CHINA VALVES TECHNOLOGY, INC
Form 10-K
March 16, 2011

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2010

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

No. 93 West Xinsong Road, Kaifeng City, Henan Province People s Republic of China
(Address of principal executive office and zip code)

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

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	**Name of Each Exchange on Which Registered:**
Common Stock, $.001 par value	*The Nasdaq Stock Market LLC (Nasdaq Global Market)*

Securities registered pursuant to Section 12(g) of the Act: None

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

Yes [ ] No [X]

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

Yes [ ] No [X]

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

Yes [X] No [ ]

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

[ ]

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

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

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

Yes [ ] No [X]

The issuer s revenues for its most recent fiscal year ended December 31, 2010, were $183.7 million.

As of June 30, 2010, the aggregate market value of shares of the issuer s common stock held by non-affiliates (based upon the average bid and asked price of $9.33 of such shares on such date as reported on the Over-the-Counter Bulletin Board) was approximately $184.1 million. As of December 31, 2010, the aggregate market value of shares of the issuer s common stock held by non-affiliates was approximately $293.2 million. Shares of the issuer s common stock held by each executive officer and director and by each person who owns 10 percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates of the issuer. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 35,669,654 shares of common stock outstanding as of March 11, 2011.

DOCUMENTS INCORPORATED BY REFERENCE:

None

CHINA VALVES TECHNOLOGY, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2010

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INTRODUCTORY NOTE

Use of Terms

In this report, unless indicated otherwise, references to

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

Forward-Looking Statements

This report contains information that may constitute forward-looking statements. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, "Item 1A. Risk Factors" and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission.

PART I

Item 1. BUSINESS

OVERVIEW

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

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

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

Our industry is usually categorized into the following five major distinct industries, our sales mix by industry in 2010 consists

Power Supply
Petrochemical and Oil
Water Supply
Metallurgy
Other

Our sales revenue and net income were $183.7 million and $ 43.2 million respectively, during the year ended December 31, 2010, and sales revenue and net income of $95.4 million and $23.4 million, respectively, during the same period in 2009.

HISTORY AND DEVELOPMENT

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

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

In April 2009, China Valves finished the acquisition of Taizhou Taide Valve Co., Ltd. who is a gate and butterfly valves manufacturer and its products are mainly used in water supply industry.

In January 2010, China Valves acquired Yangzhou Rock Valve Lock Technology Co., Ltd., a mechanical interlock safety system and triple offset butterfly valve maker.

In February 2010, China Valves announced the acquisition of former Watts Valve (Changsha) Co., Ltd., now renamed as China Valves Technology (Changsha) Co., Ltd. Changsha Valve is the one of main valve suppliers of China hydropower and fossil power industries, and we expect this acquisition will enable us to secure the leading position in the growing markets.

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

SUBSIDIARIES

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

Kaifeng Valve

Kaifeng Valve was founded in 1959, which is located in Kaifeng city (one of the seven ancient capitals of China), Henan province. It used to be a large state-owned valve factory in China. The dominant products include supercritical or ultra critical thermal power plant high pressure and temperature valves, abrasive and erosive media refinery & petrochemical valves. As a leading valve supplier in energy industry, "KF" brand is considered as No. one brand in Chinese valve industry, which was awarded "the most competitive valve brand by the Chinese Ministry of Commerce.

Products and services

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

Its products are used in high levels corrosion, abrasion, extreme high temperature and high pressure, zero fugitive emissions, and nuclear power plant isolations. It is considered to be the most reliable domestic high pressure isolation valves in China.

Kaifeng Valve provides engineering, design, inspection, maintenance and repair services for its valves and related products. It sells its products and services in most geographic regions in China directly through our internal sales force and also a perfect network of independent distributors.

Product Types

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

Customers

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

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

ZD Valve

ZD Valve is a leading manufacturer of low pressure butterfly valves, eccentric semi-ball valves, non-return valves with damping system, and valves applied in water treatment and drainage pipelines. Its brand ZD is the No. one butterfly valve brand in the water treatment industry of China. ZD Valve occupies significant market share of butterfly valves in municipal water treatment of China. ZD Valve is located in Zhengzhou city, the capital of Henan province.

Products and services

ZD Valve is one of the most famous low pressure butterfly valve suppliers in China. Besides butterfly valves it manufactures, ZD Valve provides wide products range for applications in water treatment, petrochemical, mining and metal, fossil power industries.

ZD Valve provides full package flow control solutions to water treatment customers. Besides these products, it also provides engineering, design, inspection, installation, commissioning, inspection, and repair services.

ZD Valve provides after sale services through its network of sales representatives which covers most of the capital cities and all of the five municipals in China, which including 24-hour onsite services, in-house repair and return manufacturing services through its production facility.

Product Types

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

Customers

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

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

Changsha Valve

Changsha Valve s predecessor was founded in 1958, with leading products includeing hydraulic operated butterfly valves, flow control valves, spherical valves in big size, Changsha Valve is considered to be the best butterfly valve supplier for hydropower industry in China. It has accumulated abundant experiences in fossil power, hydropower, nuclear and water treatment industries. Changsha Valve established China industrial standard of metal seated butterfly valves and power plant butterfly valves. Its brand CSV has more than fifty years of history and occupied 40% market share in butterfly valve of the hydropower industry.

Products and services

Changsha Valves is famous for its large size butterfly valve and large size water control valve. Changsha Valve manufactures the biggest size butterfly valve (DN5500mm) in China. As one of the main valve suppliers in China hydropower industry, it provides a broad range of industrial valves, including on/off valves, control valves, and other specialty valves.

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

Product types

- Large size vacuum butterfly valve
- Butt weld butterfly valve
- Hydropower station metal seated butterfly valve
- Hydraulic and pneumatic operated butterfly valve
- TRT Coal gas dust exhaust butterfly valve
- Spherical water control valve

- Top entry trunnion mounted ball valve
- Inline type sleeve water control valve
- Submerged type sleeve control valve
- Y-type and Straight way type sleeve control valve

Customers

Changsha Valve is well known in huge hydropower stations in China. Its products are widely used in the recycled water system in fossil power plants, especially in 1000MW ultra-critical power plants. Its products are increasingly used in metal, refinery and chemical plants because their reliability and excellent after sale services.

Hanwei Valve

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

Products and services

Hanwei Valve is one of the two suppliers who can provide 24-way rotary valve in the world. 24-way rotary valve is applied in simulated moving bed adsorption-separation unit and chromatogram separation unit of petrochemical and biological engineering. Its fully welded pipeline ball valve was well-known in China Oil &Gas industry, also entered the market in the Middle East, Southeast Asia and Central Asia. It has several patented products like 24-way rotary valve, district heating ball valve and full welded pipeline ball valve etc.

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

Product Types

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

Customers

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

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

Taide Valve

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

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

Product Types

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

Yangzhou Rock

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

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

Product Types

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

Customers

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

ORGANIZATIONAL STRUCTURE

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

(1) Shanghai Hanhuang Valve Co., Ltd. and Hong Kong Hanxi Investment Co., Ltd were former shareholders of Hanwei Valve, both of which were acquired during acquisition of Hanwei Valve by the Company and are shell

companies without any active operations.

OUR INDUSTRY

The Chinese valve market is expected to increase at an annual rate of more than 20% for the next few years. We believe that demand for valves will be driven primarily by the energy demand and water treatment system investment and upgrading. 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. We intend to focus our efforts on utilizing our tangible and intangible resources to expand and strengthen our products and increase our market share in response to industry demands.

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

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

Our Involvement in the Power Industry

Fossil power

The Chinese government continues to improve installed capacity of fossil power plants to meet the growing electric demand for both industrial and residential uses. Many ultra-critical fossil power plants are on construction or on engineering, and smaller sub-critical fossil power plants were shut down or upgrading to improve energy efficiency and improve the environment.

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

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

Nuclear power

Nuclear power plants normally demand more valves than the same capacity fossil power plants, and purchase price and amount are much higher than traditional power plants due to higher security requirements. That s the reason why our main competitors invest a large amount of human and financial capacities to nuclear power.

As one of the main suppliers of high pressure high temperature valves in China nuclear power industry, Kaifeng Valve has been cooperating with two biggest nuclear investment companies in China-CNNC and CGNPC. Kaifeng Valve was awarded as qualified valve supplier from National Energy Board.

Changsha Valve and ZD Valve are major suppliers of butterfly valves for nuclear power plants. They expect to steadily expand their market share in nuclear power industry.

Our Involvement in the Petrochemical, Oil and gas Industries

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

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

Our Involvement in the Water treatment

The Chinese government stably increases its investment to upgrade public facilities, water pipe network and sewage treatment in thousands of cities and municipals. The total annual demand for valves in the water treatment industry will be RMB 10 billion in recent years.

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

OUR COMPETITIVE STRENGTHS

- ***Broad range of products and leading brands***. From the extreme high/low temperature, extreme high pressure, extreme abrasion and corrosion, to the most complex smart valves, we believe that we have the most comprehensive range of valve products in our industry and enjoy leading market positions based on the estimated market share of our key products, broad brand recognition and a strong reputation for quality and service within the markets we serve.

- ***Low-cost and high quality manufacturing capabilities.*** We believe our historical capital investment in manufacturing technologies helps us reduce the costs of producing our products. We focus on manufacturing and selling high quality valves at competitive prices. We believe we have a price advantage over most of our competitors.
- ***Highly experienced and incentivized research and development team.*** Our R&D department composed of engineers with many years of experience, some of them is the most professional engineers in China valves industry. We are committed to developing new products and we have in recent months generally launched a new model every two months. We have cooperated with universities and institutions to improve and develop products.
- ***Highly experienced, proven management team.*** We are led by an experienced management team with a long and successful track record, enabling us to recognize and capitalize upon attractive opportunities in our key markets. Most of senior management members have an average of over 18 years of experience in the valve industry; top management team like CEO and CFO came from international valves group or has international management experience.

OUR STRATEGY

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

Pursue Strategic Acquisitions. China s valve market is very fragmented. According to the China Valve Industry Association s statistics, there are more than 4,000 local valve manufacturers in the market. The top ten local valve manufactures have an aggregate Chinese market share of 12.1% only. We anticipate that the fragmented nature of the Chinese valve market will continue to provide opportunities for growth through strategic acquisitions. Our acquisition strategy will continue to focus on entities with products that provide opportunities for us to expand and products that can be marketed through our existing distribution channels or provide us with new distribution channels for our existing products, thereby increasing marketing and distribution efficiency. Furthermore, we seek acquisition candidates that demonstrate a combination of good profit margins, strong cash flow, leading positions in the local markets and products that generate recurring revenue. We will use our brand advantage to consolidate China s valve market and to increase our market share.

In 2010, we finished the acquisition with Yangzhou Rock, Changsha Valve and Hanwei Valve. These acquisitions enabled us to expand the products line and advanced technologies we offer to the growing oil and gas, hydropower and fossil power markets.

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

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

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

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

Strengthen Overseas Market. We integrated direct sales team and distributors in Europe, Russia, Middle East, Central Asia and Southeast Asia, so that they will represent all of China Valves products and services instead of the products of ZD Valve or Hanwei Valve only. We participated in more flow control exhibitions, and upgraded our website so that oversea customers could reach us easily.

OUR MANUFACTURING PROCESS

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

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

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

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

WARRANTIES

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

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

SUPPLIERS OF OUR RAW MATERIALS

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

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

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

SALES, MARKETING AND DISTRIBUTION

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

We market our products through various ways. We have total around $183.7 million sales in our six facilities and in several regional offices. In addition, we have around 50 distributors across China. We provide periodic training to our sales staff and have direct communication and participate in trade exhibitions. In 2010, we set up a sales and marketing headquarter in Shanghai. We hired experienced sales personnel who have significant sales and marketing experience from multinational valves companies such as Tyco and Flowserve. Moreover, a professional technical support team was set up to enhance after-market service.

OUR RESEARCH AND DEVELOPMENT EFFORTS

China Valves business is dependent on constantly improving the technology associated with developing and manufacturing valves. Therefore, China Valves has committed itself to research and development of new valves and developing state of the art valves that improve and advance the valve industry. In 2010 and 2009 we invested a total of $228,858 and $126,750 respectively to research and development efforts,. We also intend to increase the amount of resources we allocate to research and development as the Company continues to grow.

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

COMPETITORS

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

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

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

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

- We are the first manufacturer of main stream gate valves for 300MW and main water supply gate valves for 600MW power stations in China;

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

INTELLECTUAL PROPERTY

We own the following six trademarks:

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

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

REGULATION

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

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

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

We do not face any significant government regulation in connection with the production of our products. We do not require any special government permits to produce our products other than those permits that are required of all corporations in China.

OUR ADDRESS

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

Item 1A. RISK FACTORS

RISKS RELATED TO OUR BUSINESS

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

Our business is primarily dependent upon spending on new infrastructure projects, as well as infrastructure upgrades, repairs and replacement, in the power, petrochemical, oil and water supply industries. We are also subject to general economic conditions, the need for large-scale projects, interest rates and government incentives provided for public work projects. We believe that the Chinese stimulus plan will result in an increase in infrastructure projects and an increase in demand for our valve products. If the Chinese stimulus plan does not have its desired effect or if there are declines in the number of projects planned by government agencies, government spending cuts, general budgetary constraints, difficulty in obtaining necessary permits or the inability of government entities to issue debt, sales of our valves may not increase at desired rates. It is not unusual for projects in power, petrochemical, oil or water supply industries to be delayed and rescheduled for a number of reasons, including changes in project priorities and difficulties in complying with environmental and other government regulations. We cannot assure you that economic growth experienced by China will continue or that if it does, that state and local governments will address deferred infrastructure needs. Any significant decline in the project spending in the key industries or governmental spending on infrastructure could have a material adverse effect on our financial condition and results of operations.

Our industry is very competitive in China.

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

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

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

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

In addition to domestic competition, we face intense competition from foreign competitors. The intensity of foreign competition is affected significantly by fluctuations in the value of the U.S. dollar against Chinese currency and by the level of import duties imposed by the Chinese government on certain products. Our major international competitors are Velan Inc., KSB Group and Tyco Flow Inc. Many of our competitors have more resources and greater brand recognition than we enjoy. While our resources may not be as great as our larger competitors, we believe our product quality and direct sales offices and distribution network are superior in China. If our competitors are able to gain greater market share or improve their sales efforts, our sales may decrease, we may be forced to lower our prices, or our marketing costs may increase, all of which could negatively impact our financial results.

