restated to reflect the 2-for-1 reverse stock split, which are effective on July 30, 2009.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
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Note 2 Summary of significant accounting policies (Continued)

LONG TERM INVESTMENT

The Company invested in China Perfect Machinery Industry Co., Ltd. in 1996 and Kaifeng Commercial Bank in 1997. The Company owns approximately 0.14% of China Perfect Machinery Industry Co. Ltd. and approximately 4.01% of Kaifeng Commercial Bank. The Company does not have the ability to exercise control over the investee companies and the investments have been recorded under the cost method. These long term investments amounted to $764,515 and $764,515 as of September 30, 2009 and December 31, 2008, respectively.

The Company evaluates potential impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. For investments carried at cost, the Company recognizes impairment in the event that the carrying value of the investment exceeds our proportionate share of the net book value of the investee. As of September 30, 2009, management believes no impairment charge is necessary.

CUSTOMER DEPOSITS

Customer deposits represent amounts advanced by customers on product orders. The product normally is shipped within six months after receipt of the advance payment and the related sale is recognized in accordance with the Company s revenue recognition policy. As of September 30, 2009 and December 31, 2008, customer deposits amounted to $3,015,111 and $3,129,708, respectively.

STOCK BASED COMPENSATION

The Company applies the accounting standard regarding accounting for stock-based compensation, which defines a fair-value-based method of accounting for stock based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from employees and non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with this accounting standard and the accounting standard regarding accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling goods or services, as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured. This accounting standard allows the simplified method to determine the term of employee options when other information is not available.

BUSINESS COMBINATIONS

Effective January 1, 2009, the Company adopted the accounting standard regarding business combinations. This standard retains the fundamental requirements that the acquisition method of accounting (which this standard called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This standard requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces the old accounting standard s cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values.

On April 17, 2009, a subsidiary of the Company acquired 100% of the tangible assets of Taizhou Wote Valve Co., Ltd. for a total cash consideration of $3 million. The acquisition was accounted as a business combination in

accordance to the terms of the purchase agreement. Assets acquired included inventories of $1.0 million, buildings of $1.4 million, equipments of $0.4 million, and land use rights of $0.4 million. The Company allocated the purchase price based on the fair value of the assets acquired and recorded a gain of approximately $252,000 in non-operating income in the current period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2009, the Financial Accounting Standards Board issued an accounting standard amending the Impairment Guidance of recognition of interest income and impairment on purchased and retained beneficial interests in securitized financial assets. The newly issued accounting standard changes the impairment model included to be more consistent with the impairment model of another accounting standard for accounting for securities. The new accounting standard remove its exclusive reliance on market participant estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the market participant view to a holder s estimate of whether there has been a probable adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of this FASB Staff Positions did not have a material impact the Company s consolidated financial statements.

In April 2009, the Financial Accounting Standards Board issued three related accounting standards: (i) Recognition of Presentation of Other-Than-Temporary Impairments. (ii) Interim Disclosures about Fair Value of Financial Instruments and (iii) Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly which are effective for interim and annual reporting periods ending after June 15, 2009. The first accounting standard modifies the requirement for recognizing other-than-temporary impairments, changes the existing impairment model, and modifies the presentation and frequency of related disclosures. The second related accounting standard requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The third related accounting standard requires new disclosures regarding the categories of fair value instruments, as well as the inputs and valuation techniques utilized to determine fair value and any changes to the inputs and valuation techniques during the period. The adoption of these accounting standards did not have a material impact the Company s consolidated financial statements.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

Note 2 Summary of significant accounting policies (Continued)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In June 2009, the Financial Accounting Standards Board issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This accounting standard requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. In addition, it eliminates the concept of a qualifying special-purpose entity and clarifies the determination of whether a transferor and all of the entities included in the transferor s financial statements being presented have surrendered control over transferred financial assets. This accounting standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. This accounting standard will not have an impact on the Company s financial statements.

In June 2009, the Financial Accounting Standards Board issued an accounting standard amending the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). This standard modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. It clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. An ongoing reassessment is required of whether a company is the primary beneficiary of a variable interest entity. Further, it also requires additional disclosures about a company s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. This accounting standard will be effective as of the beginning of the annual reporting period commencing after November 15, 2009 and will be adopted by the Company in the first quarter of 2010. This accounting standard will not have an impact on the Company s financial statements.

In August 2009, the Financial Accounting Standards Board issued an Accounting Standards Update (ASU) regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. This ASU is effective for the first reporting period, including interim periods, beginning after the issuance of this ASU. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In October 2009, the Financial Accounting Standards Board issued an Accounting Standards Update (ASU) regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

Note 3 Plant and equipment, net

Plant and equipment consist of the following:

	September 30, 2009 (unaudited)	December 31, 2008		
Buildings and improvements	$ 9,903,653	$ 3,291,978		
Machinery	18,503,435	13,569,698		
Motor vehicles	1,939,140	1,638,036		
Office equipment			688,698	465,922
Construction in progress			4,971,763	5,600,335
			36,006,689	24,565,969
Less: Accumulated depreciation			(9,426,121)	(8,381,075)
			$ 26,580,568	$ 16,184,894

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 3 Plant and equipment, net (Continued)

The Company s subsidiary, High Pressure Valve, has completed its new production plant construction in the third quarter of 2009 and has no major capital commitment as of September 30, 2009. Depreciation expense was $413,180 and $242,800 for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, depreciation expense was $1,111,294 and $683,455, respectively. Capitalized interest amounted to $ 15,760 and $0 for the three months ended September 30, 2009 and 2008, respectively; and amounted to $115,946 and $0 for the nine months ended September 30, 2009 and 2008, respectively.

Note 4 Goodwill and intangible assets, net

In 2004, the Company acquired two companies engaged in the production of valves. As a result of these acquisitions the Company recorded goodwill representing the fair value of the assets acquired in these acquisitions over the cost of the assets acquired. The change in the carrying value of goodwill is due solely to currency translation. As of September 30, 2009 and December 31, 2008, the carrying value of goodwill amounted to $20,811,767 and $20,811,767, respectively.

Intangible assets consist of the following:

	September 30, 2009 (unaudited)	December 31, 2008
Patents	$ 191,088	$ 191,088
Software	724,944	723,038
Land use rights*	8,330,649	-
	9,246,681	914,126
Less: Accumulated amortization	(266,339)	(90,795)
	$ 8,980,342	$ 823,331

* Land use rights were transferred from the Casting Company under escrow agreement by issuing 2,750,000 shares of common stock. See Note 11 and 12 for details.

Amortization expense was $70,332 and $15,782 for the three months ended September 30, 2009 and 2008, respectively. Amortization expense was $175,413 and $46,359 for the nine months ended September 30, 2009 and 2008, respectively.

Note 5 Inventories

	September 30, 2009 (unaudited)	December 31, 2008
Raw materials	$ 2,482,428	$ 2,451,477
Work-in-progress	1,862,986	1,853,317
Finished goods	6,012,814	6,939,648
	$ 10,358,228	$ 11,244,442

Note 6 Accounts receivable

Accounts receivable consists of the following:

	September 30, 2009 (unaudited)	December 31, 2008
Total accounts receivable	31,435,088	29,824,322
Allowance for bad debts	(1,163,457)	(1,163,457)
Accounts receivable, net	30,271,631	28,660,865
Accounts receivable non-current retainage	(2,788,490)	(2,541,418)
Accounts receivable current	$ 27,483,141	$ 26,119,447

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
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Note 6 Accounts receivable (Continued)

Retainage represents portions held for payment by customers pending quality inspection ranging from 12-18 months after shipment of products. As of September 30, 2009 and December 31, 2008, retainage held by customers included in the Company s accounts receivable is as follows:

	September 30, 2009 (unaudited)	December 31, 2008
Retainage		
Current	$ 1,809,472	$ 1,194,025
Non-current	2,788,490	2,541,418
Total retainage	$ 4,597,962	$ 3,735,443

The following represents the changes in the allowance for doubtful accounts:

	September 30, 2009 (unaudited)	December 31,2008
Balance, beginning of the period	$ 1,163,457	$ 274,167
Additions to the reserve	-	819,711
Write-off charged against the allowance	-	-
Recovery of amounts previously reserved	-	-
Foreign currency translation adjustment		69,579
Balance, end of the period	$ 1,163,457	$ 1,163,457

Note 7 Loans

SHORT TERM LOANS:	September 30, 2009 (unaudited)	December 31, 2008
Short term loans from Commercial Bank of Zhengzhou City Due May 2009, annual interest at 11.21% guaranteed by Zhengzhou Huazhong Capital Construction Co., Ltd	$ -	$ 1,863,090
Zhengzhou Shangjie Credit Union Due July 2009, annual interest at 10.13% guaranteed by Zhengzhou Huazhong Capital Construction Co., Ltd.	-	1,173,600
Citic bank, Zhengzhou branch Due August 2010. annual interest at 5.841%, guaranteed by Kaifeng Cast Iron Co., Ltd.	2,934,000	2,934,000
Unrelated third parties, non-secured, ranging from non-interest Bearing to annual interest at 10.00%, due on demand	394,560	1,058,061

Local Bureau of Finance, Kaifeng City.		
No expiration date and non-interest bearing	547,191	547,191
Local Bureau of Finance, Kaifeng City.		
No expiration date, annual interest at 2.55% per annum	264,060	264,018
Total short term loans	$ 4,139,811	$ 7,839,960

Total interest incurred for the three months ended September 30, 2009 and 2008 amounted to $32,834 and $130,668 respectively and for the nine months ended September 30, 2009 and 2008 amounted to $301,756 and $414,435, respectively. Capitalized interest amounted to $ 15,760 and $0 for the three months ended September 30, 2009 and 2008, respectively; and amounted to $115,946 and $0 for the nine months ended September 30, 2009 and 2008, respectively.

As of September 30, 2009, there are no restrictive covenants related to the loans stated above.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 Taxes

Income Taxes

The Company conducts all its operating business through its operating subsidiaries in China. The operating subsidiaries are governed by the income tax laws of the PRC and do not have any deferred tax assets or deferred tax liabilities under the income tax laws of the PRC because there are no temporary differences between financial statement carrying amounts and the tax bases of existing assets and liabilities. The Company by itself does not have any business operating activities in the United States and is therefore not subject to United States income tax.

The Company s subsidiaries are governed by the Income Tax Law of the People s Republic of China (PRC) concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the Income Tax Laws). Beginning January 1, 2008, the new Enterprise Income Tax (EIT) law has replaced the previous laws for Domestic Enterprises (DEs) and Foreign Invested Enterprises (FIEs). The new standard EIT rate of 25% has replaced the 33% rate previously applicable to both DEs and FIEs.

Prior to 2008, under the Chinese Income Tax Laws, FIEs generally were subject to an income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise was located in specially designated regions for which more favorable effective tax rates apply. Beginning January 1, 2008, China has unified the corporate income tax rate on foreign invested enterprises and domestic enterprises. The unified corporate income tax rate is 25%.

The Company s operating subsidiaries, High Pressure Valve, Zhengdie Valve and Taizhou Wote, are all subject to an income tax at an effective rate of 25%.

The following table reconciles the U.S. statutory rate to the Company s effective tax rate:

	For the three months ended, September 30	
	2009	2008
U.S. Statutory rate	34.0%	34.0%
Foreign income not recognized in USA	(34.0)	(34.0)
Non-deductible expenses [1]	15.0	
China income taxes	25.0	25.0
China income tax exemption	-	-
Total provision for income taxes	40.0%	25.0%

[1] The 15% represents the $257,137 general expenses incurred by China Valve Fluid, Hong Kong and $3,779,849 noncash compensation expense related to the Make Good Escrow Agreement and stock compensation (see Note 12 for detail), and $90,491 gain due to change in fair value of warrant liabilities, which are not deductible in PRC for the three months ended September 30, 2009.

	For the nine months ended, September 30	
	2009	2008

U.S. Statutory rate	34.0%	34.0%
Foreign income not recognized in USA	(34.0)	(34.0)
Non-deductible expenses [1]	22.9	0.9
China income taxes	25.0	25.0
China income tax exemption	-	-
Total provision for income taxes	47.9%	25.9%

[1] The 22.9% represents the $801,633 general expenses incurred by and China Valve Fluid, Hongkong, $11,279,231 noncash compensation expense, $30,105 stock-based compensation expense and $310,143 loss due to change in fair value of warrant liabilities, which are not deductible in PRC for the nine months ended September 30, 2009.

The Company has cumulative undistributed earnings of foreign subsidiaries of approximately $40,636,033 as of September 30, 2009, is included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. According, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
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Note 8 Taxes (Continued)

Value Added Tax

VAT on sales and VAT on purchases in China amounted to $3,232,123 and $562,254 for the three months ended September 30, 2009 and $3,335,531 and $1,831,571 for the three months ended September 30, 2008, respectively. VAT on sales and VAT on purchases in China amounted to $10,493,993 and $4,042,848 for the nine months ended September 30, 2009 and $7,383,516 and $3,523,930 for the nine months ended September 30, 2008, respectively. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Taxes payable consisted of the following:

	September 30,2009 (unaudited)	December 31,2008
VAT	$ 856,559	$ 167,500
Income tax	1,155,908	924,291
Other taxes	89,386	135,547
Total taxes payable	$ 2,101,853	$ 1,227,338

Note 9 Statutory reserves

The laws and regulations of the People s Republic of China require that before a foreign invested enterprise can legally distribute profits, it must first satisfy all tax liabilities, provide for losses in previous years, and make allocations, in proportions determined at the discretion of the board of directors, to the statutory reserve. The statutory reserves include the surplus reserve fund and the common welfare fund.

The Company is required to transfer 10% of its net income, as determined in accordance with PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company s registered capital. The transfer to this reserve must be made before distribution of any dividends to shareholders. The remaining reserve to fulfill the 50% registered capital requirement amounted approximately $15.2 million and $15.9 million as of September 30, 2009 and December 31, 2008, respectively.

The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 50% of the registered capital.

Note 10 - Commitments and contingencies

The Company s subsidiary, ZhengDie Valve entered into a lease agreement for a manufacturing plant and office space with ZhengZhou Cheng Long Corporation, an unrelated party, from January 1, 2008 to December 31, 2008. The lease agreement was subsequently extended to December 31, 2012.

For the three months ended September 30, 2009 and 2008, total lease expense, including amounts included in cost of sales, was $85,779 and $201,396, respectively. Total lease expense, including amounts included cost of sales, for the nine months ended September 30, 2009 and 2008 was $257,265 and $469,450, respectively.

The future minimum lease payments at September 30, 2009, are as follows:

	Amount
Year ending December 31, 2009	$ 85,779
Year ending December 31, 2010	343,116
Year ending December 31, 2011	343,116
Year ending December 31, 2012	343,116
Thereafter	-

As of September 30, 2009, the Company has a commitment to pay remaining $1.3 million for the acquisition of Yangzhou Rock.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
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Note 11 Related party transactions

The Company had the following significant related party transactions as of September 30, 2009 and December 31, 2008:

The Company received advances from Mr. Siping, Fang, our Chief Executive Officer, for cash flow purposes. As of September 30, 2009 and December 31, 2008, the outstanding amount due to Mr. Fang was $153,218 and $658,367, respectively. The advances are unsecured, interest-free and have no fixed terms of repayment, but are expected to be repaid in cash upon demand. In 2008, during the reorganization of the ownership of the Operating Subsidiaries (see Note 1 Restructuring Plan), Siping Fang contributed $1,317,095 to Zhengdie Valve to enable them to meet their approved PRC registered capital requirements. Following our re-acquisition of the legal ownership of the Operating Subsidiaries and the subsequent consummation of the Securities Purchase Agreement related to the private placement of our common stock, this contribution is to be returned to Mr. Fang. As of September 30, 2009 and December 31, 2008, total outstanding other payables to Mr. Siping Fang amounted to $1,470,313 and $1,975,462, respectively.

The Company borrowed money from certain employees for cash flow purposes. The loans bear interest at 10% per annum due on demand. Loans from employees amounted to $143,504 and $131,263 as of September 30, 2009, and December 31, 2008, respectively. The Company borrowed money from various family members of Mr. Siping Fang for working capital purposes. The loans are unsecured, interest free and have no fixed terms of repayment, but are expected to be repaid in cash upon request. These loans amounted to $313,007 and $465,528 as of September 30, 2009, and December 31, 2008, respectively.

As discussed in Note 12, on August 26, 2008, the Company s wholly owned subsidiary High Pressure Valve and Kaifeng High-Pressure Valve Steel Casting Limited Liabilities Company (the Casting Company) entered into an Agreement for Transfer of Land Use Right and Housing for the transfer of certain real estate to High Pressure Valve. Mr. Bin Fang is not related to either Mr. Siping Fang, our Chief Executive Officer and Chairman or Mr. Binjie Fang, our Chief Operating Officer and a director. Under the Real Estate Transfer Agreement, the Company purchased from the Casting Company the land use rights and factory facilities that it currently leases. The Company placed 2,750,000 shares of common stock in escrow, to be released to Mr. Bin Fang when the Real Estate Transfer is completed, in consideration for his agreement to have the Casting Company transfer the land use rights and facilities to the Company. Because the transfer of the land use rights and facilities requires governmental approval in the PRC, which it was expected could take up to ten months to obtain, the Company entered into a new lease agreement with the Casting Company, effective August 26, 2008 until High-Pressure Valve acquires title to the Real Estate from the Casting Company in accordance with the Real Estate Transfer agreement. The Real Estate Transfer Agreement was negotiated contemporaneously with the Securities Purchase Agreement described above and was a condition precedent to the consummation of the transactions contemplated by the Securities Purchase Agreement. Accordingly, the 2,750,000 shares of common stock issued under the Real Estate Transfer Agreement were valued at $9,834,000 or $3.576 per share, the same price paid on August 26, 2008 by the accredited investors under the Securities Purchase Agreement described above. The market price of the Company s common stock on August 26, 2008 was $10.00 per share. However, the Company s common stock is currently thinly traded and the Company believes that the cash price paid on that date by the accredited investors for their shares is a better indicator of the fair value of the shares issued under the Real Estate Transfer Agreement.

The transfer of the title to the Real Estate was completed on March 6, 2009, and with effect from that date, it is accounted for as fixed assets and intangible assets and depreciated over its estimated useful lives. As a result of the transfer of the Real Estate on March 6, 2009, the Company has also released the 2,750,000 shares of the Company s

common stock from escrow to Mr. Bin Fang. The release of escrow shares to Bin Fang had no impact on the consolidated financial statements. On April 11, 2009, High Pressure Valve and the Casting Company entered into a leasing agreement pursuant to which High Pressure Valve agreed to lease back the portion of the Real Estate used by the Casting Company at an annual rental of $400,000 for a period of two years starting on April 1, 2009.