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

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

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

In 2010, approximately 75% of our sales revenue was generated from our direct sales teams throughout China and 25% was generated from our distributors. Sales through distributors were highly concentrated in a few distributors, with 62% of distributor sales coming from our ten largest distributors, and 38% from the three largest distributors. Our business relationships with most of our major distributor branches may be terminated at the option of either party upon 30 days notice.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

inability to obtain future financing.

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

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

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

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

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

Our management is unfamiliar with United States securities laws and may have to expend time and resources becoming familiar with such laws which could lead to various regulatory issues.

We became a public company in December 2007 through the reverse acquisition with China Valves Samoa. Our management is not familiar with United States securities laws and will have to spend time and resources becoming familiar with such laws. This could be expensive and time-consuming and could lead to various regulatory issues which may adversely affect our operations.

RISKS RELATED TO DOING BUSINESS IN CHINA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our operating subsidiaries Kaifeng Valve, ZD Valve, Taizhou Taide Valve, Yangzhou Valve, Changsha Valve, and Shanghai Hanwei Valve are already designated as resident enterprises for PRC enterprise income tax purposes. However, if the PRC tax authorities determine that China Valves Technology Inc. and its subsidiaries China Fluid Equipment and Henan Tonghai Fluid are also resident enterprises for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on offering proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as tax-exempt income, we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new resident enterprise classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares. We are actively monitoring the possibility of resident enterprise treatment for the 2008 tax year and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

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

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

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

If the CSRC or another PRC governmental agency subsequently determines that we must obtain CSRC approval of the reverse acquisition, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in China and limit our operating privileges in China, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares.

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

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

You may have difficulty enforcing judgments against us.

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

RISKS RELATED TO THE MARKET FOR OUR STOCK

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

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

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

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

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

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

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

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

- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;
- sales of our common stock, including sales by our directors, officers or significant stockholders; and
- additions or departures of key personnel.

Item 2. PROPERTIES

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

We did not previously own the building and land we operate on. Those buildings and the land use rights were owned by the Casting Company, one of our major suppliers and the land use rights and the buildings from which Kaifeng Valve operates were leased from the Casting Company. The Casting Company is located on the same piece of land. As a condition precedent to the consummation of the Securities Purchase Agreement related to the private placement of our common stock, on August 26, 2008, Kaifeng Valve and the Casting Company entered into an Agreement for the Transfer of Land Use Right and Housing Titles (the ***Real Estate Transfer Agreement***) for the transfer of the land use rights for all the land and all the buildings on the land to Kaifeng Valve (the ***Real Estate***). As the transfer was expected to take up to ten months to complete with relevant Chinese government agencies, on August 26, 2008, Kaifeng Valve and the Casting Company also entered into a Lease Agreement (the ***Lease Agreement***) pursuant to which the Casting Company agreed to lease the Real Estate to Kaifeng Valve until the latter acquires title to the Real Estate. In addition, Kaifeng Valve and the Casting Company entered into a Leaseback Agreement (the ***Leaseback Agreement***) pursuant to which Kaifeng Valve agreed to lease back to the Casting Company the portion of the Real Estate and the buildings used by the Casting Company, for a period of one year starting on the date of the acquisition of title to the Real Estate by Kaifeng Valve.

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

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

The following lease expenses were incurred in 2010 and 2009 with respect to the operating entities:

Year Ended December 31, 2010

Usage		ZD Valve US $	Henan Tonghai Fluid US $
Office	$	35,424	136,646
Production & Operation Facilities		309,960	-
Total Cost	$	345,384	136,646

Year Ended December 31, 2009

Usage		ZD Valve US $		Henan Tonghai Fluid US $
Office	$	35,186	$	7,269
Production & Operation Facilities		307,881		-
Total Cost	$	343,067	$	7,269

Item 3. LEGAL PROCEEDINGS

On February 4, 2011, a plaintiff filed a purported class action naming the Company, its Chairman and certain present and former senior executives as defendants, asserting claims for certain violations of the securities laws and seeking unspecified damages. The complaint, which is styled Donald Foster, et al. v. China Valves Technology, Inc., et al., is currently pending in the U.S. District Court for the Southern District of New York. Substantially identical complaints, styled Donald London, et. al. v. China Valves Technology, Inc., et. al., and Elliott Greenberg, et. al. v. China Valves Technology, Inc. et al., were filed in the same court on February 17, 2011 and March 8, 2011, respectively. The complaints purport to assert claims on behalf of a purported class of persons and entities who purchased shares of the Company s common stock at allegedly artificially high prices during the period between January 12, 2010 and January 13, 2011 and who suffered damages as a result of such purchases. The allegations in the complaints relate to the Company s acquisitions of Changsha Valve and Hanwei Valve and include allegations regarding the Company s financial statements and press releases. The complaints allege, among other things, that the Company s statements about the nature and quality of the Company s acquisition of Changsha Valve were materially false and misleading and that the Company s statements failed to describe the role in the transaction of an alleged related party. In addition, the complaints allege that the Company s statements about the Hanwei Valve acquisition were materially false and misleading because they failed to disclose the alleged involvement of certain related parties and allegedly misdescribed the transaction as a purchase of assets rather than as a purchase of an entity. The Company has not yet responded to any complaint, but intends to contest the allegations and to defend itself vigorously.

Item 4. (Removed and reserved).

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for our Common Stock

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

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

	Closing Prices			
	High		Low	
Year Ending December 31, 2010				
4th Quarter	$	12.64	$	7.08
3rd Quarter	$	11.45	$	7.44
2nd Quarter	$	13.75	$	7.53
1st Quarter	$	14.85	$	9.14
	Closing Prices			
	High		**Low**	
Year Ending December 31, 2009				
4th Quarter	$	9.96	$	7.24
3rd Quarter	$	9.25	$	1.75
2nd Quarter	$	3.10	$	1.28
1st Quarter	$	5.00	$	1.20

Reports to Stockholders

We plan to furnish our stockholders with an annual report for each fiscal year ending December 31 containing financial statements audited by our independent certified public accountants. Additionally, we may, in our sole discretion, issue unaudited quarterly or other interim reports to our stockholders when we deem appropriate. We intend to maintain compliance with the periodic reporting requirements of the Exchange Act.

Approximate Number of Holders of Our Common Stock

On March 11, 2011, there were 85 stockholders of record of our common stock.

Dividend Policy

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

Item 6. SELECTED FINANCIAL DATA

Not required.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

Our Business

Through our subsidiaries and commercial and contractual relationships and arrangements with other Chinese companies, we operate companies in China that develop, manufacture and distribute high quality metal valves for a variety of different industries. We are located in Kaifeng, Henan Province and do business throughout China, Southeast Asia, the Middle-East and Europe. We produce over 800 models of valves and service numerous industries, including the thermal power, water supply, municipal construction, sewage disposal, oil and chemical, metallurgy, heat power, and nuclear power industries. We are the leader in valve sales for the thermal power, water supply industries, oil and chemical, and valve lock in China.

Principal Factors Affecting our Financial Performance
We believe that the following factors affect our financial performance:

- *Growth of China s Urbanization and Industrialization*

The annual growth rate of the valve production industry in China is expected to be 20% for the next few years. This growth is fueled by rapid industrialization and manufacturing industries developing in China. If this growth continues, we believe that the growth rate of the valve production industry will grow at a similar rate and that the Company will be able to sustain its growth and continue to be a leader in the valve production industry in China.

- *PRC Regulations*

China has looked favorably on the valve production industry and has loosened regulations to promote manufacturing growth in China, which ultimately benefits China Valves and similarly situated companies. For example, in June 2007, the State Department of China issued a new policy called Expedite the development of China s equipment manufacturing industry. In this policy, the Chinese government committed to promote the development of China s equipment manufacturing industry, which includes the valve industry, through, among other things, tax incentives, import/export support and capital support. In addition, the stimulus package offered by the Chinese government will provide market opportunities for us. As long as China continues to promote economic growth and allow manufacturing companies to grow and expand their operations, China Valves expects its operations will be positively affected by PRC regulations.

Recent Development

<u>Registered Direct</u>

On January 5, 2011, we conducted a registered direct offering of an aggregate of 1,000,000 shares of our common stock at a price of $10.00 per share for gross proceeds of approximately $10 million, to several accredited institutional investors. In addition, we issued to the investors warrants to purchase 250,000 shares of common stock, in the aggregate, at a price of $10.00 per share, exercisable for 180 days beginning on the date of the initial issuance of the warrants. The proceeds of the financing have or will be used for working capital.

Taxation

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 2009 and 2010.

Hong Kong

Our subsidiaries, China Fluid and Hong Kong Hanxi are incorporated in Hong Kong. The subsidiaries did not earn any income that was derived in Hong Kong for the years ended December 31, 2010 and 2009 and therefore was not subject to Hong Kong Profit Tax. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

We conduct all our operating business through its operating subsidiaries in China. The operating subsidiaries are governed by the income tax laws of the PRC, the Company does not have any deferred tax assets or deferred tax liabilities because there are no temporary differences between financial statement carrying amounts and the tax bases of existing assets and liabilities.

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

Our Operating Subsidiaries are classified as resident enterprises under the EIT law. Beginning in January 2008, both Kaifeng Valve and ZD Valve became subject to an income tax at an effective rate of 25% under the EIT law. The new acquired operating company, Taide Valve, and Yangzhou Valve is also subject to an income tax rate of 25%. Changsha Valve is subject to an income tax at a reduced rate of 12.5% in 2010, which is the last year of tax benefit period before subjecting to a full 25% tax rate. Hanwei Valve as a high technology enterprise is subject to an income tax at rate of 15% until 2011. The local tax authorities will do a special taxation review regarding its development of high technology at the end of 2011. If the review is positive, Hanwei Valve will be subject to 15% of income tax rate for another three years until another three-year taxation review in 2014. We incurred income taxes of $14.5 million for the year ended December 31, 2010, an increase of $5.9 million or 68.9% from the taxes we incurred in the same 2009 period.

Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended December 31, 2010 and 2009.

Results of Operations

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

	Year Ended December 31,	
	2010	**2009**
Sales revenue	$ **183,696,126**	$ 95,370,012
Cost of sales	**(103,276,910)**	(48,527,336)
Gross profit	**80,419,216**	46,842,676
Expenses		
General & administrative expenses	**(15,563,906)**	(7,312,439)
Research and development costs	**(228,858)**	(126,750)
Selling expenses	**(10,414,293)**	(6,317,766)
Non-cash stock compensation Expense	**(56,019)**	(47,057)
Total operating expenses	**(26,263,076**	(13,804,012
Income from operations	**54,156,140**	33,038,664
Change in fair value of derivative instruments	**(785,350)**	(1,508,997)
Gain from acquisition	**3,714,840**	-
Other income, net	**669,462**	510,692
Interest and finance expense, net	**(100,997)**	(128,518)
Total other income /(expense) , net	**3,497,955**	(1,126,823)
Income before income taxes	**57,654,095**	31,911,841
Income taxes	**(14,456,566)**	(8,558,748)
Net income	$ **43,197,529**	$ 23,353,093
Foreign currency translation gain/(loss)	**6,078,504**	(7,075)

Comprehensive Income	$ **49,276,033**	$ 23,346,018
As a Percentage of Sales Revenue		
Sales revenue	**100.0%**	100.0 %
Cost of sales	**56.2%**	50.9 %
Gross profit	**43.8%**	49.1 %
Expenses		
General & administrative expenses	**8.5%**	7.7 %
Research and development costs	**0.1%**	0.1 %
Selling expenses	**5.7%**	6.6 %
Non-Cash Stock Compensation Expense	**0%**	0 %
Total operating expenses	**14.3%**	14.5 %
Income before income taxes	**31.4%**	33.5 %
Income taxes	**7.9%**	9.0 %
Net income	**23.5%**	24.5%

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

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

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

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

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

Sales Revenue. Sales revenue increased $88.3 million, or 92.6%, to $183.7 million in 2010 from $95.4 million in 2009. The majority of this increase resulted from recently acquired subsidiaries, Yangzhou Valve, Changsha Valve and Hanwei Valve, which contributed $68.4 million to our sales revenue. Adjusting for the effect of changes in exchange rates, our sales revenue increased by 91.3% . The increase was also attributable to increased demand for our products fueled by rapid industrialization and governmental capital expenditure on China s infrastructure. In addition, our innovations on high temperature high pressure power station gate valves and two-way metal sealing butterfly valves, which are popular among our customers, also contributed to sales volume increases as compared to sales in the same period last year. We also made efforts to expand sales in the petrochemical, oil and nuclear areas, while strengthening the current thermal power and hydro-power market for our products. Our success in adding new types of valves, such as large diameter high pressure valves used in power stations, valves for nuclear power plants, and other large governmental water-pipe projects requiring supplies of 3.5 meter and up diameter valves also helped fuel demand for our products and contributed to the sales increase. Our sales from organic growth accounted for 22.6% of total sales growth while sales from our newly acquired companies accounted for 77.4% of total sales growth.

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

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

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

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

Cost of Sales. Our cost of sales is primarily comprised of the costs of our raw materials such as steel castings, components, labor and overhead. Our cost of sales increased $54.8 million, or 112.8% to $103.3 million in 2010 from $48.5 million in 2009. The cost of sales, as a percentage of sales revenue, increased from 50.9% in 2009 to 56.2% in 2010. The increase was in line with the increase in sales revenues and was also attributable to from higher labor and management costs of those newly acquired entities. The increase in cost of raw materials also contributed to an increase in cost of sales.