As a result of the Company s issuance of common shares to the Casting Company s shareholder, Mr. Bin Fang, the Casting Company became a related party. On August 26, 2008, High Pressure Valve and the Casting Company, which is our largest supplier, entered into a Manufacturing and Supply Agreement pursuant to which the Casting Company agreed to provide High Pressure Valve with molds, casts, dies and other supplies and equipment for use in the manufacture of High Pressure Valve s products. The Casting Company also agreed to use its production capacity to fulfill High Pressure Valve s orders before it may take any orders from third parties. The term of the agreement is five years. The agreement does not require High Pressure Valve to purchase any minimum volume or value of products. Prices will be determined at the time orders are submitted to the Casting Company, based on prevailing market prices. As of September 30, 2009 and December 31, 2008, advances on inventory purchases to the Casting Company amounted to $1,281,316 and $1,367,446, respectively.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
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Note 12 Shareholders' equity

PRIVATE PLACEMENT FINANCING

On August 26, 2008, the Company entered into a securities purchase agreement (the Securities Purchase Agreement) with certain accredited investors. Under the Securities Purchase Agreement, the Company agreed to issue and sell to the Investors 8,389,302 shares of the Company s common stock, representing approximately 29.5% of the issued and outstanding capital stock of the Company on a fully-diluted basis as of and immediately after consummation of the transactions contemplated by the Securities Purchase Agreement, for an aggregate purchase price of approximately $30 million, or $3.576 per share.

As a condition precedent to the private placement transaction contemplated by the Securities Purchase Agreement, the Company and the Investors also entered into a registration rights agreement (the Registration Rights Agreement), pursuant to which the Company was obligated to file a registration statement under the Securities Act of 1933 on Form S-1 covering the resale of the Shares and any other shares of common stock issued to the Investors under the Securities Purchase Agreement within 90 days of the closing. The Company also agreed to make the registration statement effective no later than the 135th day following the closing date or the fifth trading day following the date on which the Company is notified by the Securities and Exchange Commission that such registration statement will not be reviewed or is no longer subject to further review and comments, whichever date is earlier. The Company later obtained an extension from the investors providing that the registration agreement should be effective no later than March 31, 2009, The registration statement was declared effective on April 7th, 2009. Subsequently, the investors have waived liquidated damages for the 7 day late period.

In conjunction with the private placement, the Company entered into separate lock-up agreements (the Lock-up Agreements) with each director and officer of the Company, which precluded such individuals from selling or otherwise disposing of any shares held by them for a period commencing from and after the date of the Lock-up Agreement and through and including the one year anniversary of the effective date of a registration statement resulting in all Shares being registered for resale by the Investors.

In conjunction with the private placement, the Company entered into a holdback escrow agreement (the Holdback Escrow Agreement) with the Investors and Escrow, LLC, as escrow agent pursuant to which the Company agreed that an aggregate of $3,150,000 of the Purchase Price (the Holdback Amount) would be deposited on the Closing Date with the Escrow Agent and be distributed upon the satisfaction of certain covenants set forth in the Securities Purchase Agreement. As of September 30, 2009 and December 31, 2008, $105,616 and $128,130 is left in the escrow account related to investor relations expenses to be incurred by the Company.

In connection with the Securities Purchase Agreement, on August 26, 2008, the Company also entered into a make good escrow agreement (the Make Good Escrow Agreement) with Bin Li (the Pledgor), the Investors, Brean Murray, Carret & Co., LLC and the Escrow Agent, pursuant to which the Pledgor agreed to certain make good provisions in the event that the Company does not meet certain income thresholds for fiscal years 2008, 2009 and/or 2010. Pursuant to the Make Good Escrow Agreement, the Pledgor placed in escrow 12,583,032 shares of the Company s common stock held by him, to be held for the benefit of the Investors. Of these shares, 12,150,000 are the subject of the Earn-In Agreement between Bin Li and Siping Fang, described in Note 1, and Bin Li entered into the Make Good Escrow Agreement on behalf of Siping Fang. For each of the calendar years 2008, 2009 and 2010, 4,194,344 shares will be released to the Investors or returned to the shareholder, depending on the fulfillment of specified earnings targets. In the second quarter of 2009, the Company entered into an amended make good escrow agreement (the Amendment

Number 1 to the Make Good Escrow Agreement), in which the new agreement revised the specified earnings target for calendar 2009 and 2010. The specified earnings target for calendar 2008 was net income of $10,500,000, for calendar 2009 the new target, under the amended agreement, is net income of $21, 000,000 and fully diluted earnings per share of $0.668 and for calendar 2010 the new target, under the amended agreement, is net income of $34, 000,000 and fully diluted earnings per share of $1.082. In the event that shares are required to be released from escrow to the Investors, such shares will be recorded as a contribution to capital and a simultaneous issuance of common shares to the Investors. The return to Bin Li of any of the shares placed in escrow by him on behalf of Siping Fang is considered to be a separate compensatory arrangement because Siping Fang is an officer and director of the Company. Accordingly, if any of the required earnings targets are met and shares are returned to Bin Li, the Company will recognize compensation cost at that time equal to the then fair value of the shares returned, up to a total of 12,150,000 shares. For the year ended December 31, 2008, the Company s net income prior to any compensation charge related to release of the shares from escrow was $10,762,129 which met the earnings target for 2008 of net income of $10,500,000. Accordingly, the Company recorded non-cash compensation of $14,998,974 in the fourth quarter of 2008 related to the release from escrow to Bin Li of 4,194,344 shares. The Company s common stock is currently thinly traded and therefore the Company does not believe that the prices at which such trades of the Company s common stock as have occurred are necessarily reflective of the fair value of the shares released from escrow as of December 31, 2008. Accordingly, the Company has used the cash price of $3.576 paid by the Investors in the private placement to measure the compensation charge to be recorded as of December 31, 2008 as a result of the release of 4,194,344 shares to Bin Li. If the earnings targets for 2009 and 2010 are met and the Company is thus required to record additional non-cash compensation charges for the release of shares from escrow to Bin Li, the Company will make a determination of the appropriate fair value of those shares at that time. No compensation charges will be recorded if the earnings targets are not met and the shares are released from escrow to the Investors.

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Note 12 Shareholders' equity (Continued)

PRIVATE PLACEMENT FINANCING (CONTINUED)

Based on the Company s current performance and other factors, the Company determines that it is probable that the earnings target for 2009 will be achieved. Accordingly, the Company recorded non-cash compensation charge of $11,279,336 for the nine months ended September 30, 2009. The Company s common stock continues to be thinly traded and therefore the Company has used the cash price of $3.576 paid by the Investors in the private placement to measure the compensation charge recorded. The Company will reassess the probability at each reporting period based on its probability assessment.

WARRANTS

At the closing of the private placement, as part of the compensation to the placement agent, the Company issued warrants to the placement agent to acquire 587,248 shares of common stock. The warrants have a strike price equal to $4.2912 and a term of 3 years. The shares underlying the warrants will have registration rights. The warrants contain a standard anti-dilution provision for stock dividends, stock splits, stock combination, recapitalization and a change of control transaction. Because the warrants are denominated in U.S. dollars and the Company s functional currency is the Renminbi, they do not meet the requirements of the accounting standard to be indexed only to the Company s stock. Accordingly, they are accounted for at fair value as derivative liabilities and marked to market each period

The initial value of the warrants was determined using the Cox-Ross-Rubinstein binomial model using the following assumptions: volatility of 75%; risk free interest rate of 2.64%; dividend yield of 0% and expected term of 3 years. The volatility of the Company s common stock was estimated by management, the risk free interest rate was based on Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the life of the warrants, the dividend yield was based on the Company s current and expected dividend policy and the expected term is equal to the contractual life of the warrants. The value of the warrants was based on the Company s common stock price of $3.576 on the date the warrants were issued. The warrants were valued at $959,196 when they were issued on August 26, 2008.

On February 18, 2009, the placement agent, Brean Murray, Carret & Co., LLC performed a cashless exercise of 352,349 warrant shares; which were converted to 201,326 shares of common stock. The Company valued the conversion on exercise date, and recorded $229,673 loss from changes in fair value of derivative. A total of $756,012 of carrying value and derivative liability had been reclassified into equity. As of September 30, 2009, the estimated fair value of the remaining warrants was $423,410. The Company recorded a gain of $72,305 and a loss of $72,485 for the three and nine months ended September 30, 2009, respectively, related to these warrants. These losses were recorded in the Company s income statement.

The Company issued warrants to purchase 50,000 shares at $6.00 per share, to CCG investors Relation Partners LLC on December 12, 2007 for one year of services to be provided. The initial value of the warrants was determined using the Cox-Ross-Rubinstein binomial model using the following assumptions: volatility 75%; risk free interest rate 3.12%; dividend yield of 0% and expected term of 3 years. The warrants were initially valued at $65,574, all of which was expensed in 2008. At September 30, 2009, these warrants were valued at $55,013. The Company recorded a gain of $18,186 and a loss of $7,985 for the three and nine months ended September 30, 2009, respectively, related to these warrants. These losses were recorded in the Company s income statement.

Warrants issued and outstanding, all of which are exercisable at September 30, 2009,

	Warrants Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life
Balance, January 1, 2008	50,000	$ 6.00	2.95
Granted	587,248	4.30	3.00
Forfeited	-	-	-
Exercised	-	-	-
Balance, December 31, 2008	637,248	$ 4.42	2.60
Granted	-		
Forfeited	-		
Exercised	(352,349)	4.29	
Balance, September 30, 2009(Unaudited)	284,899	$ 4.59	1.78

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
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Note 12 Shareholders' equity (Continued)

STOCK COMPENSATION

On June 29, 2009, the Company granted one of its independent directors 5,000 shares of restricted common stock. The stock will vest on January 1, 2011. The Company valued the fair value of the stock grant at $22,500 based on the shares issued and the stock price of $4.50 on June 29, 2009. The $22,500 stock compensation will be amortized over a 2 year period. For the three and nine months ended September 30, 2009, $9,375 was amortized and recorded as compensation expense.

On June 29, 2009, the Company granted options to the Company s independent directors to purchase a total of 50,000 shares of common stock. 27,500 options, expires 5 years from the date of grant, are exercisable at a price of $6.00 per share; and 22,500 options, expires 4.4 years from the date of grant, are exercisable at a price of $8.00 per share. On June 30, 2009, the Company granted options to the Company s officer to purchase a total of 50,000 shares of common stock. This 50,000 options, expires 3.0 years from the date of grant, are exercisable at a price of $6.00. The $173,828 fair value of the 100,000 stock options will be expensed ratably over the service period of the respective personnel. The fair value of the stock options was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: exercise prices of $6.00 (for 27,500 stock options), $8.00(for 22,500 stock options) and $6.00 (for 50,000 stock options), expected life of options of 2 years(for 27,500 stock options), 2 years(for 22,500 stock options) and 3 years (for 50,000 stock options) expected volatility of 107%, expected dividend yield of 0%, and risk-free interest rate of 2.53%(for 27,500 stock options), 2.31%(for 22,500 stock options) and 1.64%(for 50,000 stock options). For the three and nine months ended September 30, 2009, $20,730 was amortized and recorded as compensation expense.

The following is a summary of the stock options activity:

	Number of Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance, January 1, 2009	-	$ -	$ -
Granted	100,000	6.45	
Forfeited	-	-	-
Exercised			
Balance, September 30, 2009	100,000	$ 6.45	$ 96,100

Following is a summary of the status of options outstanding at September 30, 2009:

Outstanding Options			Exercisable Options		
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number	Average Remaining Contractual Life
$6.00	77,500	2.25	$6.00	9,167	1.75
$8.00	22,500	1.75	-	-	-
Total	100,000			9,167	

Note 13 Geographic and product lines:

The Company sells valves, which are used by customers in various industries. The production process, class of customer, selling practice and distribution process are the same for all valves. The Company s chief operating decision-makers (i.e. chief executive officer and his direct reports) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by product lines for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Based on qualitative and quantitative criteria established by the accounting standard regarding Disclosures about Segments of an Enterprise and Related Information , the Company considers itself to be operating within one reportable segment.

The Company does not have long-lived assets located in foreign countries. In accordance with the enterprise-wide disclosure requirements of the accounting standard, the Company's net revenue from external customers by main product lines (based upon primary markets defined by the Chinese Valve Industry Association) and by geographic areas is as follows:

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
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Note 13 Geographic and product lines (Continued)

	Three months Ended September 30,	
	2009 (Unaudited)	2008 (Unaudited)
	(in thousands)	
Power Supply	$ 7,338	$ 4,266
Petrochemical and Oil	5,471	5,014
Water Supply	9,443	4,901
Metallurgy	2,217	2,018
Other areas	3,422	5,243
Total sales revenue	$ 27,891	$ 21,442

	Nine months Ended June 30,	
	2009 (Unaudited)	2008 (Unaudited)
	(in thousands)	
Power Supply	$ 20,195	$ 8,695
Petrochemical and Oil	11,725	10,157
Water Supply	23,382	9,729
Metallurgy	5,043	4,129
Other areas	9,664	13,498
Total sales revenue	$ 70,009	$ 46,208

	Three months ended September 30,	
	2009 (Unaudited)	2008 (Unaudited)
	(in thousands)	
China	$ 26,973	$ 19,944
International	918	1,498
Total sales revenue	$ 27,891	$ 21,442

	Nine months ended September 30,	
	2009 (Unaudited)	2008 (Unaudited)
	(in thousands)	
China	$ 65,465	$ 43,358
International	4,544	2,850
Total sales revenue	$ 70,009	$ 46,208

Note 14 Subsequent event

On August 18, 2009, Henan Tonghai Fluid Equipment Co., Ltd., a Chinese corporation (the "Subsidiary"), a wholly-owned subsidiary of China Valves Technology, Inc. (the "Company"), prepaid $4.1 million to acquire 100%

of the outstanding equity interests of Yangzhou Rock Valve Lock Technology Co., Ltd. ("Yangzhou Rock"), a company that manufactures and distributes interlock valves, valve lock devices, magnetic lock valves, and mechanical interlock machines that are widely used by manufacturing companies in the petrochemical, chemical, natural gas, thermal power station and metallurgy industries, including SINOPEC and some of its subsidiaries. As of September 30, 2009, our prepaid acquisition totaled $6.0 million.

As of November 7, 2009, the Company is still under the process of asset valuation and therefore the acquisition is not included in the financial statements ending September 30, 2009. Upon the completion of the acquisition, the Company will own 100% of the outstanding equity interests of Yangzhou Rock Valve Lock Technology Co., Ltd. ("Yangzhou Rock"),

The Company has performed an evaluation of subsequent events through November 13, 2009, which is the date the financial statements were issued.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements that constitute forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words may, will, expect, anticipate, continue, estimate, project, intend, and sim are intended to identify forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief or expectation of the Company, its directors or its officers with respect to events, conditions, and financial trends that may affect the Company s future plans of operations, business strategy, operating results, and financial position. Persons reviewing this Quarterly Report on Form 10-Q are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. These risks and uncertainties include, but are not limited to, the factors mentioned in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2008, and other risks mentioned in this Form 10-Q or in our other reports filed with the Securities and Exchange Commission, or (the SEC), since the filing date of our Annual Report on Form 10-K for the year ended December 31, 2008.

Although these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company s current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. The Company undertakes no responsibility or obligation to update publicly these forward-looking statements, but may do so in the future in written or oral statements. Investors should take note of any future statements made by or on behalf of the Company.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the related notes that appear in Part I, Item 1, Financial Statements, of this Quarterly Report. Our unaudited consolidated financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles. The following discussion and analysis covers the Company s unaudited consolidated results of operations for the three and nine month periods ended September 30, 2009 and 2008.

Use of Defined Terms

Except as otherwise indicated by the context, references to:

- Casting Company are references to Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company;
- China Fluid Equipment are references to China Fluid Equipment Holdings Limited incorporated in Hong Kong;
- China Valves, the Company, we, us and our are references to the combined business of China Valves Technology, Inc. and its subsidiaries, China Fluid Equipment, Henan Tonghai Fluid, High Pressure Valve, Zhendie Valve and Taizhou Taide Valve;
- China Valve Hong Kong are references to China Valve Holdings Limited incorporated in Hong Kong;
- 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.
- Henan Tonghai Fluid are references to Henan Tonghai Fluid Equipment Co., Ltd.;
- Henan Tonghai Valve are references to Henan Tonghai Valve Technology Co., Ltd.;
- HKD are references to the Hong Kong Dollar;
- High Pressure Valve are references to Henan Kaifeng High Pressure Valve Co., Ltd.;
- Operating Subsidiaries are references to Zhengdie Valve and High Pressure Valve;
- RMB are references to Renminbi, the legal currency of China;
- Taizhou Taide Valve are references to Taizhou Taide Valve Co., Ltd.;
- Taizhou Wote are references to Taizhou Wote Valve Co., Ltd.;
- Yangzhou Rock are references to Yangzhou Rock Valve Lock Technology Co., Ltd.; and
- Zhengdie Valve are references to Zhengzhou City Zhengdie Valve Co., Ltd.;

Overview of Our Business

Through our subsidiaries and certain 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 located in Kaifeng, Henan Province and conduct business throughout China, Southeast Asia, the Middle-East and Europe. Our production facility in Kaifeng has an area of approximately 110,000 square meters. We produce over 700 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 and water supply industries, according to the China Valves Industry Association.

Although the United States and Europe have been most affected by the recent financial crisis, governments throughout the Asia-Pacific region have also taken steps to stabilize their markets. To offset slowing global growth, on November 5, 2008, at the State Council meeting, Premier Wen Jiabao offered a RMB4 trillion ($586 billion) stimulus package for the next two years and announced the government would move to a proactive fiscal and a moderately relaxed monetary policy.

Pursuant to the stimulus package, the Chinese government has committed to launch more projects related to people s livelihood and infrastructure and decided to invest RMB100 billion ($14.49 billion) in these projects, starting in the fourth quarter of 2008. (Source: China Daily). The actions taken by the Chinese government should significantly increase the demand for valve products which are essential for infrastructure construction and will provide market opportunities for the Company.

In addition, although the financial crisis has affected Chinese enterprises that rely on overseas markets, China Valves has not been materially affected as less than 10% of our revenue is generated from exports and the relatively strong domestic market demand has positioned us to continue to grow notwithstanding the current financial crisis.

Management believes that the recent financial crisis in the US and Europe should not have any materially negative impact on our business, and management believes we will benefit from the stimulus plan of the central government of China.

Acquisition of Yangzhou Rock and Commencement of Production at New Facility

In August 2009, we made a prepayment to acquire 100% equity ownership of Yangzhou Rock. Yangzhou Rock mainly designs, manufactures and distributes interlock valves, valve lock devices, magnetic lock valves, and mechanical interlock machines that are widely used by manufacturing companies in the petrochemical, chemical, natural gas, thermal power station and metallurgy industries. We expect to complete the acquisition before the end of the year. We expect this acquisition to add approximately $2.9 million in revenue and $1.0 million in net income for 2009 and approximately $8.6 million in revenue and $3.0 million in net income for 2010.