Gross Profit. Our gross profit is equal to the difference between our sales revenue and our cost of sales. Our gross profit increased $33.6 million, or 71.7% to $80.4 million in 2010 from $46.8 million in 2009. Gross profit as a percentage of net sales revenue decreased to 43.8% from 49.1% for the same period in 2009. The decrease in gross profit percentage was because the three recently acquired subsidiaries had lower overall gross profit percentage as the products sold by these subsidiaries during the period, such as gate valves and ball valves, had lower gross profit than that of the butterfly valves and high pressure valves sold by ZD Valve and Kaifeng Valve. In addition, the higher labor and management costs of the new subsidiaries resulted in higher fixed costs per unit and lower overall gross profit percentage. Furthermore, in 2010 the Company sold more medium to low pressure valves, which generally have lower selling prices, which also contributed to the decrease in gross profit percentage. The Company is currently standardizing production methodology and techniques at the new subsidiaries in order to optimize the new subsidiaries production capacity.

General and Administrative Expenses. Our general and administrative expenses, which consist primarily of related salaries and benefits, business development, travelling expenses, and legal and professional expenses, were $15.6 million for 2010, compared with $7.3 million for 2009, an increase of $8.3 million or approximately 112.8% .The increase is primarily due to increase in salary expense for the newly acquired subsidiaries, as well as the hire of more educated entry-level administrative and technologic personnel. Professional fees, travel expense and meal and entertainment expenses also increased due to various business acquisition activities. Depreciation expense increased as result of increased fixed asset purchases. General and administrative expenses as percentage of total revenue is 8.5% in 2010 as compared to 7.7% in 2009. The increase is primarily due to the increased expenses added by the recently acquired subsidiaries.

Selling Expenses. Selling expenses, which consist primarily of sales commission, advertising and promotion expenses, sales tax, freight charges and related compensation, were $10.4 million for 2010, compared with $6.3 million for 2009, an increase of $4.1 million or 64.8%, which was in line with the sales revenue increase. However, the implementation of the strengthened cost control policy and the setup of Headquarter of Sales and Marketing in Shanghai resulted in significantly improved marketing activities and brought in more large sales contracts with relatively lower sales and marketing expenses in 2010. The percentage of sales and marketing expenses as percentage of sales was 5.7%, compared to 6.6% in 2009.

Total Operating Expenses. Our total operating expenses increased $12.5 million, or 90.6%, to $26.3 million in 2010 from $13.8 million in 2009, which was in line with the sales revenue increase and mainly attributable to newly acquired subsidiaries.

Income Before Income Taxes. Income before income taxes increased $25.7 million, or 80.7%, to $57.6 million in 2010 from $31.9 million in 2009. Income before income taxes as a percentage of revenue decreased to 31.4% in 2010 from 33.5% in 2009.

Net Income. Net income increased $19.8. million, or 85.0%, to $43.2 million in 2010 from $23.4 million in 2009 as result of 92.6% increase in sales revenue and a lower effective income tax rate in 2010.

Foreign Currency Translation Gains

We had a foreign currency translation gain of $6.1 million in 2010 as compared with a $0.007 million currency translation loss in 2009. In July 2005, China reformed its foreign currency exchange policy and allowed the Renminbi to fluctuate as much as 0.3 percent per day against the U.S. dollar. We use period-end exchange rates in translating our assets and liabilities denominated in Renminbi into U.S. dollars and average exchange rates for the period to translate our income and expenses. At December 31, 2010, the period end exchange rate was RMB1 to US$0.1517 and the average exchange rate for 2010 was RMB1 to US$0.14760. At December 31, 2009, the period end exchange rate was RMB1 to US$0.1467 and the average exchange rate for 2009 was RMB1 to US$0.14661. RMB appreciated approximately 3.4% in 2010 in terms of the period-end exchange rate of 2010 compared with that of 2009.

Our sales revenue increased by RMB 594.1 million or 91.3% compared with the same period in 2009 and our operating expenses increased by RMB 86.0 million or 91.4% compared with the same period in 2009. As the Renminbi appreciated against the U.S. dollar during the period, our reported sales revenues and operating expenses were affected, increasing 92.6% and 90.6%, respectively, in U.S. dollar terms, as follows:

	Year Ended December 31,									
(in million)	2010			2009			Change		%	
	US$	*Average Rate*	*RMB*	*US$*	*Average Rate*	*RMB*	*US$*	*RMB*	*US$*	*RMB*
Revenue	183.7	0.14760	1,244.6	95.4	0.14661	650.5	88.3	594.1	92.6%	91.3%
Total operating expenses	26.3	0.14760	178.2	13.8	0.14661	94.2	12.5	84.0	90.6%	89.2%

Allowance for Doubtful Debts

Our trade receivables net of allowance for doubtful accounts were $84.1 million as of December 31, 2010, an increase of $51.8 million, or 160.2%, from $32.3 million as of December 31, 2009. Our allowance for doubtful accounts totaled $998,739 as of December 31, 2010, compared with $908,338 at December 31, 2009.

The increase in our trade receivables was mainly due to recently acquired subsidiaries. Generally we consider a trade receivable as a doubtful account if it remains uncollected for more than one year from the due date or as specific events occurred to our customers which may require us to reserve allowance even if trade balance is below one year. Our allowance for doubtful debts accounts for an insignificant portion of the receivable balance in spite of the increasing trade receivable balance throughout the reporting periods because we have improved our account receivables collections. Many of our customers have long business relationships with us and good settlement histories. In the absence of significant bad debt experience, we consider the existing provisioning policy as adequate.

Liquidity and Capital Resources

As of December 31, 2010, we had cash and cash equivalents of $25.8 million and restricted cash of $1.2 million. The following table provides summarized information about our net cash flow for 2010 and 2009.

	Years Ended December 31,			
	2010		**2009**	
	(dollars in thousands)			
Net cash provided (used in) by operating activities	$	17,193	$	25,083
Net cash used in investing activities		(30,599)		(25,730)
Net cash provided (used in) by financing activities		24,219		(1,476)
Effect of foreign currency translation on cash and cash equivalents		523		180
Net (decrease) increase in cash and cash equivalents		11,336		(1,943)
Cash and cash equivalents, beginning of year		14,485		16,428
Cash and cash equivalents, end of year	$	25,821	$	14,485

Operating Activities

In the fiscal year ended December 31, 2010, our net cash flow provided by operating activities was $17.2 million, a decrease of $7.9 million from the net cash flow provided by operating activities of $25.1 million for the same period in 2009. This is attributed to an increase of accounts receivables of $49.6 million which offsets a strong increase of net profit of $19.8 million compared with 2009.

Investing Activities

Our main uses of cash for investing activities are for acquisitions of other companies, which the three acquisitions were closed with cash paid by $25.6 million in 2010. Also we spend another $4.3 million on the acquisition of plant and equipment as well as on building improvements. Net cash used in investing activities in 2010 was $30.6 million, as compared with $25.7 million in 2009.

Financing Activities

Net cash provided by financing activities in 2010 totaled $24.2 million. On January 5, 2010, we completed a registered direct offering of our common shares to certain accredited investors resulting in $23.9 million in net proceeds.

Our debt to equity ratio was 0.26 as of December 31, 2010 as compared to 0.24 as of December 31, 2009. We believe we have greatly improved our company s position by decreasing our borrowings. We plan to maintain our debt to equity ratio at the ratio as of December 31, 2010.

As of December 31, 2010, the maturities for our bank loans are all below one year.

We believe that we maintain good relationships with the banks we deal with and our current available working capital, after receiving the aggregate proceeds of the capital raising activities and bank loans, should be adequate to sustain our operations at our current levels through at least the next twelve months.

Capital Expenditures

Our capital expenditures in 2010 and 2009 are set forth below. Our capital expenditures were used primarily for plant construction and purchases of equipment to expand our production capacity.

	Years Ended December 31,			
	2010		2009	
	(in thousands)			
Construction costs	$	590	$	7,178
Purchase of equipment	$	3,710	$	2,560
Advance on equipment & construction fee	$	125	$	655
Total capital expenditure	$	4,425	$	10,393

Our depreciation and amortization expense for the years ended December 31, 2010 and 2009, and the income statement line items in which it is included, was as follows:

	Years Ended December 31,			
	2010		2009	
	(in thousands)			
Cost of goods sold	$	1,928	$	945
General and administrative expenses	$	2,942	$	1,011
Total depreciation and amortization expense	$	4,870	$	1,956

Obligations under Material Contracts

We did not have any long-term debt obligations, capital commitments, purchase obligations or other long-term liabilities as of December 31, 2010.

Business Combinations

On January 13, 2010, the Company acquired the assets of Yangzhou Rock Valve Lock Technology Co., Ltd. for a total cash consideration of $7.2 million. Yangzhou Valve designs, manufactures and distributes interlock valves, valve block devices, magnetic valves, and mechanical interlocking machines.

In February 2010, the Company acquired all the equity interests in Able Delight (Changsha) Valve Co, Ltd., formerly an indirect subsidiary of Watts Water Technologies, Inc. (Watts), for a purchase price of $12.12 million plus certain assumed obligations and acquisition expenses of $2.81 million, or an aggregate expenditure of approximately $15 million. Changsha Valve was purchased from Able Delight Investment, Ltd., which had acquired Changsha Valve from Watts in January 2010 with $6.07 million from funds loaned to it by the Company. The Company directly paid the balance of $8.93 million to other parties as disclosed in 8ka released on November 18, 2010. Able Delight Investment, Ltd. had been formed in November 2009 by Qing Lu, the wife of Bin Li, a 34% stockholder of the Company, in order to facilitate the Company s purchase of Changsha Valve. The Company s purchase price included the discharge of the loan, payments to certain of Watt s subsidiaries, and certain other financial obligations of Changsha Valve. Changsha Valve is a manufacturer of butterfly and other valves used by hydro, thermal and nuclear power plants and in water and sewage treatment applications.

On April 8, 2010, the Company acquired from certain unaffiliated individuals the two entities that were owners of the joint venture that in turn owned Shanghai Pudong Hanwei Valve Co., Ltd. (Hanwei Valve), together with certain intangible assets used in the operation of Hanwei Valve, for an aggregate of $19.5 million. Hanwei Valve is a manufacturer of various valve products and the sole producer in China of the fully-welded ball valve used in long distance gas pipelines and the 24-way rotary valve used in the petrochemical industry.

The acquisitions of Yangzhou Valve, Changsha Valve and Hanwei Valve contributed, in the aggregate, $68.4 million to the Company s 2010 sales revenues, representing 37.2% of such revenues, and contributed significantly to the Company s 85.0% increase in net income for 2010.

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 U.S. 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 delivery for domestic sales when risk of loss and title passes to the customer. For international sales, the revenue recognition criteria are generally satisfied under Free on Board (FOB) terms, in which the Company s responsibility ends once the goods clear the port of shipment.

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 24 months, to guarantee product quality. Historically, the Company has experienced insignificant 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.

The Company also provides services to some of its sales agents and distributors. The Company recognizes revenue on these services once a contract is signed and the services have been rendered.

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 Kaifeng Valve, ZD Valve, Taizhou Taide Valve, Yangzhou Valve, Changsha Valve and Hanwei 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 $12,230,406 and $ 6,151,902 as of December 31, 2010 and 2009, respectively. The balance sheet amounts with the exception of equity at December 31, 2010 and 2009 were translated at 6.59 RMB and 6.82 RMB to $1.00 USD, respectively. The average translation rates applied to income and cash flow statement amounts for the year ended December 31, 2010 and 2009 were 6.78 RMB and 6.82 RMB to $1.00, respectively.

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. 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.

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. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended December 31, 2010 and 2009. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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 December 31, 2010 and December 31, 2009, 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, Hong Kong and United States. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of December 31, 2010 and 2009, the Company s cash and restricted cash balances, totaling $26,596,872 and $14,505,745, 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 suppliers represented approximately 24% and 17% of the Company s total purchases for the years ended December 31, 2010 and 2009, respectively. Five customers accounted for 9% and 11% of total sales as of December 31, 2010 and 2009 respectively.

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 Company adopted SFAS No. 157, Fair Value Measurements on January 1, 2008. SFAS No. 157 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and payables qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. 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 USD; because the Company s functional currency is the RMB, 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 Kaifang Commercial Bank in 1997. These long term investments are carried at the lower of cost or market value and amounted to $790,572 and $764,515 as of December 31, 2010 and December 31, 2009, respectively. 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.

Long-lived Assets

Long lived assets, including buildings and improvements, equipment and intangible assets are reviewed if events and changes in circumstances indicate that its carrying amount may not be recoverable, to determine whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of depreciation and amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. For the year-ended December 31, 2010, the Company impaired long lived assets in the amount of $1,341,962, which were included in cost of goods sold.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized, but is instead tested for impairment. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles in the United States of America. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The Company performs its annual impairment review of goodwill every year at December 31 and when a triggering event occurs between annual impairment tests. No impairment loss was recorded for the year ended December 31, 2010.

Stock Based Compensation

The Company applies Statement of Financial Accounting Standards on 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 the standard and the "Accounting for Equity Instruments that are issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services" standard, as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured. The standard allows the simplified method to determine the term of employee options when other information is not available.

Recently issued accounting pronouncements

In January 2010, FASB issued ASU No. 2010-02 regarding accounting and reporting for decreases in ownership of a subsidiary. Under this guidance, an entity is required to deconsolidate a subsidiary when the entity ceases to have a

controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, and entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. This ASU clarifies the scope of the decrease in ownership provisions, and expands the disclosures about the deconsolidation of a subsidiary or de-recognition of a group of assets. This ASU is effective for beginning in the first interim or annual reporting period ending on or after December 31, 2009. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements
In January 2010, FASB issued ASU No. 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51. If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company adopted this standard and the adoption of this standard did not have material effect on the Company s consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU. However, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements, or ASU 2010-09. ASU 2010-09 primarily rescinds the requirement that, for listed companies, financial statements clearly disclose the date through which subsequent events have been evaluated. Subsequent events must still be evaluated through the date of financial statement issuance; however, the disclosure requirement has been removed to avoid conflicts with other SEC guidelines. ASU 2010-09 was effective immediately upon issuance and was adopted in February 2010.