On September 25, 2009, our new facility began its formal operation. The new production facility covers 13,000 square meters (approximately 140,000 square feet) at Kaifeng Valve will mainly focus on the production of high-end large diameter metal valves used in thermal and nuclear power plants, as well as by the oil petrochemical and water supply and drainage industries. Additionally, the new facility will produce high-quality forged steel valves for use in supercritical thermal power generating units. We plan to reach 100% utilization by the end of 2009 on this new facility.

Industry Wide Trends that are Relevant to Our Business

The valve industry in China is large and growing as a result of growth in urbanization and heavy industrialization throughout all of China. Our industry is usually categorized into the following five major segments depending on the

end user of the particular valve products: (1) oil; (2) power; (3) water supply; (4) petrochemical; and (5) metallurgy. The oil segment and the power segment rank as the largest segments accounting for 25% and 21%, respectively, followed by the water supply, petrochemical and metallurgy segments with 14%, 12%, and 8% market share, respectively. Miscellaneous and varied end users of valve products account for the remaining 20% market share.

Sales of valve products in the Chinese domestic market reached $7.08 billion in 2007, an increase of 32% from the previous year, and the Chinese market is expected to increase at an annual rate of more than 30% for the next 5 years according to the China Valve Industry Association s research. We believe that total domestic demand for valves will reach $12 billion by 2010 and will be driven primarily by the energy and water treatment segments with operations and projects in urban centers. The stimulus package being implemented by the Chinese government in response to the global economic crisis is expected to emphasize basic infrastructure construction projects for water, electricity, gas and heat in order to ensure continuous economic development and meet the requirement of improving people s living standard. We believe that these initiatives should generate strong demand for valves and promising business prospects for the valve industry and our Company, especially as China s valve market keeps growing and developing. 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.

Third Quarter Financial Performance Highlights

During the third quarter of 2009, we focused primarily on developing, manufacturing and selling high-quality metal valves for the electricity, petroleum, chemical, water, gas and metallurgy industries in the PRC.

The following are some financial highlights for the third quarter of 2009:

- *Sales Revenue:* Sales revenue increased $6.4 million, or 30%, to $27.9 million for the third quarter of 2009 from $21.4 million for the same period last year.
- *Gross Profit:* Gross profit was $13.7 million, an increase of 60.1% from the third quarter of 2008, and gross margin was 49.1% for the third quarter of 2009, compared with 39.9% for the same period in 2008.
- *Net Income:* Net income decreased $0.9 million, or 19.1%, to $3.8 million for the third quarter of 2009, from $4.6 million for the same period of last year. Our net income decreased as a result of a non-cash charge for stock compensation expense of $3.8 million.
- *Fully diluted net income per share:* Fully diluted net income per share was $0.12 for the third quarter of 2009, compared with $0.20 for the same period last year.

Results of Operations

Results of operations for the three months ended September 30, 2009 as compared with the three months ended September 30, 2008.

The following table sets forth key components of our results of operations for the periods indicated, in dollars and as a percentage of sales revenue.

	Three Months Ended September 30, (unaudited)			
	2009	2008	$ Change	% Change
	(In thousands, except percentages)			
Statement of Operations data				
Sales revenue	$ 27,891	21,442	6,449	30%
Cost of sales	14,192	12,885	1,307	10%
Gross profit	13,699	8,557	5,142	60%
Gross Margin	49.1%	39.9%		23%
Operating expenses:				
Research and development costs	16	74	(58)	(78)%
Sales and marketing expenses	1,739	1,308	431	33%
General and administrative expenses	5,542	1,514	4,028	266%
Total operating expenses	7,297	2,896	4,401	152 %
Operating income	6,402	5,661	741	13%
Finance costs, net	12	132	(120)	91%
Other expenses (income)	224	(621)	845	(136)%

Change in fair value of warrant liabilities		(91)	(35)	56	160%
Income taxes		2,503	1,544	959	62%
Net income	$	3,754	4,641	(887)	(19)%

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

Volume, in tons	Three Months Ended September 30, 2009	2008
Gate valves	1,167	883
Check valves	355	467
Global valves	338	213
Safety valves	146	54
Butterfly valves	4,666	2,756
Ball valves	593	507
Vent valves	31	428
Other valves and accessories	1,491	1,347
Total, in tons	8,787	6,655

Sales revenue	Three Months Ended September 30, 2009	2008
	(in thousands)	
Gate valves	$ 7,914	$ 5,494
Check valves	1,726	1,905
Global valves	1,753	1,092
Safety valves	489	264
Butterfly valves	11,520	6,414
Ball valves	1,589	1,311
Vent valves	94	1,302
Other valves and accessories	2,806	3,660
Total sales revenue	$ 27,891	$ 21,442

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:

	Three Months Ended September 30, 2009	2008
	(in thousands)	
Power Supply	$ 7,338	$ 4,266
Petrochemical and Oil	5,471	5,014
Water Supply	9,443	4,901
Metallurgy	2,217	2,018
Other areas	3,422	5,243
Total sales revenue	$ 27,891	$ 21,442

Sales Revenue

Our sales revenue for the three months ended September 30, 2009 amounted to $27.9 million, which is approximately $6.4 million or 30% more than that of the same period in 2008, where we had revenue of $21.4 million. The increased sales revenue was attributable to (1) increased demand for our products fueled by rapid industrialization and manufacturing development in China, (2) our successful marketing efforts, (3) retaining our existing customers and

adding additional large customers, (4) our expansion into the nuclear power station valve market segment, and (5) volume increased for our innovations on high temperature high pressure power station gate valves and two-way metal sealing butterfly valves because the Company has established its brand in China.

Cost of Sales

Cost of sales, which consist of raw materials, direct labor and manufacturing overhead expenses, was $14.2 million for the three month period ended September 30, 2009, an increase of $1.3 million or 10%, as compared with $12.9 million for the three month period ended September 30, 2008. Cost of sales as a percentage of total revenues were 51% and 60% for the three month periods ended on September 30, 2009 and 2008, respectively, with a decrease of approximately 9%. The decrease was a result of decrease in cost of raw material as steel prices continued to decrease into 2009 and strengthened production cost control resulting in decreased production costs.

Sales and Marketing Expenses

Sales and marketing expenses, which consist primarily of sales commission, advertising and promotion expenses, freight charges and related compensation, were $1.7 million for the three month period ended September 30, 2009, compared with $1.3 million for the period ended September 30, 2008, an increase of $0.4 million or approximately 33% due to the increase of sales volume in the period.

General and Administrative Expenses

Our general and administrative expenses, which consist primarily of related salaries and benefits, business development, traveling expenses, legal and professional expenses and depreciation, and bad debt expenses, were $5.5 million for the three month period ended September 30, 2009, compared with $1.5 million for the period ended September 30, 2008, an increase of $4.0 million or approximately 266%. Included in these expenses is a non-cash compensation charge of $3.8 million. Excluding the non-cash compensation expense, our general and administrative expenses increased $0.2 million, 12%, to $1.8 million for the period ended September 30, 2009 as compared to $1.6 million for the period ended September 30, 2008. The increase is primarily attributable to increase in salary expense as the Company increased hiring to support the Company s sales and administrative as the Company expands. Additionally, travel expenses increased as well due to increase in acquisition activities. Our auditing, accounting and legal fees have increased as well.

Income from Operations

Income from operations was $6.4 million for the three month period ended September 30, 2009, compared with $5.7 million for the period ended September 30, 2008, an increase of $0.7 million or approximately 13%. The increase was primarily attributable to the increase in sales and gross margin in the current quarter offsetting by the $3.8 million non-cash compensation expenses in the third quarter. Income from operations excluding the non-cash compensation expense for the three month period ended September 30, 2009 was $10.2 million, compared with $5.7 million for the period ended September 30, 2008, an increase of $4.5 million or approximately 78.9%. Please see below for non-GAAP income reconciliation. The increase of 78.9% in income from operations is as a result of high sales demand and reduced production costs.

Other income (expenses)

Total other expense, including change in fair value of warrant liabilities, was $0.13 for the three month period ended September 30, 2009, compared with other income of $0.66 for the period ended September 30, 2008. The financial expenses for the three month period ended on September 30, 2009 and 2008 were $0.01 and $0.13 respectively.

Income taxes

We incurred income taxes of $2.5 million for the three month period ended September 30, 2009. This is an increase of $1.0 million or 62% from the taxes we incurred in the 2008 period, which were $1.5 million. We incurred more taxes in the three months ended September 30, 2009 mostly because of the higher taxable income in the three month period ended on September 30, 2009 compared to 2008.

Provision for Income Taxes

United States

We are subject to United States tax at a tax rate of 34%. No provision for US federal income taxes has been made as we had no taxable income in the United States for the reporting period.

Hong Kong

China Fluid Equipment was incorporated in Hong Kong and is not subject to income taxes under the current laws of Hong Kong.

PRC

A company registered in China is subject to national and local income taxes within China at the applicable tax rate on the taxable income as reported in its PRC statutory financial statements in accordance with relevant income tax laws. Under the Provisional Taxation Regulation of the People s Republic of China effective before January 1, 2008, income tax was generally payable by enterprises at a rate of 33% of their taxable income.

In 2007, China passed the New EIT Law and its implementing rules, both of which became effective on January 1, 2008. The New EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the previous law. The New EIT Law, however, (i) reduces the statutory rate of enterprise income tax from 33% to 25%, (ii) permits companies to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, and (iii) introduces new tax incentives, subject to various qualification criteria.

Substantially all of our income may be derived from dividends we receive from our PRC operating subsidiaries described above. The New EIT Law and its implementing rules generally provide that a 10% withholding tax applies to China-sourced income derived by non-resident enterprises for PRC enterprise income tax purposes. We expect that such 10% withholding tax will apply to dividends paid to us by our PRC subsidiaries, but this treatment will depend on our status as a non-resident enterprise. For detailed discussion of PRC tax issues related to resident enterprise status, see Risk Factors Risks Related to Doing Business in China Under the New EIT Law, we may be classified as a resident enterprise of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.

Net Income

We earned net income of $3.8 million for the three month period ended September 30, 2009. This is a decrease of $0.9 million or approximately 19% from the period ended September 30, 2008 which had a net income of $4.6 million. The primary factor for the decrease is a non-cash compensation expense of $3.8 million in the current quarter.

Non-GAAP Financial Measures

The Company s management uses non-GAAP adjusted net income to measure the performance of the Company s business internally by excluding non-cash expenses resulting from make good provisions entered into in connection with previous private placement financing transactions and non-cash income or expense related to changes in the fair value of warrant liabilities. The Company s management believes that the non-GAAP adjusted financial measures allow the management to focus on managing business operating performance because the measures reflect the essential operating activities of the Company and provide a consistent method of comparison to historical periods. The Company believes that providing the non-GAAP measures that management uses internally to its investors is useful to investors for a number of reasons. The non-GAAP measures provide a consistent basis for investors to understand the Company's financial performance in comparison to historical periods without variation of non-recurring items and non-operating related charges. In addition, it allows investors to evaluate the Company's performance using the same methodology and information as that used by the management. Non-GAAP measures are subject to inherent limitations because they do not include all of the expenses included under GAAP and because they involve the exercise of judgment of which charges are excluded from the non-GAAP financial measure. However, the management compensates for these limitations by providing the relevant disclosure of the items excluded.

The following table provides the non-GAAP financial measure and a reconciliation of the non-GAAP measure to the GAAP income from operations and net income.

	Three Months Ended September 30,	
	2009 (in thousands)	**2008** (in thousands)
Income From Operations	$ 6,402	$ 5,661
Add back (Deduct):		
Non-Cash Compensation Expenses	3,780	0
Adjusted Income From Operations	$ **10,182**	**$ 5,661**
Net Income (Loss)	$ 3,754	$ 4,641
Add back (Deduct):		
Non-Cash Change in Warrant Liabilities	(90)	(35)
Non-Cash Compensation Expenses	$ 3,780	$ -
Adjusted Net Income	**$ 7,444**	**$ 4,606**

Diluted EPS	$	0.12	$	0.20
Add back (Deduct):				
Non-Cash Change in Warrant Liabilities		0.003		0.001
Non-Cash Compensation Expenses	$	0.12	$	
Adjusted EPS	**$**	**0.24**	**$**	**0.20**

Results of operations for the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008.

The following table sets forth key components of our results of operations for the periods indicated, in dollars and as a percentage of sales revenue.

	Nine Months Ended September 30, (unaudited)			
	2009	2008	$ Change	% Change
	(In thousands, except percentages)			
Statement of Operations data				
Sales revenue	$ 70,009	46,208	23,801	52 %
Cost of sales	35,565	27,703	7,862	28 %
Gross profit	34,443	18,505	15,938	86 %
Gross Margin	49.2%	40.1%		23 %
Operating expenses:				
Research and development costs	39	173	(134)	(78)%
Sales and marketing expenses	4,654	3,171	1,483	47%
General and administrative expenses (including non-cash stock compensation expenses of $3.8 million in the third quarter of 2009)	16,800	4,783	12,017	251 %
Total operating expenses	21,493	8,127	13,366	164 %
Operating income	12,950	10,378	2,572	25 %
Finance costs, net	138	424	(286)	(67)%
Other expenses (income)	(813)	(908)	(95)	(11)%
Change in fair value of warrant liabilities	310	(35)	(345)	(985)%
Income taxes	6,381	2,825	3,556	126 %
Net income	$ 6,934	8,072	(1,138)	(14)%

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

	Nine Months Ended September 30,	
Volume, in tons	2009	2008
Gate valves	3,126	2,172
Check valves	645	402
Global valves	1,077	941
Safety valves	346	183
Butterfly valves	11,280	6,391
Ball valves	1,528	994
Vent valves	39	632
Other valves and accessories	3,578	3,243
Total, in tons	21,619	14,958

	Nine Months Ended September 30 ,	
	2009	2008
Sales revenue	(in thousands)	
Gate valves	$ 20,607	$ 12,297
Check valves	5,038	3,639
Global valves	3,490	1,980
Safety valves	1,592	591
Butterfly valves	27,256	14,176
Ball valves	4,191	2,481
Vent valves	122	1,857
Other valves and accessories	7,713	9,187
Total sales revenue	$ 70,009	$ 46,208

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:

	Nine Months Ended September 30,	
	2009	2008
	(in thousands)	
Power Supply	$ 20,195	$ 8,695
Petrochemical and Oil	11,725	10,157
Water Supply	23,382	9,729
Metallurgy	5,043	4,129
Other areas	9,664	13,498
Total sales revenue	$ 70,009	$ 46,208

Sales Revenue

Our sales revenue for the nine months ended September 30, 2009 amounted to $70.0 million, which is approximately $23.8 million or 52% more than that of the same period in 2008, where we had revenue of $46.2 million. The increase was primarily attributed to (1) increased demand for our products fueled by rapid industrialization and manufacturing development in China, (2) our successful marketing efforts, (3) retaining our existing customers and adding additional large customers, (4) our expansion into the nuclear power station valve market segment, and (5) volume increased for our innovations on high temperature high pressure power station gate valves and two-way metal sealing butterfly valves because the Company has established its brand in China.

Cost of Sales

Cost of sales was $35.6 million for the nine month period ended September 30, 2009, an increase of $7.9 million or 28%, as compared with $27.7 million for the nine month period ended September 30, 2008. Cost of sales as a percentage of total revenues were 51% and 60% for the nine month periods ended on September 30, 2009 and 2008, respectively, with a decrease of approximately 9%. The decrease was a result of lower production costs caused by decreased cost of raw materials, preferential product mix and strengthened production cost control. Since the fourth quarter of 2008, the prices of raw materials went down as a result of the global financial crisis. The purchasing prices of our major raw materials, including the prices of casting steel, weld puddle, disc and rotor decreased approximately 10-18% on average in 2009 as compared to the same period in 2008.

Sales and Marketing Expenses

Sales and marketing expenses were $4.7 million for the nine month period ended September 30, 2009, compared with $3.2 million for the period ended September 30, 2008, an increase of $1.5 million or approximately 47% due to the

increase of sales performance in the period. In addition, with the implementation of the strengthened cost control policy in 2009, the percentage increase of sales and marketing expenses was less than that of sales.

General and Administrative Expenses

Our general and administrative expenses were $16.8 million for the nine month period ended September 30, 2009, compared with $5.0 million for the period ended September 30, 2008, an increase of $11.9 million or approximately 240%. Included in these expenses is a non-cash compensation charge of $11.3 million, as discussed above. The remaining increase was primarily attributable to increases in our auditing, accounting and legal fees related to our status as a public reporting company. Additionally, our salary expense as well as we increased hiring to support our sales and administrative as we expands. Our travel expenses increased as well due to increase in acquisition activities.

Income from Operations

Income from operations was $13.0 million for the nine month period ended September 30, 2009, compared with $10.4 million for the period ended September 30, 2008, an increase of $2.6 million or approximately 25%. The increase was primarily attributable to the increase in sales and gross margin in the current quarter after deducting a $11.3 million non-cash compensation expenses in the third quarter. Income from operations excluding the non-cash compensation expense for the nine month period ended September 30, 2009 was $24.2 million, compared with $10.4 million for the period ended September 30, 2008, an increase of $13.8 million or approximately 133%. See below for nine months ended non-GAAP measures reconciliation.

Other income (expenses)

Total other income, including change in fair value of warrant liabilities, was $0.50 million for the nine month period ended September 30, 2009, compared with $0.94 million for the period ended September 30, 2008. The financial expenses for the nine month period ended on September 30, 2009 and 2008 were $0.14 million and $0.42 million, respectively.

Income taxes

We incurred income taxes of $6.4 million for the nine month period ended September 30, 2009. This is an increase of $3.6 million or 126% from the taxes we incurred in the 2008 period, which were $2.8 million. We incurred more taxes in the nine months ended September 30, 2009 mostly because of the higher taxable income in the nine month period ended on September 30, 2009 compared to 2008.

Net Income

We had net income of $6.9 million for the nine month period ended September 30, 2009. This is a decrease of $1.1 million or approximately 14% from the period ended September 30, 2008 which had a net income of $8.1 million. The primary factor for the decrease is a non-cash compensation expense of $11.3 million. Our Non-GAAP income amounted $18.5 million for the nine months ended September 30, 2009, an increase of $10.5 million, 131%, from the corresponding period in 2008. See below for GAAP income to non-GAAP income reconciliation.

Non-GAAP Financial Measures

The Company s management uses non-GAAP adjusted net income to measure the performance of the Company s business internally by excluding non-cash expenses resulting from make good provisions entered into in connection with previous private placement financing transactions and non-cash income or expense related to changes in the fair value of warrant liabilities. The Company s management believes that the non-GAAP adjusted financial measure allows the management to focus on managing business operating performance because the measure reflect the essential operating activities of the Company and provide a consistent method of comparison to historical periods. The Company believes that providing the non-GAAP measures that management uses internally to its investors is useful to investors for a number of reasons. The non-GAAP measures provide a consistent basis for investors to understand the Company's financial performance in comparison to historical periods without variation of non-recurring items and non-operating related charges. In addition, it allows investors to evaluate the Company's performance using the same methodology and information as that used by the management. Non-GAAP measures are subject to inherent limitations because they do not include all of the expenses included under GAAP and because they involve the exercise of judgment of which charges are excluded from the non-GAAP financial measure. However, the management compensates for these limitations by providing the relevant disclosure of the items excluded.