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, or ASU 2010-13. ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of ASU 2010-17 to have a significant impact on its consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update 2010-17, Revenue Recognition Milestone Method (Topic 605): Milestone Method of Revenue Recognition or ASU 2010-17. This Update provides guidance on the recognition of revenue under the milestone method, which allows a vendor to adopt an accounting policy to recognize all of the arrangement consideration that is contingent on the achievement of a substantive milestone (milestone consideration) in the period the milestone is achieved. The pronouncement is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those years, beginning on or after June 15, 2010. The adoption of ASU 2010-17 does not have any significant impacts on the consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This update amends codification topic 310 on receivables to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. This guidance is being phased in, with the new disclosure requirements for period end balances effective as of

December 31, 2010, and the new disclosure requirements for activity during the reporting period are effective March 31, 2011. The troubled debt restructuring disclosures in this ASU have been delayed by ASU 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, which was issued in January 2011.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend Intangibles- Goodwill and Other (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances changes that would more likely than not reduce the faire value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic 805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expected the adoption of this ASU will have an impact on its future business combinations.

Off-Balance Sheet Arrangements

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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not required.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA

The full text of our audited consolidated financial statements as of December 31, 2010 and 2009 begins on page F-1 of this Annual Report on Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL

DISCLOSURES.

We were notified that, effective January 1, 2010, certain partners of MSWFT and Frost, PLLC (Frost) formed Frazer Frost, LLP (Frazer Frost), a new partnership. Pursuant to the terms of a combination agreement by and among MSWFT, Frazer Frost and Frost (the Combination Agreement), MSWFT and Frost each contributed substantially all of their assets and certain of their liabilities to Frazer Frost, resulting in Frazer Frost assuming MSWFT s engagement letter with us and becoming our new independent accounting firm. Frazer Frost is registered with the Public Company Accounting and Oversight Board (PCAOB).

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, Mr. Jianbao Wang and Mr. Gang Wei, 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. Wang and Mr. Wei concluded that because of the material weakness in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2010, to satisfy the objectives for which they are intended.

(b) Management s annual report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of, our chief executive officer and chief financial officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

During our assessment of the effectiveness of internal control over financial reporting as of December 31, 2010, our management identified material weakness related to the following:

Control Environment - The Company s control environment did not sufficiently promote effective internal control over financial reporting. Specifically, the Company did not conduct a comprehensive risk assessment during the year with all of its major transactions. In addition, the lack of oversight from top management also results in incomplete disclosure on its acquisitions.

Accounting and Finance Personnel Weaknesses US GAAP expertise. Our current accounting staff is relatively new and inexperienced, and needs substantial training to meet the higher demands of being a U.S. public company. The accounting skills and understanding necessary to fulfill the requirements of U.S. GAAP-based reporting, including the skills of subsidiary financial statements consolidation, are inadequate and were inadequately supervised. The lack of sufficient and adequately trained accounting and finance personnel resulted in ineffective top level review and analysis of year-end evaluation of the Company s inventory and AR allowance.

As disclosed in our Management's Annual Report on Internal Control over Financial Reporting filed with the 2009 Form 10-K, the Company's management has identified the steps necessary to address the material weaknesses described above and in 2010, we continued to implement these remedial procedures.

1. Hire, as needed, additional US GAAP experienced accounting and operations personnel and outside contractors with technical accounting expertise and reorganized the accounting and finance department to ensure that accounting personnel with adequate experience, skills and knowledge relating to complex, non-routine transactions are directly involved in the review and accounting evaluation of our complex, non-routine transactions.

2. Involve, as needed, both internal accounting and operations personnel and outside contractors with technical accounting expertise early in the evaluation of our complex, non-routine transaction to obtain additional guidance as to the application of generally accepted accounting principles to such a proposed transaction.

3. Require that our senior accounting personnel and the principal accounting officer review our complex, non-routine transactions to evaluate and approve the accounting treatment for such transactions. We will also consult experts in the event that transaction is beyond our comprehension.

4. We are currently documenting and implementing internal control over financial reporting, however, as of December 31, 2010, we did not have sufficient time to remediate all deficiencies identified in order to render current year s internal control over financial reporting effective. We will continue monitor and improve controls over financial reporting in the coming year.

Our management is not aware that the material weakness in our internal control over financial reporting causes them to believe that any material inaccuracies or errors existed in our financial statement as of December 31, 2010. The reportable conditions and other areas of our internal control over financial reporting identified by us as needing improvement have not resulted in a material restatement of our financial statements. Nor are we aware of any instance where such reportable conditions or other identified areas of weakness have resulted in a material misstatement or omission in any report we have filed with or submitted to the Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management remains committed to improving its internal controls and will continue to work to put effective controls in place. The Company is actively recruiting staff with good knowledge of U.S. GAAP to assist in the Company s financial reporting.

The Company s independent public accounting firm has audited and issued a report on the Company s internal control over financial reporting which is included in this Annual Report on Form 10-K and incorporated by reference herein.

(c) Changes in internal control over financial reporting

Except as described above, there were no changes in our internal controls over financial reporting during our fiscal year ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of China Valves Technologies, Inc

We have audited China Valves Technologies, Inc. s and Subsidiaries (the Company s) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment.

<u>*Control Environment -*</u> The Company s control environment did not sufficiently promote effective internal control over financial reporting. Specifically, the Company did not conduct a comprehensive risk assessment during the year with all of its major transactions. In addition, the lack of oversight from top management also result in incomplete disclosure on its acquisitions. These control deficiencies by themselves do not directly result in a material misstatement to the financial statements; however, deficiencies in the control environment are pervasive in nature.

Accounting and Finance Personnel Weaknesses US GAAP expertise. The Company s current accounting staff is relatively new and inexperienced, and needs substantial training to meet the higher demands of being a U.S. public company. The accounting skills and understanding necessary to fulfill the requirements of U.S. GAAP-based reporting, including the skills of subsidiary financial statements consolidation, are inadequate and were inadequately supervised. The lack of sufficient and adequately trained accounting and finance personnel resulted in ineffective top level review and analysis of year-end evaluation of the Company s inventory and AR allowance This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2010 financial statements, and this report does not affect our report dated March 16, 2011 on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related statements of income and other comprehensive income, shareholders equity, and cash flows of the Company, and our report dated March 16, 2011 expressed an unqualified opinion on those financial statements.

/s/ Frazer Frost, LLP

Brea, California

March 16, 2011

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table sets forth the names, ages, and positions of our executive officers and directors as of March 11, 2011. Executive officers are elected annually by our Board of Directors. Each executive officer holds his office until he resigns, is removed by the Board, or his successor is elected and qualified. Directors are elected annually by our stockholders at the annual meeting. Each director holds his office until his successor is elected and qualified or his earlier resignation or removal.

NAME	AGE	POSITION
Siping Fang	58	President, Chairman and Secretary
Jianbao Wang	42	Chief Executive Officer
Gang Wei	36	Chief Financial Officer
Zengbiao Yu	56	Director
Peter Li	47	Director
William Haus	48	Director
Zhiming Wang	70	Chief Engineer
Qizhong Xiang	63	Chief Technology Officer
Binjie Fang	38	Chief Operating Officer and Director

Siping Fang, Chairman, Chairman and Secretary

Mr. Fang has over 20 years of experience in the valve industry. In 2001, Mr. Fang established ZD Valve and was appointed as President and CEO of that company. In 2003, Mr. Fang acquired state-owned enterprise High Pressure Valve and was appointed as President and CEO of the company. Mr. Fang has been responsible for making strategic decisions on major corporate issues and directing the operations and market expansion of both companies. In 2007, Mr. Fang became our CEO after the reverse acquisition of China Valve Samoa.

Mr. Fang possesses particular knowledge and experience in the valve industry that strengthen the Board s collective qualifications, skills, and experience. His demonstrated capabilities in leading, growing and guiding our Company provide the Board with a key understanding of the Company, its culture, its personnel, and its strengths and weaknesses. These capabilities combined with his prior business and managerial experience strengthen the Board s collective qualifications, skills, and experience and make him qualified to lead the Company s Board.

Jianbao Wang, Chief Executive Officer

Mr. Wang was appointed as our CEO on October 8, 2010. Mr. Wang has been General Manager of the Company since July 2009 and has played an integral part in completing and integrating three acquisitions for the Company, as well as improving the Company's management and business processes. Prior to working for the Company, between August 2007 and June 2009 Mr. Wang served as President of the Asia Pacific Region at Globe Turbocharger Specialties Inc., the exclusive global Original Equipment Manufacturer for ALCO turbochargers and parts, where he, among other accomplishments, developed the company's supply chain and sales force in Asia. From July 2002 to August 2007, Mr. Wang served as International Purchasing Manager of the Asia Pacific Region for KSB AG, a German public company, for which he established three Greenfield operations in Dalian, Shanghai and Zhengjiang, formed the company's regional purchasing office and reorganized procurement flow.

Before that, Mr. Wang had approximately ten years of work experience at Siemens Pump and Compressor Co. Ltd. and Changzhou Electric Traction Motor Works ("CETMW"), of which he spent a year and a half at the headquarters of Pakistan Railway as chief representative for CETMW. Mr. Wang received his bachelor's degree majoring in hydraulic and pneumatic technology from Xi'an Jiaotong University in July 1992 and received a diploma majoring in executive commerce and management from Nanjing University of Science and Technology in January 1999. Mr. Wang completed his EMBA program and received a master's degree from the Cheung Kong Graduate School of Business in August 2010.

Gang Wei, Chief Financial Officer

Mr. Wei was appointed as our CFO on December 16, 2010. Mr. Wei was Chief Financial Advisor of State Grid International Development Limited from February 2010 to December 2010, which is a subsidiary of State Grid Corporation of China, where he served as a key management member to help State Grid acquire transmission business at Brazil and copper mining business at Chile. He was also responsible for financial reporting, financial planning and analysis, budgeting and treasury management. From September 2007 to February 2010, Mr. Wei was European Regional Controller and Treasury Accounting Manager for EMEA and America of Brambles Limited at London, a global business service group headquartered in Sydney, Australia that operates in over 45 countries and is listed on the ASX under the ticker symbol BRB. Among other responsibilities, he managed the financial reporting and financial control function for a number of entities located in the region. He was also responsible for performance management, treasury management and risk control. From June 2005 to September 2007, Mr. Wei served as Senior Group Accountant and Senior Accounting Manager at Kazakhmys PLC, a FTSE 100 company headquartered in London that operates in mining, natural resources, energy and manufacturing. From February 2001 to September 2002, Mr. Wei was Chief Financial Officer of Coastal Industrial Group. Between November 1997 and January 2001, Mr. Wei worked as Finance Manager for China Laurel Group. Mr. Wei earned a doctorate degree in Finance from Cardiff Business School of Cardiff University in the UK. He is a member of CPA of China Mainland and Hong Kong, fellow member of ACCA, and charter holder of CFA.

Zengbiao Yu, Director

Mr. Yu has been working as a professor and a Ph.D. tutor for Tsinghua University since 1999. Mr. Yu is currently the vice president of Management Accounting Section of Accounting Society of China, director of Chinese Costing Association, independent director of Zhongyuan Special Steel Co., Ltd. and CNHTC Jinan Truck Co.,Ltd . In addition, he is a member of Editorial Advisory and Review Board of the *IMA Educational Case Journal* in U.S.A. As a PhD student, Mr. Yu had been educated jointly by the University of Illinois at Urbana-Champaign (UIUC) and Xiamen University (XU), and received his doctorate from XU in 1993. He had been Dean of Business School and Head of Accounting Department of Hebei University for more than 3 years. He was awarded Certificates of High Attainment from UIUC in 1991 and recognized as an outstanding accountant by the Ministry of Finance of PRC in 1995. He is author of more than 80 papers and 10 books on financial and managerial accounting.

Mr. Yu possesses extensive knowledge and experience in accounting and finance. Mr. Yu s background, knowledge and achievements bring important value to the Board, as well as to the Audit Committee, and strengthens the Board s collective qualifications, skills, and experience.

William Haus, Director

Mr. William Haus has extensive experience in business and finance for public companies as well as China-based companies. Since August 2008, Mr. Haus has been the CEO and director of CS China Acquisition Corporation, a special purpose acquisition corporation focused on effecting a business combination with a China-based private company. Over the past eight years, Mr. Haus has worked in a variety of roles in analyzing companies and evaluating companies as potential investments. From September 2005 to May 2008, Mr. Haus was the Analyst for The Pinnacle Fund & The Pinnacle China Fund, both of which are hedge funds focused on investment opportunities in the United States and China. Between April 2005 and September 2005, he was the Senior Vice President and Equity Research Analyst for Healthcare Information Technology and Pharmaceutical Outsourcing, Stanford Group Company, a securities brokerage firm. From March 2000 to March 2005, Mr. Haus was the Senior Equity Research Analyst for Healthcare Information Technology and Pharmaceutical Outsourcing, Advest, Inc., a securities brokerage firm. Mr. Haus graduated from the State University of New York College at Fredonia with a B.S. in business administration and a B.A. in economics and received a Master of Business Administration from Boston University. He is a Chartered Financial Analyst (CFA) and member of the CFA Institute. Mr. Haus is also independent director of China Nutrifruit Group Limited, a food products producer, listed on NYSE Amex.

Mr. Haus s experiences in investment roles and in senior management at several companies, including U.S. listed companies, that do business in China and the United States provides relevant insight and a breadth of knowledge and experience that strengthen the Board s collective qualifications, skills, and experience.

Peter Li, Director

Peter Li brings more than 15 years experience of corporate financial management, investor relationship management, corporate strategy and internal controls. Peter Li is the CFO of Hollysis Automation Technologies Ltd. (NASDAQ: HOLI) since February 2009. Since August 2008, Mr. Li has been a co-founder and director of CS China Acquisition Corp., an OTCBB listed company engaged in seeking a business combination with a Chinese operating company. Since June 2008, he has also been an independent director and audit committee chairman for Yuhe International Inc., an OTCBB listed company in the broiler breeding business in China. Mr. Li is also a senior advisor to Yucheng Technologies, Ltd., a leading IT service provider to the banking industry in China. Between October 2004 and November 2006, Mr. Li was the CFO of Beijing Sihitech Technology Co. which merged to form Yucheng Technologies, Ltd. Prior to his tenure at Beijing Sihitech Technology Co., Mr. Li worked in corporate financial management with various companies, including the role of Internal Controller at Lenovo. Mr. Li graduated from Beijing Foreign Studies University with a B.A. and received a Master of Education from the University of Toronto. Mr. Li is a Certified General Accountant in Ontario, Canada.

Mr. Li s vast experience has provided him with in-depth knowledge of publicly listed companies in the United States. He also brings an understanding of investor relations, SEC reporting, and the perspective of the investment community. Mr. Li s knowledge and other professional experience have given him particular knowledge and experience that strengthen the Board s collective qualifications, skills, and experience.

Zhiming Wang, Chief Engineer

Mr. Wang has over 45 years experience in the valve industry. He joined the Company as Chief Engineer in May 2010 when he sold Shanghai Hanwei Valves Co. Ltd. to the Company in April 2010. Before he founded Shanghai Hanwei Valves Co. Ltd in December 1992, Mr. Wang worked for Shanghai Lianggong Valves Co. Ltd. from July 1966. He worked as technician, engineer, senior engineer, director of nuclear power office and chief engineer at Shanghai Lianggong during the period from July 1966 to December 1992. Mr. Wang had been granted a number of patents and national and local awards due to his significant contribution to the valve industry in China. Mr. Wang graduated from Shanghai Industry University in June 1966 with a B.S.

Qizhong Xiang, Chief Technology Officer

Since 1998, Mr. Xiang has been working in various positions for the Company s subsidiary ZD Valve as a valve engineer, vice president of marketing and director of research and development. Prior to joining the Company, Mr. Xiang was a valve engineer for Hong Cheng Co. Ltd.

Binjie Fang, Director

Mr. Fang was appointed as a director and became the Chief Operating Officer of the Company in 2007. Between September 1995 and January 2005, he was the head of the operations and human resource departments of ZD Valve, a subsidiary of the Company His major responsibilities included managing daily operations and human resource related issues. From January 2005 to the present, Mr. Fang has been the general manager of ZD Valve. His major responsibilities include supervising company operations in various aspects and managing marketing and business development activities. Mr. Fang possesses significant knowledge and experience in the valve industry. His knowledge and experience strengthens the Board s collective qualifications, skills, and experience.

Board Composition and Committees

The Board of Directors is currently composed of five members: Siping Fang, Binjie Fang, William Haus, Peter Li and Zengbiao Yu. We currently have standing audit, corporate governance and nominating, and compensation committees.

Our audit committee comprises Peter Li, William Haus and Zengbiao Yu. Peter Li serves as the chairman of the audit committee. The audit committee is primarily responsible for reviewing the services performed by our independent auditors, evaluating our accounting policies and our system of internal controls. Mr. Li serves as our audit committee financial expert as that term is defined by the applicable SEC rules.

The corporate governance and nominating committee comprises William Haus, Peter Li and Zengbiao Yu with Mr. Yu as the chairman. The committee is primarily responsible for nominating directors and setting policies and procedures for the nomination of directors. The committee is also responsible for overseeing the creation and implementation of our corporate governance policies and procedures.

The compensation committee comprises Peter Li, William Haus and Zengbiao Yu with William Haus as the chairman. The compensation committee is primarily responsible for reviewing and approving our compensation and benefit policies, including compensation of executive officers.

Independent Directors

Our Board is currently composed of five members, three of which, Peter Li, William Haus and Zengbiao Yu, are independent as that term is defined by Rule 4200(a)(15) of the NASDAQ listing standards.

Policy Regarding Board Attendance

Our directors are expected to attend Board meetings as frequently as necessary to properly discharge their responsibilities and to spend the time needed to prepare for each such meeting. Our directors are expected to attend annual meetings of stockholders, but we do not have a formal policy requiring them to do so.

Family Relationships

Mr. Binjie Fang is the son of Mr. Siping Fang. Other than otherwise disclosed, there are no other family relationships between any of our directors or executive officers.

Involvement in Certain Legal Proceedings

None of our directors or executive officers has, during the past ten years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offences);

- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;
- been found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26)), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29)), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Section 16(A) Beneficial Ownership Reporting Compliance

Under U.S. securities laws, directors, certain executive officers and persons holding more than 10% of our common stock must report their initial ownership of the common stock, and any changes in that ownership, to the SEC. The SEC has designated specific due dates for these reports.

Code of Ethics

On September 9, 2009, our board of directors adopted a new code of ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The new code replaces our prior code of ethics that applied only to our principal executive officer, principal financial officer, principal accounting officer or controller and any person who performed similar functions, and addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, regulations and policies, including disclosure requirements under the federal securities laws, confidentiality, trading on inside information, and reporting of violations of the code. A copy of the Code of Ethics can be found on our website www.cvalve.com . China Valves, please make sure it was uploaded on the website.

Item 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning all compensation awarded to, earned by or paid to the following persons for services rendered in all capacities during 2010 and 2009: Siping Fang, who became our President and Chief Executive Officer when we completed the reverse acquisition. No other executive officers received total compensation in excess of $150,000 in any fiscal year.

Total

Name and Principal Position	Year	Salary	($)
Siping Fang, President, and Director	2010	$ 100,000	$ 100,000
	2009	$ 100,000	$ 100,000
Jianbao Wang, Chief Executive Officer	2010	$ 147,600	$ 147,600
	2009	$ 73,305	$ 73,305
Gang We, Chief Financial Officer (1)	2010	$ 0	$ 0
	2009	$ 0	$ 0

(1) Mr. Wei formally joined the Company on January 1, 2011.

Bonuses and Deferred Compensation

We do not have any bonus, deferred compensation or retirement plan.

Options and Stock Appreciation Rights

We do not currently have a stock option or other equity incentive plan.

Employment Contracts

On December 16, 2010, the Company and Mr. Wei entered into an employment agreement (the "Employment Agreement"), which is effective as of December 16, 2010 (the "Effective Date") and will expire on December 16, 2015 (the "Employment Period"). The Employment Agreement provides, among other things, that Mr. Wei's base salary will be RMB75,000 per month after personal income tax (approximately $11,232). Additionally, within three months of the Effective Date, upon approval of the board of directors of the Company, the Company will grant Mr. Wei options to purchase 500,000 shares of the Company's common stock at the price of $10.31 per share or the lower price when the board approves. Mr. Wei may exercise options to purchase 260,000 shares on the first anniversary of his employment with the Company, and 30,000 share every three months after the first anniversary. The Employment Agreement contains covenants prohibiting Mr. Wei from competing with the Company during the Employment Period and for three years after the Employment Period. The Employment Agreement also prohibits Mr. Wei from disclosing any confidential information of the Company.

Payment of Post-Termination Compensation

The Company does not have change-in-control agreements with any of its executive officers, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

Director Compensation

The following table sets forth all compensation awarded to, earned by or paid to the directors in 2010:

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Total
Zengbiao Yu	$ 24,167	N/A	N/A	$ 24,167
Siping Fang	N/A	N/A	N/A	N/A
Binjie Fang	N/A	N/A	N/A	N/A
Peter Li	$ 20,000	N/A	N/A	$ 20,000
William Haus	$ 30,000	N/A	N/A	$ 30,000

Zengbiao Yu was appointed director effective as of January 30, 2008. We entered into an independent director indemnification agreement with Zengbiao Yu, pursuant to which he is entitled to $17,000, as annual compensation for the services to be provided as an independent director, and as chairperson of various board committees, as applicable. Under the terms of the indemnification agreement, we agreed to indemnify the independent director against expenses, judgments, fines, penalties or other amounts actually and reasonably incurred by the independent director in connection with any proceeding if the independent director acted in good faith and in our best interests. It is our practice to reimburse our directors for reasonable travel expenses related to attendance at board of directors and committee meetings.

On November 22, 2008, the Company appointed Peter Li and William Haus as new directors of the Company to fill the vacancies created by Huifeng Chen and Renrui Tang s resignations from the board on the same day. We entered into separate independent director agreements with Peter Li and William Haus.

Mr. Li s agreement is effective as of November 22, 2008 for a term of two years. Under the terms of Mr. Li s agreement, the Company agreed to pay Mr. Li a monthly fee of $1,000, as compensation for the services to be provided by him as a director of the Company. The Company also agreed to grant a non-qualified stock option to Mr. Li for the purchase of 22,500 shares of common stock of the Company at an exercise price of $8.00. One third of the options (or 7,500 shares) will vest on November 22, 2009. The remaining options will vest in eight equal quarterly installments (or 1,875 shares each installment) over a two-year period in every quarter after November 22, 2009. The stock option expires in five years. Mr. Li s agreement also contains customary confidentiality and non-compete provisions.

The agreement with Mr. Haus became effective on December 1, 2008 and was revised on June 29, 2009. Under the terms of Mr. Haus agreement, the Company agreed to pay Mr. Haus a monthly fee of $2,000, as compensation for the services to be provided by him as a director of the Company. The Company also agreed to grant 5,000 shares of common stock to Mr. Haus on June 29, 2009. On June 29, 2009, the Company agreed to grant a non-qualified stock option to Mr. Haus for the purchase of 27,500 shares of common stock of the Company at an exercise price of $6.00. The stock option expires on June 28, 2014. Mr. Haus agreement also contains customary confidentiality and non-compete provisions.

On October 8, 2010, the Compensation Committee and the Board approved to increase the compensation for Mr. Li, Mr. Yu and Mr. Haus to $5,000 a month.

The stock options granted to Mr. Li and Mr. Haus have not yet been issued as of December 31, 2010. The restricted common shares granted to Mr. Haus was issued on February 2, 2011.

Mr. Siping Fang and Mr. Binjie Fang are paid in their capacity as executive officers of the Company and they do not receive any additional compensation for their service as directors.

Limitation of Liability and Indemnification of Officers and Directors

Our bylaws provide for the indemnification of our present and prior directors and officers or any person who may have served at our request as a director or officer of another corporation in which we own shares of capital stock or of which we are a creditor against expenses actually and necessarily incurred by them in connection with the defense of any actions, suits or proceedings in which they, or any of them, are made parties, or a party, by reason of being or having been director(s) or officer(s) of us or of such other corporation, in the absence of negligence or misconduct in the performance of their duties. This indemnification policy could result in substantial expenditure by us, which we may be unable to recoup.

Insofar as indemnification by us for liabilities arising under the Securities Exchange Act of 1934 may be permitted to our directors, officers and controlling persons pursuant to provisions of the Articles of Incorporation and Bylaws, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy and is, therefore, unenforceable. In the event that a claim for indemnification by such director, officer or controlling person of us in the successful defense of any action, suit or proceeding is asserted by such director, officer or controlling person, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

At the present time, there is no pending litigation or proceeding involving a director, officer, employee or other agent of ours in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS.

The following table sets forth certain information regarding our common stock $0.001 par value, beneficially owned on March 11, 2011, for (i) each shareholder known to be the beneficial owner of 5% or more of our outstanding common stock, (ii) each of our officers and directors, and (iii) all executive officers and directors as a group.

Unless otherwise specified, the address of each of the persons set forth below is in care of China Valves Technology, Inc., No. 93 West Xinsong Road, Kaifeng , Henan Province, China 475002.

Name & Address of Beneficial Owner	Office, if Any	Amount & Nature of Beneficial Ownership (1)	Percent of Class (2)
	Officers and Directors		
Siping Fang	President and Chairman	0	*
Jianbao Wang	Chief Executive Officer	0	
Gang Wei	Chief Financial Officer	0	
Binjie Fang	Chief Operating Officer and Director	0	*
Qizhong Xiang	Chief Technology Officer	0	*

Zhiming Wang	Chief Engineer	0	
William Haus 5700 Henry Cook Blvd. Suite #6333, Plano, TX 75024-4542	Director	5,000	*

Peter Li C/O CS China Acquisition Corp. 4100 N. E. Second Avenue, Miami, FL 33137	Director	0	*
Zengbiao Yu Director		0	*
All officers and directors as a group (9 persons named above)		5,000	0%
	5% Securities Holder		
Bin Li 1165 Rugglestone Way, Duluth, GA 30097		12,583,032	34.31%
SAM Sustainable Asset Management Ltd.		2,904,121	7.92%
Bin Fang		2,275,000	6.20%

* Less than 1%.

[1] Beneficial ownership is determined in accordance with the rules of the Commission and includes voting or investment power with respect to the ordinary shares.

[2] A total of 36,669,654 shares of our common stock as of March 11, 2011 are considered to be outstanding pursuant to the Commission Rule 13d-3(d)(1). For each beneficial owner above, any options exercisable within 60 days have been included in the denominator.

Changes in Control

There are no arrangements known to us, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Transactions with Related Persons

The following includes a summary of transactions since the beginning of 2010, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds $120,000, and in which any related person had or will have a direct or indirect material interest (other than compensation described under Executive Compensation). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were no less favorable to the Company than the terms available or the amounts that would be paid or received, as applicable, in arm's-length transactions.

The Company had the following significant related party transactions as of December 31, 2010 and 2009, respectively:

	December 31, 2010	December 31, 2009
Accounts Receivable related party; receivable from Zhengzhou tonghai Trade	$ 200,185	$ -
Other receivable related party: receivable from Zhengzhou Tonghai Trade, unsecured, interest-free.	152,179	-
Purchase deposit related party, High Pressure Valve Co.	917,202	385,066
Accounts payable related party	(2,382,906)	-
Other payable - related parties: cash advance from officers, unsecured, interest-free, due upon demand	(1,899,627)	(1,891,870)
Total	$ (3,012,967)	$ (1,506,804)

The Company purchases raw material, such as castings, from the Casting Company. Total raw material purchase from related party amounted to $12,384,382 and $4,401,499 for the years ended December 31, 2010 and 2009, respectively. Total valve sales to the Casting Company amounted for $168,566 and $0 for the years ended December 31, 2010 and 2009, respectively.

The Company also makes finished goods purchases and sales to/from a related party -Zhengzhou Tonghai Trade Co., Ltd, which is established by a Sales officer of the Company. Total valve purchases from Zhengzhou Tonghai Trade Co., Ltd amounted to $4,614,791 and $25,762 for the years ended December 31, 2010 and 2009, respectively. Total valve sales to Zhengzhou Tonghai Trade Co., Ltd amounted to $473,108 and $0 for the years ended December 31, 2010 and 2009, respectively.

ZD Valve leased its manufacturing plant and office space from ZhengZhou Cheng Long Corporation, a related party. ZD Valve made leasehold improvements to its leased manufacturing plant in the amount of $615,260, which is used as rental payments for the following two years. As of December 31, 2010, prepaid rental of $254,760 remains to be amortized as rental expense.

Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

Director Independence

Our Board is currently composed of 5 members, of which Zengbiao Yu, Peter Li and William Haus are independent as that term is defined under the NASDAQ listing standards.

All actions of the board of directors require the approval of a majority of the directors in attendance at a meeting at which a quorum is present. Our directors have a duty of to act in good faith with a view to our interests. In fulfilling their duty of care to us, our directors must ensure compliance with our Certificate of Incorporation. During 2009, our board met four times and no director missed any meetings of the board.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Frazer Frost LLP, (Frazer Frost) are the Company s independent PCAOB registered public accounting firm and were engaged to examine the Company s consolidated financial statements for the fiscal years ended December 31, 2010 and 2009.

Audit Fees. Frazer Frost was paid aggregate fees of approximately $383,368 and $325,891 for the fiscal years ended December 31, 2010 and 2009, respectively, for professional services rendered for the audit of our annual financial statements.

Tax Fees. Frazer Frost was paid $10,000 for the fiscal year ended December 31, 2010 for professional services rendered for tax compliance and $7,000 was paid for the fiscal year ended December 31, 2009.

All Other Fees . Frazer Frost was paid no other fees for professional services during the fiscal years ended December 31, 2010 and 2009.

Board of Directors Pre-Approval Policies and Procedures

Our Board of Directors has adopted the policy to pre-approve audit and permissible non-audit services provided by our independent auditors.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT AND SCHEDULES.

(a) The following documents are filed as part of this Report:

(1) Financial Statements are set forth beginning on page F-1 of this Report

Section 1.	Report of Independent Registered Public Accounting Firm	F-2
Section 2.	Consolidated Balance Sheets	F-3
Section 3.	Consolidated Statements of Income and Other Comprehensive Income	F-4
Section 4.	Consolidated Statement of Stockholders Equity	F-5
Section 5.	Consolidated Statements of Cash Flows	F-6
Section 6.	Notes to Consolidated Financial Statements	F-7-F-25

(2) Financial Statement Schedules: All Schedules are omitted because the information called for is not applicable, is not required, or

because the financial information is set forth in the financial statements or notes thereto.

(3) Exhibits

Exhibits (Including Those Incorporated By Reference).

Exhibit Index

Exhibit No.	Description
2.1	Share Exchange Agreement, dated December 18, 2007, among the Company, the stockholders of the Company, China Valves and the China Valves Shareholder (incorporated herein by reference to Exhibit 2.1 to the registrant s current report on Form 8-K filed on December 21, 2007).
3.1	Articles of Incorporation of the Company as filed with the Secretary of State of Nevada on August 1, 1997 (incorporated herein by reference to Exhibit 3.1 to the SB-2 Registration Statement filed on November 1, 2001)
3.2	Certificate of Amendment to Certificate of Incorporation changing the corporate name filed with the Secretary of State of Nevada (incorporated herein by reference to Exhibit 3.2 to the registrant s current report on Form 8-K filed on December 21, 2007).
3.	3 Bylaws of the registrant, as amended to date, (incorporated herein by reference to Exhibit 3.2 to the SB-2 Registration Statement filed on November 1, 2001).
3.4	Certificate to Accompany Restated Articles or Amended and Restated Articles of China Valves Technology, Inc. (incorporated herein by reference to Exhibit 3.1 to the registrant s current report on Form 8-K filed on July 30, 2009.
4.1	Form of warrants, (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 31, 2009).
4.2	Form of warrants, (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 29, 2009).
10.1	Form of Securities Purchase Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.2	Form of Registration Rights Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 4.1 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.3	Escrow Agreement, dated August 26, 2008, by and among the Company, Brean Murray, Carret & Co., LLC, The Pinnacle Fund, LLC, Pinnacle China Fund, LLC and Escrow, LLC. (incorporated herein by reference to Exhibit 10.4 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.4	Form of Holdback Escrow Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.2 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.5	Form of Make Good Escrow Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.3 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.6	Form of Lockup Agreement, dated August 26, 2008 by and between the Company and the stockholders listed therein (incorporated herein by reference to Exhibit 4.2 to the registrant s current report on Form 8-K filed on

	August 27, 2008).
10.7	Form of Warrant (incorporated herein by reference to Exhibit 4.3 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.8	English version of Agreement for Transfer of Land Use Right and Housing Titles, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.5 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.9	English version of Premises Lease Agreement, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.6 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.10	English version of Premises Leaseback Agreement, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.7 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.11	English version of Manufacturing and Supply Agreement, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.9 to the registrant s current report on Form 8-K filed on August 27, 2008).

10.12	Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (Incorporated by reference to Exhibit 10.2 to the Company s current report on Form 8-K filed on December 27, 2009)
10.13	Amendment Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 30, 2009 (incorporated herein by reference to Exhibit 10.3 to the registrant s current report on Form 8-K filed on December 31, 2009.)
10.14	Form of Securities Purchase Agreement (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 29, 2009)
10.15	Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (incorporated herein by reference to Exhibit 10.2 to the registrant s current report on Form 8-K filed on December 29, 2009)
10.16	Asset Purchase Agreement, dated as of February 15, 2009, by and between Taizhou Taide Valve Co., Ltd. and Taizhou Wote Valve Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on April, 21, 2009).
10.17	Amendment to Registration Rights Agreement, dated March 4, 2009, among China Valves Technology, Inc. and the purchasers identified therein. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on March 9, 2009).
10.18	English Translation of Asset Purchase Agreement, dated January 13, 2010, by and among Henan Tonghai Fluid Equipment Co., Ltd., Guichun Xie, Lizhen Huang and Lanzhou Sufa Technology Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on January 19, 2010)
10.19	English Translation of Asset Purchase Agreement, dated February 3, 2010, by and between China Fluid Equipment Limited and Able Delight Investment Limited. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on February 8, 2010)
10.20	English translation of Asset Transfer Agreement, dated as of April 8, 2010, by and among Henan Tonghai Fluid Equipment Co., Ltd., Shanghai Pudong Hanwei Valve Co., Ltd., Shanghai Hanhuang Valve Co., Ltd. and Hong Kong Hanxi Investment Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on April 9, 2010)
10.21	English translation of Loan Agreement by and between China Fluid Equipment Holdings Limited and Able Delight Investment Limited, dated December 10, 2009. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K/A filed on November 18, 2010)
10.22	English Translation of Employment Agreement with Gang Wei dated December 15, 2010 (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 16, 2010).
21	List of Subsidiary *
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a 14(a). *
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a 14(a). *
32.1	Certification of Chief Executive Officer, 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 Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

* filed herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA VALVES TECHNOLOGY, INC.

March 16, 2011	By *:/s/ Jianbao Wang*
(Date Signed)	Jianbao Wang, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

Each person whose signature appears below hereby authorizes Siping Fang as attorney-in-fact to sign on his behalf, individually, and in each capacity stated below, and to file all amendments and/or supplements to this annual report on Form 10-K.

Signature	Capacity	Date
/s/ Siping Fang Siping Fang	President, Director	March 16, 2011
/s/ Jianbao Wang Jianbao Wang	Chief Executive Officer (Principal Executive Officer)	March 16, 2011
/s/ Gang Wei Gang Wei	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 16, 2011
/s/ Peter Li Peter Li	Director	March 16, 2011
/s/ William Haus William Haus	Director	March 16, 2011
/s/ Zengbiao Yu Zengbiao Yu	Director	March 16, 2011
/s/ Binjie Fang Binjie Fang	Chief Operating Officer and Director	March 16, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of China Valves Technologies, Inc

We have audited the accompanying consolidated balance sheets of China Valves Technologies, Inc and Subsidiaries (the Company) as of December 31, 2010 and 2009, and the related statements of income and other comprehensive income, shareholders equity, and cash flows for each of the years in the two-year period ended December 31, 2010. The Company s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2011 expressed an adverse opinion on the Company s internal control over financial reporting because of material weaknesses.

/s/ Frazer Frost, LLP

Brea, CA

March 16, 2011

CHINA VALVES TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009

ASSETS

	December 31, 2010	December 31, 2009
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,820,607	$ 14,485,408
Restricted cash	1,164,598	1,047,389
Notes receivable	2,815,939	414,193
Accounts receivable, net of allowance for doubtful accounts of $998,739 and $908,338 as of December 31, 2010 and 2009, respectively	84,147,126	32,341,042
Accounts receivable - related party	200,185	-
Other receivables	3,176,648	4,481,610
Other receivables - related parties	152,179	-
Inventories, net	16,251,938	9,246,801
Advances on inventory purchases	1,094,670	1,321,914
Advance on inventory purchases - related party	917,202	385,066
Prepaid expenses	104,593	246,046
Rental prepayment - short-term	254,760	307,630
Total current assets	136,100,445	64,277,099
PLANT AND EQUIPMENT, net	40,773,562	28,468,866
OTHER ASSETS:		
Accounts receivable - retainage, long term	4,751,605	1,523,395
Deposits for acquisition	-	13,215,650
Advances on equipment purchases	108,435	654,931
Rental prepayment - long-term	-	307,630
Long-term receivable	-	440,100
Goodwill	32,955,163	20,811,767
Intangibles, net	23,027,880	9,639,180
Other investments, at lower of cost or market	790,572	764,515
Total other assets	61,633,655	47,357,168
Total assets	$ 238,507,662	$ 140,103,133

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2010	December 31, 2009
CURRENT LIABILITIES:		
Accounts payable - trade	$ 19,530,341	$ 6,953,499
Accounts payable - related party	2,382,906	-
Short-term loans	5,648,794	5,048,246
Short-term loans - related parties	-	184,517
Other payables	3,405,201	2,662,930
Other payables - related party	1,899,627	1,707,353
Notes payable	-	733,500
Accrued liabilities	2,825,560	2,033,626
Customer deposits	6,499,833	3,325,906
Taxes payable	6,828,118	2,293,346
Warrant liabilities	880,565	1,730,837

Total current liabilities		49,900,945		26,673,760
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY:				
Common stock, $0.001 par value; 300,000,000 shares authorized; 34,664,654 shares and 31,727,212 shares issued and outstanding as of December 31, 2010 and 2009, respectively		34,663		31,726
Additional paid-in-capital		96,433,317		70,534,943
Statutory reserves		10,046,713		5,534,575
Retained earnings		69,861,618		31,176,227
Accumulated other comprehensive income		12,230,406		6,151,902
Total shareholders' equity		188,606,717		113,429,373
Total liabilities and shareholders' equity	$	238,507,662	$	140,103,133

See report of independent registered public accounting firm.

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 YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
REVENUE	$	$
Revenue	183,077,333	95,370,012
Related party revenue	618,793	-
Total Revenue	183,696,126	95,370,012
COST OF GOODS SOLD	103,276,910	48,527,336
GROSS PROFIT	80,419,216	46,842,676
EXPENSES:		
Selling expense	10,414,293	6,317,766
General and administrative	15,563,906	7,312,439
Research and development	228,858	126,750
Stock compensation expense	56,019	47,057
Total Operating Expenses	26,263,076	13,804,012
INCOME FROM OPERATIONS	54,156,140	33,038,664
OTHER (INCOME) EXPENSE :		
Other income, net	(669,462)	(510,692)
Gain from acquisition	(3,714,840)	-
Interest and finance expense, net	100,997	128,518
Change in fair value of derivative instruments	785,350	1,508,997
Total Other (Income) Expense, net	(3,497,955)	1,126,823
INCOME BEFORE PROVISION FOR INCOME TAXES	57,654,095	31,911,841
PROVISION FOR INCOME TAXES	14,456,566	8,558,748
NET INCOME	43,197,529	23,353,093
OTHER COMPREHENSIVE INCOME		
Foreign currency translation gain (loss)	6,078,504	(7,075)
COMPREHENSIVE INCOME	$ 49,276,033	$ 23,346,018
BASIC EARNINGS PER SHARE:		
Weighted average number of shares	34,547,224	30,771,356
Basic earnings per share	$ 1.25	$ 0.76
DILUTED EARNINGS PER SHARE:		
Weighted average number of shares	34,695,639	30,946,392
Diluted earnings per share	$ 1.25	$ 0.75

See report of independent registered public accounting firm.

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	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, 2008	31,192,552	$ 31,192	$ 66,935,968	$ (9,834,000)	$ 2,958,659	$ 10,399,050	$ 6,158,977	$ 76,649,846
Cashless exercise of warrants	201,326	201	755,811					756,012
Release of shares in escrow related to common stock issued for real estate acquisition				9,834,000				9,834,000
Stock based compensation			47,057					47,057
Common stock issuance for cash at $9.00	333,334	333	2,796,107					2,796,440
Net income						23,353,093		23,353,093
Adjustment to statutory reserve					2,575,916	(2,575,916)		-
Foreign currency translation adjustment							(7,075)	(7,075)
BALANCE, December 31, 2009	31,727,212	$ 31,726	$ 70,534,943	$ -	$ 5,534,575	$ 31,176,227	$ 6,151,902	$ 113,429,373
Exercised warrants	523,329	523	5,304,103					5,304,626
Stock compensation			56,019					56,019
Common stock issuance for cash at $9.00	2,414,113	2,414	20,538,252					20,540,666
Net income						43,197,529		43,197,529
Adjustment to statutory reserve					4,512,138	(4,512,138)		-
Foreign currency translation adjustment							6,078,504	6,078,504

BALANCE, December 31, 2010	34,664,654	$	34,663	$	96,433,317	$	-	$	10,046,713	$	69,861,618	$	12,230,406	$ 188,606,717

See report of independent registered public accounting firm.

The accompanying notes are an integral part of these statements.