The following table provides the non-GAAP financial measure and a reconciliation of the non-GAAP measure to the GAAP income from operations and net income.

	Nine Months Ended September 30	
	2009	**2008**
	(In thousands)	(In thousands)
Income From Operations	$ 12,950	10,378
Add back (Deduct):		
Non-Cash Compensation Expenses	11,279	$ -
Adjusted Income From Operations	$ **24,229**	**$ 10,378**
Net Income	$ 6,934	$ 8,072
Add back (Deduct):		
Non-Cash Change in Warrant Liabilities	310	(35)
Non-Cash Compensation Expenses	11,279	-
Adjusted Net Income	**$ 18,523**	**$ 8,037**
Diluted EPS	$ 0.23	$ 0.38
Add back (Deduct):		
Non-Cash Change in Warrant Liabilities	$ 0.01	$ -
Non-Cash Compensation Expenses	$ 0.37	$ -
Adjusted EPS	**$ 0.61**	**$ 0.38**

Liquidity and Capital Resources

As of September 30, 2009, we had cash and cash equivalents of $16.7 million. The following table sets forth a summary of our cash flows for the periods indicated:

	Nine months Ended September 30,	
	2009	**2008**
	(in thousands)	
Net cash provided by operating activities	20,094	2,293
Net cash used in investing activities	(15,415)	(4,919)
Net cash (used in) / provided by financing activities	(4,357)	27,437
Effect of exchange rate changes on cash and cash equivalents	(80)	276
Net Increase in cash and cash equivalent	242	25,087
Cash and cash equivalents at the beginning of period	16,428	2,773
Cash and cash equivalents at the end of period	16,670	27,860

The Company currently generates its cash flow through operations which it believes will be sufficient to sustain the current level of operations for at least the next twelve months. In 2009, we continue to work to develop new valves and expand our presence as the leader in the development and manufacture of various valves.

Operating Activities

Net cash provided by operating activities was $20.1 million in the nine months ended September 30, 2009, compared with net cash provided by operating activities of $2.3 million in the same period in fiscal year 2008. The change of $17.8 million in operating activities was primarily attributable to a decrease in accounts receivable and advances on inventory purchase for the nine months ended September 30, 2009. The Company has improved the collection of accounts receivables by implementing new sales commission policies in order to strengthen its collection efforts and tightened its credit policy but requiring 100% payments prior to delivery instead of selling on account.

Investing Activities

Net cash used in investing activities increased to $15.4 million in the nine months ended September 30, 2009, compared with $4.9 million in the same period in fiscal year 2008. The net cash used in investing activities during the period ended September 30, 2009, was primarily used for the acquisition prepayment for Yangzhou Rock Valve Lock Technology Co., Ltd and the purchase of additional machinery and equipment and construction for the new factory in Kaifeng.

Financing Activities

Net cash used by financing activities was $4.4 million in the nine months ended September 30, 2009, compared with net cash obtained from financing activities of $27.4 million in the same period in fiscal year 2008. The decrease in net cash is attributable to the receipt of $27,288,231 through the issuance of stock in a private placement completed in August 2008.

As of September 30, 2009, there was no principal outstanding under our credit facilities and lines of credit.

Capital Expenditures

The capital expenditures in the nine months ended September 30, 2009 and 2008 are set out as below. Our capital expenditures were used primarily for plant construction and purchase of equipment to expand our production capacity. The table below sets forth the breakdown of our capital expenditures by use for the periods indicated.

	Nine months Ended September 30,	
	2009	2008
	(in thousands)	
Construction costs	$ 4,088	$ 1,443
Purchase of equipment	$ 4,548	$ 1,800
Advance on equipment & construction fee	-	1,486
Total capital expenditures	$ 8,636	$ 4,729

We estimate that our total capital expenditures in fiscal year 2009 will reach approximately $11.6 million: $8.6 million of which has been used to complete construction and purchase new machinery and equipment for the new plant in Kaifeng and equipment purchase in other two subsidiaries, Zhengdie and Taizhou Taide. $1 million of which will be used to upgrade Taizhou Taide s production technology and equipment, which we expect will increase Taizhou Taide s existing production capacity by 50%, and the $2.0 million be used for purchase of new equipment (e.g., equipment for ultra-supercritical thermal power projects) and production line upgrades for companies we plan to acquire in 2009.

Obligations Under Material Contracts

The following table sets forth our contractual obligations and commercial commitments as of September 30, 2009

		Payment Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(in thousands)		
Short-term loans	4,140	4,140	-	-	-
Bills payable	-	-	-	-	-
Long-term bank loans	-	-		-	-
Minimum Lease payments	1,115	343	772		-
Capital commitments	1,300	1,300	-	-	-
Future interest payment on short-term bank loans	218	218	-	-	-
Future interest payment on long-term bank loans	-	-	-	-	-
Total	6,773	6,001	772		-

Make Good Escrow Agreement

In connection with the private placement, our major stockholder Bin Li entered into an escrow agreement with the private placement investors. Pursuant to the escrow agreement which was amended on August 14, 2009, Bin Li, in place of Siping Fang, our CEO, agreed to certain make good provisions. In the escrow agreement, we established minimum net income thresholds of $10,500,000 for the fiscal year ended December 31, 2008, $21,000,000 for the fiscal year ended December 31, 2009 and $34,000,000 for the fiscal year ended December 31, 2010. Bin Li deposited a total of 12,583,032 shares into escrow with Escrow LLC under the escrow agreement. If the 2008 net income threshold is not achieved, then the escrow agent must deliver the first tranche of 4,194,344 shares to the investors on a pro rata basis (based upon the total number of shares purchased by the investors in connection with the private placement transaction). If the 2009 net income threshold is not achieved, then the escrow agent must deliver the second tranche of 4,194,344 shares to the investors on a pro rata basis and if the 2010 net income threshold is not achieved, the escrow agent must deliver the second tranche of 4,194,344 shares to the investors on a pro rata basis. However, only those private placement investors who remain our stockholders at the time the escrow shares become deliverable are entitled to their pro rata portion of such escrowed shares.

For the year ended December 31, 2008, our net income (prior to any compensation charge related to release of the shares from escrow) was $10,762,129 which met the earnings target for 2008 of net income of $10,500,000. Accordingly, the Company released 4,194,344 shares from the escrow to Bin Li and in turn to Siping Fang. We expect to meet our 2009 earnings target; hence we expensed stock-based compensation in the amount of $11.2 million for the months ended September 30, 2009.

Other than the contractual obligations and commercial commitments set forth above, we did not have any other long-term debt obligations, capital commitments, purchase obligations or other long-term liabilities as of September 30, 2009.

Critical Accounting Policies

Our consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (3) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial statements, the following should also be considered: (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of those policies, and (3) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

Revenue Recognition

The Company s revenue recognition policies are in accordance with generally accepted accounting principles regarding revenue recognition.. Sales revenue is recognized when all of the following have occurred: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable, and (iv)the ability to collect is reasonably assured. These criteria are generally satisfied at the time of shipment when risk of loss and title passes to the customer.

The Company recognizes revenue when the goods are delivered and title has passed. Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company s products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by the VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product.

The Company allows its customers to retain 5% to 10% of the contract prices as retainage during the warranty period, usually 12 or 18 months, to guarantee product quality. Historically, the Company has experienced very few actual warranty claims resulting in the Company having to repair or exchange a defective product. Due to the infrequency and insignificant amount of warranty claims, the ability to collect retainage is reasonably assured and is recognized at the time of shipment.

Foreign Currency Translation and Other Comprehensive Income

The reporting currency of the Company is the US dollar. The functional currency of our Chinese operating entities High Pressure Valve and Zhengdie Valve is the Renminbi (RMB).

For the subsidiaries whose functional currencies are other than the US dollar, all assets and liabilities accounts were translated at the exchange rate on the balance sheet date; shareholders equity is translated at the historical rates and items in the income and cash flow statements are translated at the average rate for the year. Because cash flows are calculated based using the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders equity. The resulting translation gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Accumulated other comprehensive income in the consolidated statement of shareholders equity amounted to $6,142,970 and $6,158,977 as of September 30, 2009 and December 31, 2008, respectively. The balance sheet amounts with the exception of equity at September 30, 2009 and December 31, 2008 were translated at 6.82 RMB and 6.83 RMB to $1.00 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the six months ended September 30, 2009 and 2008 were 6.82 RMB and 6.97 RMB to $1.00, respectively.

Income Taxes

The Company follows the Accounting standard regarding Accounting for Income Taxes that requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due plus deferred taxes. Because the Company had no operations within the United States there is no provision for US income taxes and there are no deferred tax amounts as of September 30, 2009 and 2008.

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company adopted the accounting standard regarding accounting for uncertainty in income taxes, as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption of this accounting standard had no affect on the Company s financial statements.

Warranties

We typically warranty all of our products. It is the Company s policy to replace parts if they become defective within one year after deployment at no additional charge. Historically, failure of product parts due to materials or workmanship is rare. Therefore, at September 30, 2009 and September 30, 2008, the Company made no provision for warranty claims for our products. Management continuously evaluates the potential warranty obligation. Management will record the expenses related to the warranty obligation if the estimated amount becomes material at the time revenue is recorded.

Concentration Risks

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Certain financial instruments may subject the Company to concentration of credit risk. The Company maintains bank deposits within state-owned banks within the PRC and Hong Kong. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of September 30, 2009 and December 31, 2008, the Company s cash and restricted cash balances, totaling $15.3 million and $12.0 million respectively at those dates, were not covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

Five major suppliers represented approximately 27% and 32% of the Company s total purchases for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, five major suppliers represented approximately 18% and 28% respectively of the Company s total purchases.

Accounts Receivable and Allowance For Doubtful Accounts

The Company s business operations are conducted in the PRC. During the normal course of business, the Company extends unsecured credit to its customers by selling on various credit terms. Management reviews its accounts receivable on a quarterly basis to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. The Company s existing reserve is consistent with its historical experience and considered adequate by the management.

Fair Value of Financial Instruments

The accounting standards regarding Disclosures about Fair Value of Financial Instruments defines financial instruments and required fair value disclosure of those instruments. This accounting standard defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. Receivables, investments, payables, short and long term debt and warrant liabilities qualified as financial instruments. Management believes the carrying amounts of receivables, payables and debt are a reasonable estimate of fair value because of the short period of time between the origination of such instruments, their expected realization, and if applicable, their stated interest rate is equivalent to interest rates currently available. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The Company analyzes all financial instruments with features of both liabilities and equity under the accounting standard regarding Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, the accounting standard regarding, Accounting for Derivative Instruments and Hedging Activities, the accounting standard regarding Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock and the accounting standard regarding Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock. the accounting standard regarding Accounting for Derivatives and Hedging Activities specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company s own stock and (b) classified in stockholders equity in the statement of financial position would not be considered a derivative financial instrument. This standard provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer s own stock and thus able to qualify for this accounting standard scope exception. All warrants issued by the Company are denominated in U.S. dollars; because the Company s functional currency is the Renminbi, the Company accounts for these warrants as derivative instrument liabilities and marks them to market each period. Because there is no quoted or observable market price for the warrants, the Company used level 3 inputs for its valuation methodology.

The Company invested in China Perfect Machinery Industry Co., Ltd. in 1996 and Kaifeng Commercial Bank in 1997. There is no quoted or observable market price for these investments; therefore, the Company used level 3 inputs for its valuation methodology. Based on its proportionate share of the underlying book value of the investees, the Company believes the fair value of the investments is at least equal to the original cost. The determination of the fair value was based on the capital investment that the Company contributed. There has been no change in the carrying value since inception, other than the effects of translating the balances to US dollars.

A discussion of the valuation technique used to measure the fair value of the warrant liabilities is provided in Note 12.

	Carrying Value as of September 30, 2009	Fair Value Measurements at September 30, 2009 using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Investments	$ 764,515			$ 764,515
Warrant liabilities	$ 478,422			$ 478,422

Except for the warrant liability and investments, the Company did not identify any other asset and liability that are measured at fair value on a recurring basis in accordance with the accounting standard.

Long Term Investment

The Company invested in China Perfect Machinery Industry Co., Ltd. in 1996 and Kaifeng Commercial Bank in 1997. The Company owns approximately 0.14% of China Perfect Machinery Industry Co. Ltd. and approximately 4.01% of Kaifeng Commercial Bank. The Company does not have the ability to exercise control over the investee companies and the investments have been recorded under the cost method.

The Company periodically evaluates potential impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. For investments carried at cost, the Company recognizes impairment of long term investments in the event that the carrying value of the investment exceeds our proportionate share of the net book value of the investee. As of September 30, 2009, management believes no impairment charge is necessary.

Goodwill

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of all or a portion of a reporting unit. Our operating subsidiaries are considered separate reporting units for purposes of this evaluation. Determining whether an impairment has occurred requires valuation of the respective reporting unit, which we estimate using a discounted cash flow method. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data.

We test other identified intangible assets with defined useful lives and subject to amortization by comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. We test any other intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows.

Stock Based Compensation

The Company applies the accounting standard regarding accounting for stock-based compensation, which defines a fair-value-based method of accounting for stock based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with this accounting standard and the accounting standard regarding, "Accounting for Equity Instruments that are issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services", as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured. This accounting standard allows the simplified method to determine the term of employee options when other information is not available. For the nine months ended September 30, 2009, stock based compensation amounted to $11,279,336 and $0, respectively.

Business Combination

Effective January 1, 2009, the Company adopted the accounting standard regarding business combinations. This standard retains the fundamental requirements that the acquisition method of accounting (which this standard called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This standard requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces the old accounting standard s cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values.

On April 17, 2009, a subsidiary of the Company acquired 100% of the tangible assets of Taizhou Wote Valve Co., Ltd. for a total cash consideration of $3 million. The acquisition was accounted as a business combination in accordance to the terms of the purchase agreement. Assets acquired included inventories of $1.0 million, buildings of $1.4 million, equipments of $0.4 million, and land use rights of $0.4 million. The Company allocated the purchase price based on the fair value of the assets acquired and recorded a gain of approximately $252,000 in non-operating income in the current period.

New Accounting Pronouncements

In January 2009, the Financial Accounting Standards Board issued an accounting standard amending the Impairment Guidance of recognition of interest income and impairment on purchased and retained beneficial interests in securitized financial assets. The newly issued accounting standard changes the impairment model included to be more consistent with the impairment model of another accounting standard for accounting for securities. The new accounting standard remove its exclusive reliance on market participant estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the market participant view to a holder s estimate of whether there has been a probable adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of this FASB Staff Positions did not have a material impact the Company s consolidated financial statements.

In April 2009, the Financial Accounting Standards Board issued three related accounting standards: (i) Recognition of Presentation of Other-Than-Temporary Impairments. (ii) Interim Disclosures about Fair Value of Financial Instruments and (iii) Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly which are effective for interim and annual reporting periods ending after June 15, 2009. The first accounting standard modifies the requirement for recognizing other-than-temporary impairments, changes the existing impairment model, and modifies the presentation and frequency of related disclosures. The second related accounting standard requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The third related

accounting standard requires new disclosures regarding the categories of fair value instruments, as well as the inputs and valuation techniques utilized to determine fair value and any changes to the inputs and valuation techniques during the period. The adoption of these accounting standards did not have a material impact the Company s consolidated financial statements.

In June 2009, the Financial Accounting Standards Board issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This accounting standard requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. In addition, it eliminates the concept of a qualifying special-purpose entity and clarifies the determination of whether a transferor and all of the entities included in the transferor s financial statements being presented have surrendered control over transferred financial assets. This accounting standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. This accounting standard will not have an impact on the Company s financial statements.

In June 2009, the Financial Accounting Standards Board issued an accounting standard amending the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). This standard modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. It clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. An ongoing reassessment is required of whether a company is the primary beneficiary of a variable interest entity. Further, it also requires additional disclosures about a company s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. This accounting standard will be effective as of the beginning of the annual reporting period commencing after November 15, 2009 and will be adopted by the Company in the first quarter of 2010. This accounting standard will not have an impact on the Company s financial statements.

In August 2009, the Financial Accounting Standards Board issued an Accounting Standards Update (ASU) regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. This ASU is effective for the first reporting period, including interim periods, beginning after the issuance of this ASU. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In October 2009, the Financial Accounting Standards Board issued an Accounting Standards Update (ASU) regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

Off-Balance Sheet Transactions

We do not have any off-balance sheet arrangements.

Seasonality

Our operating results and operating cash flows historically have not been subject to seasonal variations. This pattern may change, however, as a result of new market opportunities or new product introductions.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4.

Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, Messrs. Siping Fang and Ms. Ichi Shih respectively, evaluated the effectiveness of our disclosure controls and procedures. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports, such as this report, that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, Mr. Fang and Ms. Shih concluded that despite improvements in areas of previously identified weakness in internal control over financial reporting identified (described below), our disclosure controls and procedures were not effective as of September 30, 2009.

Changes in Internal Control over Financial Reporting

The Company s management is focused on compliance with the requirements under Section 404 of the Sarbanes-Oxley Act. The relevant section of the Act requires the management of smaller reporting companies with equity securities listing in the U.S. securities market to issue report and representations as to the internal control over financial reporting. The Company anticipates that it will be fully compliant with Section 404 of the Sarbanes-Oxley Act of 2002 by the required date for smaller reporting companies and it is currently in the process of improving and rectifying its internal control systems in order to be compliant with Section 404 of the Sarbanes-Oxley Act.

The Company has continuously refined the policies and standards for the control environment based on the risk control framework established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO). In the past few months, the Company has: standardized control procedures for monitoring the financial reporting and period end financial closing procedures at the subsidiary and group level and upgraded the business performance review processes and controls; expanded accounting manuals to clearly document key controls and processes for preparing consolidated financial statements in accordance with applicable accounting standards; hired additional accounting professionals with experience in financial reporting and familiarity with international accounting practices and increased technical training for the finance and accounting personnel in respect of relevant accounting standards; established and implemented the code of ethics for senior officers and employees, company-wide anti-fraud policies and whistle blowing mechanisms; enhanced internal controls over subsidiaries by assessing the effectiveness of internal controls at subsidiary-level based on our enterprise risk assessment results and preliminarily formulated long term implementation plan on internal control.

The Company had completed the documentation and implementation of internal control framework in June 2009.

PART II OTHER INFORMATION

Item 1.

Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

Item 1A.

Risk Factors

None.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3.

Defaults Upon Senior Securities

None.

Item 4.

Submission of Matters to a Vote of Security Holders.

None.

Item 5.

Other Information.

None.

Item 6.

Exhibits.

EXHIBITS.

31.1*	Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Filed herewith.

SIGNATURES

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

DATED: November 16, 2009

CHINA VALVES TECHNOLOGY, INC.

/s/ Ichi Shih
Ichi Shih
Chief Financial Officer (Principal Financial Officer)

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