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CHINA VALVES TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 43,197,529	$ 23,353,093
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	4,167,004	1,694,675
Amortization	703,168	261,050
Bad debt provision (recovery)	57,836	(254,963)
Loss on disposal of fixed assets	343,333	87,876
(Gain) from acquisition	(3,662,704)	(252,183)
Stock compensation cost	56,019	47,057
Change in fair value of warrant liabilities	785,350	1,508,997
Inventory allowance	681,989	432,707
Change in operating assets and liabilities:		
Restricted cash due to sales covenant	(923,572)	(113,814)
Notes receivable	(2,323,098)	465,721
Accounts receivable and retainage	(49,609,832)	(5,040,954)
Other receivables and other receivables-related parties	1,704,875	455,396
Inventories	1,376,219	1,563,708
Advance on inventory purchases	264,940	(213,271)
Advance on inventory purchases-related party	(490,053)	981,778
Prepaid expenses	137,706	(185,647)
Long term receivable	442,800	(57,513)
Accounts payable-trade and accounts payable - related party	12,491,821	322,728
Other payables and other payables - related parties	1,314,478	(1,552,141)
Accrued liabilities	(1,005,589)	317,514
Customer deposits	2,959,823	196,078
Taxes payables	4,522,913	1,065,354
Net cash provided by operating activities	17,192,955	25,083,246
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of intangible assets	(573,142)	(1,524,071)
Advance on equipment purchases	(124,895)	(654,530)
Purchases of plant and equipment	(3,709,966)	(9,738,815)
Addition to construction in progress	(590,032)	-
Proceeds from sale of equipment	4,927	11,729
Advance on lease	-	(614,882)
Cash paid for business acquisitions	(25,606,289)	-
Investment deposit	-	(13,209,395)
Net cash used in investing activities	(30,599,397)	(25,729,964)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash due to covenant	105,616	57,162
Restricted cash due to notes payable	738,000	2,199,183
Other payables-related party financing related	-	(471,648)

Repayment of notes payable	(1,033,200)	(2,199,150)
Proceeds from short term debt	4,018,346	3,232,751
Repayments of short term loan	(3,391,577)	(6,982,848)
Repayments of short term loans-related parties	(100,310)	(161,782)
Proceeds from equity financing	23,881,858	-
Proceeds from private placement financing	-	2,850,000
Net cash provided by (used in) financing activities	24,218,733	(1,476,332)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	522,908	180,575
INCREASE (DECREASE) IN CASH	11,335,199	(1,942,475)
CASH and CASH EQUIVALENTS, beginning	14,485,408	16,427,883
CASH and CASH EQUIVALENTS, ending	$ 25,820,607	$ 14,485,408
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 127,113	$ 302,058
Cash paid for income taxes	$ 11,961,017	$ 8,020,771
Additional Non-cash investing and financing activities		
Cashless exercise of warrants	$ 231,500	$ 756,012
Common stock issued for real estate acquisition	$ -	$ 9,834,000
Long-term prepayment transferred to construction-in-progress	$ -	$ 2,001,733

See report of independent registered public accounting firm.

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

Note 1 – Organization

China Valves Technology, Inc., (the “Company”), was 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”). The Company’s operations are headquartered in Zhengzhou, Henan Province, PRC.

RECENT DEVELOPMENTS

On January 13, 2010, the Company through its 100% indirectly owned subsidiary, Henan Tonghai Fluid Equipment Co, Ltd acquired 100% of Yangzhou Rock Valve Lock Technology Co. Ltd., or Yangzhou Rock. Yangzhou Rock became an operating subsidiary. See Note 16- business combinations for details.

On February 3, 2010, the Company through its 100% directly owned subsidiary, China Fluid Equipment Holdings Limited ("China Fluid") acquired 100% of Watts (Changsha) Valve (“Changsha Valve”). Changsha Valve became an operating subsidiary. See Note 16- business combinations for details.

On April 8, 2010, the Company through its 100% directly owned subsidiary, China Fluid Equipment Holdings Limited (“China Fluid”) acquired 100% of Shanghai Pudong Hanwei Valve Co., Ltd ("Hanwei Valve"). See Note 16 – business combination for details.

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	Ownership	Principle business
China Valves Technology (Changsha) Valve Co., Ltd	PRC	100% Indirectly	Manufacturing
Yangzhou Rock Valve Lock Technology Co., Ltd.	PRC	100% Indirectly	Manufacturing
Henan Kai Feng High Pressure Valve Co., Ltd.	PRC	100% Indirectly	Manufacturing
Zhengzhou City ZhengDie Valve., Ltd.	PRC	100% Indirectly	Manufacturing
Tai Zhou Tai De Valve Co., Ltd.	PRC	100% Indirectly	Manufacturing
Shanghai Pudong Hanwei Valve Co., Ltd.	PRC	100% Indirectly	Manufacturing
Henan Tonghai Fluid Equipment Co., Ltd.	PRC	100% Indirectly	Holding Company
Shanghai Han Huang Investment Co., Ltd.	PRC	100% Indirectly	Holding Company
Hong Kong Han Xi Co., Ltd.	Hong Kong		

		100% Indirectly	Holding Company
China Valves Technology Holdings Co. (formerly China Fluid Equipment Holdings Limited)	Hong Kong	100% Directly	Holding Company

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The results of operations of the three acquired entities, Yangzhou Rock, Changsha Valve and Hanwei Valve, are included in the consolidated statement of income since the acquisition dates in accordance to the acquisition method in ASC 805.

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 and other comprehensive 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.

The Renminbi (RMB) of the Peoples Republic of China has been determined to be the Companys functional currency. The balance sheets were translated at year end exchange rates. Expenses were translated at moving average exchange rates in effect during the periods. The effects of rate changes on assets and liabilities are recorded as accumulated other comprehensive income.

PRINCIPLES OF CONSOLIDATION

China Valves Technology Inc. is a holding company which conducts its business through its operating subsidiaries. The consolidated financial statements include the accounts of the Company and the Companys wholly indirectly owned subsidiaries. All intercompany transactions have been eliminated. The results of companies acquired during the year are included in the consolidated financial statements from the effective date of acquisition.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with US GAAP requires the Company 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; the allowance for doubtful accounts; the fair value determination of financial and equity instruments, realizability of inventories; the recoverability of goodwill, intangible assets, land use rights, plant and equipment; and accruals for income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

REVENUE RECOGNITION

The Companys revenue recognition policies are in accordance with U.S. 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 delivery for domestic sales when risk of loss and title passes to the customer. For international sales, the revenue recognition criteria are generally satisfied under Free on Board (FOB) terms, in which the Companys responsibility ends once the goods clear the port of shipment.

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 Companys 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 24 months, to guarantee product quality. Historically, the Company has experienced insignificant 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.

The Company also provides services to some of its sales agents and distributors. The Company recognizes revenue on these services once a contract is signed and the services have been rendered.

WARRANTIES

The Company typically warranty all of its products and provide replacement or credit to its customers who are not satisfied with the products for a period of one year from the date of shipment. The Company has not established reserve funds for potential customer claims because, historically, the Company has not experienced significant customer complaints about its products. The Company believes that its customer support teams, quality assurance team and manufacturing monitoring procedures will continue to keep claims at a level that does not support a need for a reserve. The Company reviews customer returns on a monthly basis and may establish a reserve when necessary.

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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 $1,131,575 and $386,929 for the years ended December 31, 2010, and 2009, respectively.

ADVERTISING

Advertising costs are expensed as incurred and totaled $153,159 and $36,834 for the years ended December 31, 2010, and 2009, 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 is the Chinese Renminbi (RMB).

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 December 31, 2010 and 2009 were translated at 6.59 RMB and 6.82 RMB to $1.00. The average translation rates applied to the statements of operations and cash flows for the years ended December 31, 2010 and 2009 were 6.76 RMB and 6.82 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 patents, software and land use rights. Patents and software are subject to amortization. Patents are being amortized over 5-20 years as management believes those are 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 - 50 years. Software is amortized over 10 years, its estimated useful life.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized, but is instead tested for impairment. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles in the United States of America. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The Company performs its annual impairment review of goodwill every year at December 31 and when a triggering event occurs between annual impairment tests. No impairment loss was recorded for the year ended December 31, 2010.

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LONG-LIVED ASSETS

Long lived assets, including buildings and improvements, equipment and intangible assets are reviewed if events and changes in circumstances indicate that its carrying amount may not be recoverable, to determine whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of depreciation and amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. For the year-ended December 31, 2010, the Company impaired long lived assets in the amount of $1,341,962, which were included in cost of goods sold.

INVENTORIES

The Company values its inventories 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.

RETIREMENT BENEFIT COSTS

Amounts payable to 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. 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.

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. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended December 31, 2010 and 2009. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of 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.

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RESTRICTED CASH

The Company□s restricted cash consists of cash in the bank as security for its product shipments, notes payable, government required housing fund, and cash held in 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. Restricted cash amounted to $ 1,164,598 and $1,047,389 as of December 31, 2010 and December 31, 2009, respectively.

	December 31, 2010	December 31, 2009
Deposit for notes payable issued	$ -	$ 733,500
Cash held in escrow account	-	105,616
Employee housing fund	153,278	-
Cash held for sales covenants	1,011,320	208,273
Total restricted cash	$ 1,164,598	$ 1,047,389

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, Hong Kong and United States. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of December 31, 2010 and December 31, 2009, the Company□s cash and restricted cash balances, totaling $26,596,872 and $14,505,745 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, including a related party, represented approximately 24% and 17% of the Company□s total purchases for the years ended December 31, 2010 and 2009, respectively. Five major customers represented approximately 9% and 11% of the Company□s total sales for the years ended December 31, 2010 and 2009.

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 companys own stock, and the accounting standard regarding determining whether an instrument (or embedded feature) is indexed to an entitys 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 Companys 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 issuers own stock and thus able to qualify for this accounting standard scope exception. All warrants issued by the Company are denominated in USD; because the Companys functional currency is the RMB, 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.

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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 13.

	Carrying Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Other investments	$ 790,572			$ 790,572
Warrant liabilities	$ 880,565			$ 880,565

Except for the warrant liabilities and other 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.

Level 3 Valuation Reconciliations:

	Warrant liabilities
Balance, December 31, 2009	$ 1,730,837
Issuance of new warrants	165,296
Exercised warrants reclassified to APIC	(1,800,918)
Reclassified of forfeited warrant	(3,801)
Current year fair value change of exercised warrants	767,113
Current year fair value change	22,038
Balance, December 31, 2010	$ 880,565

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.

OTHER INVESTMENTS

The Company invested in China Perfect Machinery Industry Co., Ltd. in 1996 and Kaifeng Commercial Bank in 1997. The Company owns approximately 0.07% of China Perfect Machinery Industry Co. Ltd. and approximately 0.82% 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 and $790,572 and $764,515 as of December 31, 2010 and December 31, 2009, respectively.

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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 the Company's proportionate share of the net book value of the investee. As of December 31, 2010, 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 December 31, 2010 and December 31, 2009, customer deposits amounted to $6,499,833 and $3,325,906, respectively.

STOCK COMPENSATION

The Company applies the accounting standard regarding accounting for stock 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2010, FASB issued ASU No. 2010-02 regarding accounting and reporting for decreases in ownership of a subsidiary. Under this guidance, an entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, and entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. This ASU clarifies the scope of the decrease in ownership provisions, and expands the disclosures about the deconsolidation of a subsidiary or de-recognition of a group of assets. This ASU is effective for beginning in the first interim or annual reporting period ending on or after December 31, 2009. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company adopted this standard and the adoption of this standard did not have material effect on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU. However, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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In February 2010, the FASB issued Accounting Standards Update 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements, or ASU 2010-09. ASU 2010-09 primarily rescinds the requirement that, for listed companies, financial statements clearly disclose the date through which subsequent events have been evaluated. Subsequent events must still be evaluated through the date of financial statement issuance; however, the disclosure requirement has been removed to avoid conflicts with other SEC guidelines. ASU 2010-09 was effective immediately upon issuance and was adopted in February 2010.

In April 2010, the FASB issued Accounting Standards Update 2010-13, CompensationStock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, or ASU 2010-13. ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entitys equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of ASU 2010-17 to have a significant impact on its consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update 2010-17, Revenue RecognitionMilestone Method (Topic 605): Milestone Method of Revenue Recognition or ASU 2010-17. This Update provides guidance on the recognition of revenue under the milestone method, which allows a vendor to adopt an accounting policy to recognize all of the arrangement consideration that is contingent on the achievement of a substantive milestone (milestone consideration) in the period the milestone is achieved. The pronouncement is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those years, beginning on or after June 15, 2010. The adoption of ASU 2010-17 does not have any significant impacts on the consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This update amends codification topic 310 on receivables to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. This guidance is being phased in, with the new disclosure requirements for period end balances effective as of December 31, 2010, and the new disclosure requirements for activity during the reporting period are effective March 31, 2011. The troubled debt restructuring disclosures in this ASU have been delayed by ASU 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, which was issued in January 2011.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend Intangibles- Goodwill and Other (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances changes that would more likely than not reduce the faire value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic 805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expected the adoption of this ASU will have an impact on its future business combinations.

Note 3 Accounts receivable

Accounts receivable consists of the following:

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	December 31, 2010	December 31, 2009
Total accounts receivable	$ 89,897,470	$ 34,772,775
Accounts receivable related party	200,185	-
Allowance for bad debts	(998,739)	(908,338)
Accounts receivable, net	89,098,916	33,864,437
Accounts receivable non-current retainage	(4,751,605	(1,523,395)
Accounts receivable (including related party) current	$ 84,347,311	$ 32,341,042

Retainage represents portion payments held by customers pending quality inspection ranging from 12-24 months after shipment of products. As of December 31, 2010 and December 31, 2009, retainage held by customers included in the Company's accounts receivable is as follows:

	December 31, 2010	December 31, 2009
Retainage		
Current	$ 7,754,714	$ 2,409,971
Non-current	4,751,605	1,523,395
Total retainage	$ 12,506,319	$ 3,933,366

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

	December 31, 2010	December 31, 2009
Balance, beginning of the period	$ 908,338	$ 1,163,457
Additions to the reserve	353,036	-
Recovery of amounts previously reserved	(295,200)	(254,963)
Foreign currency translation adjustment	32,565	(156)
Balance, end of the period	$ 998,739	$ 908,338

Note 4 Inventories, net

	December 31, 2010	December 31, 2009
Raw materials	$ 4,742,642	$ 2,497,225
Work-in-progress	3,764,667	1,398,973
Finished goods	7,810,526	5,783,576
Semi-finished products	1,082,765	
Total	17,440,600	9,679,774
Less: Inventory Allowance	(1,148,663)	(432,973)
Inventory, net	$ 16,251,937	$ 9,246,801

The Company values its inventories at the lower of cost or market, determined on a weighted average method, or net realizable value. As of December 31, 2010, management determined the carrying amount of inventory exceeded net realizable value; therefore, $1,859,681 had been written down and included in cost of goods sold. There were no write down of inventory due to lower of cost or market as of December 31, 2009.

Management reviews inventories for obsolescence and slow moving at least annually and records an additional inventory allowance of $715,690 for the year-ended December 31, 2010. Inventory allowance for the year ended December 31, 2009 amounted to $432,973.

See report of independent registered public accounting firm.

Note 5 Plant and equipment, net

Plant and equipment consist of the following:

	December 31, 2010	December 31, 2009
Buildings and improvements	$ 22,043,897	$ 14,219,087
Machinery and equipment	26,569,403	19,932,240
Motor vehicles	2,701,563	2,125,653
Office equipment	1,473,776	782,764
Construction in progress	497,652	1,299,471
Total	53,286,291	38,359,215
Less: Accumulated depreciation	(12,512,729)	(9,890,349)
Plant and equipment, net	$ 40,773,562	$ 28,468,866

The Company has no major capital commitment as of December 31, 2010. Depreciation expense was $4,167,004 and $1,694,675 for the years ended December 31, 2010 and 2009, respectively. Capitalized interest amounted to $60,152 and $147,537 for the years ended December 31,2010and 2009, respectively.

For the year-ended December 31, 2010, the Company impaired long lived assets in the amount of $1,341,962, which were included in cost of goods sold.

Note 6 Goodwill

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 Company acquired 100% of Hanwei Valve with a total cash consideration of approximately $19.5 million on April 8, 2010. The fair value of the assets of Hanwei Valve was valued at approximately $8.5 million on the acquisition date; the Company recognized approximately $11.0 million goodwill through the said acquisition.

The Company accounts for business combinations using the purchase method of accounting. The total consideration paid in an acquisition is allocated to the fair value of the acquired companys identifiable assets and liabilities. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The goodwill recognized in conjunction with the acquisition of Hanwei Valve represents intangible values that Hanwei Valve has built over its more than 16 years of history, which do not qualify for separate recognitions, or other factors. These values include but are not limited to:

i) Expected synergies from combining operations of the Companys operating subsidiaries and Hanwei Valve;

ii) The experienced work force;

iii) Proprietary technologies related to certain products

iv) The proprietary manufacturing processes.

As of December 31, 2010 and December 31, 2009, the carrying value of goodwill amounted to $ 32,955,163 and $20,811,767, respectively.

The following table reconciles the beginning and ending balance of goodwill:

	Goodwill
Balance, December 31, 2009	$ 20,811,767
Goodwill purchased	11,046,074

Foreign currency translation adjustment		1,097,322
Balance, December 31, 2010	$	32,955,163

See report of independent registered public accounting firm.

Note 7 - Intangible assets, net

Intangible assets consist of the following:

	December 31, 2010	December 31, 2009
Patents	$ 2,682,719	$ 62,256
Software	2,014,267	1,598,280
Land use rights*	19,417,596	8,330,649
Total	24,114,582	9,991,185
Less: Accumulated amortization	(1,086,702)	(352,005)
Intangibles, net	$ 23,027,880	$ 9,639,180

* Land use rights consist of land use rights of $792,998 acquired as part of the acquisition of Taide Wote Valve; $1,095,486 was acquired as part of the acquisition of Yangzhou Rock Lock Valve, $5,921,094, acquired as part of the acquisition of Able Delight (Changsha) Valve,$3,786,432 acquired as part of the acquisition of Hanwei Valve and land use rights of $7,821,586 transferred from the Casting Company under the escrow agreement by issuing 2,750,000 shares of common stock.

The gross amount of the intangible assets amounted to $24,114,582 and $9,991,185 as of December 31, 2010 and December 31, 2009, respectively. The remaining weighted average amortization period is 39 years.

Amortization expense was $703,168 and $261,050 for the years ended December 31, 2010 and 2009, respectively.

The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

Years ended,	**Estimated Amortization Expense**	**Net carrying Amount**
2011	$ 703,168	$ 22,324,712
2012	703,168	21,621,544
2013	703,168	20,918,376
2014	703,168	20,215,208
2015	703,168	19,512,040
Thereafter	19,512,040	-
Total	$ 23,027,880	

Note 8 – Loans

SHORT TERM LOANS:	December 31, 2010	December 31, 2009
Communications bank of China, Changsha branch Due December 2011, annual interest at 6.116% Citic bank, Zhengzhou branch	$ 758,500	$ -
Due December 2011 and 2010 annual interest at 6.672%, and 5.841%, guaranteed by Kaifeng Cast Iron Co., Ltd.	3,034,000	2,934,000
Unrelated third parties, non-secured, ranging from non-interest bearing to annual interest at 10.00%, due on demand	1,017,393	1,302,995
Local Bureau of Finance, Kaifeng City. no expiration date and unsecured	838,901	811,251
Total short term loans	$ 5,648,794	$ 5,048,246

Total interest incurred for the years ended December 31, 2010 and 2009 amounted to $127,113 and $138,562, respectively, Capitalized interest amounted to $60,152 and $147,537 for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010, there are no restrictive covenants related to the loans stated above.

Note 9 - Taxes

Income Taxes

The Company and its subsidiaries file separate income tax returns.

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The United States of America

The Company is incorporated in the State of Nevada in the U.S. and is subject to a gradual U.S. federal corporate income tax of 15% to 34%. The State of Nevada does not impose any corporate state income tax.

Hong Kong

The Company's subsidiaries, China Fluid and Hong Kong Hanxi are incorporated in Hong Kong. The subsidiaries did not earn any income that was derived in Hong Kong for the years ended December 31, 2010 and 2009 and therefore was not subject to Hong Kong Profit Tax. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

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, the Company does not have any deferred tax assets or deferred tax liabilities because there are no temporary differences between financial statement carrying amounts and the tax bases of existing assets and liabilities.

The Company's operating subsidiaries, High Pressure Valve, Zhengdie Valve Taizhou Wote, Yangzhou Rock Valve are all subject to an income tax at an effective rate of 25%. Changsha Valve is subject to an income tax at a reduced rate of 12.5%, which is the last year of tax benefit period before subjecting to a full 25% tax rate. Hanwei Valve is subject to an income tax at rate of 15%.

Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended December 31, 2010 and 2009.

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

	For the year ended, December 31, 2010	
	2010	2009
U.S. Statutory rate	34.0%	34.0 %
Foreign income not recognized in USA	(34.0)	(34.0)
China income taxes	25.0	25.0
(Non-taxable income) Non-deductible expenses (1)	7.1	1.8
China income tax exemption	(7.0)	-
Total provision for income taxes	25.1%	26.8 %

(1) This represents expenses incurred by the Company that are not deductible for PRC income tax purpose for the 12 months ended December 31, 2010 and 2009, respectively.

The Company has cumulative undistributed earnings of foreign subsidiaries of $87,296,411 as of December 31, 2010, is included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, 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.

<u>Value added tax</u>

VAT on sales and VAT on purchases in China amounted to $30,738,159 and $9,119,027 for the years ended December 31, 2010 and $14,902,035 and $5,870,603 for the years ended December 31, 2009, 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:

	December 31, 2010	December 31, 2009
VAT payable	$ 2,505,802	$ 732,106
Income tax payable	4,013,347	1,507,849
Other taxes and levies payable	308,969	53,391
Total taxes payable	$ 6,828,118	$ 2,293,346

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Note 10 Statutory reserves

The laws and regulations of the PRC 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.

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Companys 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 $26.3 million and $14.5 million as of December 31, 2010 and December 31, 2009, 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 11 - Commitments and contingencies

Lease Agreement

The Companys subsidiary, ZhengDie Valve entered into a lease agreement for a manufacturing plant and office space with ZhengZhou Cheng Long Corporation, a related party, from January 1, 2008 to December 31, 2008. The lease agreement was subsequently extended to December 31, 2012. In 2009, ZhengDie Valve made leasehold improvements to its leased manufacturing plant in the amount of $615,260, which is used as rental payments for the following two years. As of December 31, 2010, prepaid rental of $254,760 remains to be amortized as rental expense.

The Companys subsidiary, Tonghai entered into a lease agreement for an office space with Jia Hong Yao, an unrelated party, from September 20, 2009 to September 19, 2014 with annual lease payments of $29,273. In addition, Tonghai also entered into a lease agreement for a sales office space from July 10, 2010 to July 9, 2015 with annual payments of $214,746.

Total lease expense, including amounts included cost of sales, for the years ended December 31, 2010 and 2009 was $482,030 and $350,336, respectively.

The future minimum lease payments at December 31, 2010 are as follows:

		Amount
Year ending December 31, 2011		315,753
Year ending December 31, 2012		589,402
Year ending December 31, 2013		244,018
Year ending December 31, 2014		236,700
Year ending December 31, 2015		107,373
Total	$	1,493,246

Make Good Escrow Agreement

In connection with the Companys private placement on August 26, 2008, the Company entered into a Make Good Escrow Agreement, under which the 12,583,032 shares of the Companys common stock held by Bin Li, the Companys major shareholder, were placed in escrow. Of these shares, 12,150,000 are the subject of the Earn-In Agreement between Bin Li and Siping Fang 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 Bin Li, depending on the fulfillment of specified earnings targets. The specified earnings target for calendar 2008 was net income of $10,500,000, for calendar 2009 the target is net income of

$23,000,000 and fully diluted earnings per share of $0.738 and for calendar 2010 the target is net income of $31,000,000 and fully diluted earnings per share of $0.994. On August 14, 2009, the parties to the Make Good Escrow Agreement entered into an amendment pursuant to which for calendar 2009 the target was amended to $21,000,000 and fully diluted earnings per share of $0.668 and for calendar 2010 the target was amended to net income of $34,000,000 and fully diluted earnings per share of $1.082. The Company had met the specified earnings targets and accordingly, 4,194,344 shares were released from escrow and returned to Bin Li for each of the year ended December 31, 2009 and 2008, respectively. The Company has also met the specified earnings target for the year ended December 31, 2010, and thus 4,194,344 will be released from escrow after the Company has filed its December 31, 2010 annual 10K.

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Employment Contract

On December 16, 2010, the Company and Mr. Wei entered into an employment agreement (the "Employment Agreement"), which is effective as of December 16, 2010 (the "Effective Date") and will expire on December 16, 2015 (the "Employment Period"). The Employment Agreement provides, among other things, that Mr. Wei's base salary will be RMB75,000 per month after personal income tax (approximately $11,232). Additionally, within three months of the Effective Date, upon approval of the board of directors of the Company, the Company will grant Mr. Wei options to purchase 500,000 shares of the Company's common stock at the price of $10.31 per share or the lower price when the board approves the options. Mr. Wei may exercise options to purchase 260,000 shares on the first anniversary of his employment with the Company, and 30,000 share every three months after the first anniversary. As of December 31, 2010, the board of directors has not approved the grant of the options.

Contingency

On February 4, 2011, a plaintiff filed a purported class action naming the Company, its Chairman and certain present and former senior executives as defendants, asserting claims for certain violations of the securities laws and seeking unspecified damages. The complaint, which is styled Donald Foster, et al. v. China Valves Technology, Inc., et al., is currently pending in the U.S. District Court for the Southern District of New York. Substantially identical complaints, styled Donald London, et. al. v. China Valves Technology, Inc., et. al., and Elliott Greenberg, et. al. v. China Valves Technology, Inc. et al., were filed in the same court on February 17, 2011 and March 8, 2011, respectively. The complaints purport to assert claims on behalf of a purported class of persons and entities who purchased shares of the Company□s common stock at allegedly artificially high prices during the period between January 12, 2010 and January 13, 2011 and who suffered damages as a result of such purchases. The allegations in the complaints relate to the Company□s acquisitions of Changsha Valve and Hanwei Valve and include allegations regarding the Company□s financial statements and press releases. The complaints allege, among other things, that the Company□s statements about the nature and quality of the Company□s acquisition of Changsha Valve were materially false and misleading and that the Company□s statements failed to describe the role in the transaction of an alleged related party. In addition, the complaints allege that the Company□s statements about the Hanwei Valve acquisition were materially false and misleading because they failed to disclose the alleged involvement of certain related parties and allegedly misdescribed the transaction as a purchase of assets rather than as a purchase of an entity. The Company has not yet responded to any complaint, but intends to contest the allegations and to defend itself vigorously.

Note 12 □ Related party transactions

The Company had the following significant related party transactions as of December 31, 2010 and 2009, respectively:

		December 31, 2010		December 31, 2009
Accounts Receivable □ related party; receivable from Zhengzhou tonghai Trade	$	200,185	$	-
Other receivable □ related party: receivable from Zhengzhou Tonghai Trade, unsecured, interest-free.		152,179		-
Purchase deposit □ related party, High Pressure Valve Co.		917,202		385,066
Accounts payable □ related party		(2,382,906)		-
Other payable and short term loan - related parties: cash advance from officers, unsecured, interest-free, due upon demand		(1,899,627)		(1,891,870)
Total	$	(3,012,967)	$	(1,506,804)

On August 26, 2008, the Company□s wholly owned subsidiary High Pressure Valve and Kaifeng High-Pressure Valve Steel Casting Limited Liabilities Company entered into an Agreement for Transfer of Land Use Right and Housing for the transfer of certain real estate to High Pressure Valve. The Company placed 2,750,000 shares of common stock in escrow, 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. 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 the estimated useful lives. As a result of the transfer of the Real Estate on March 6, 2009, the Company recorded additional paid in capital of $9,834,000. 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. For the years ended December 31, 2010 and 2009, total rental income from the Casting Company amount to $400,000 and $300,391 respectively.

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The Company purchases raw material, such as castings, from the Casting Company. Total raw material purchase from related party amounted to $12.4 million and $4.4 million for the years ended December 31, 2010 and 2009, respectively. For the year ended 2010, the Company also sold a total of $0.15 million of valves to the Casting Company.

The Company also makes finished goods purchases and sales to/from a related party -Zhengzhou Tonghai Trade Co., Ltd, which is established by a Sales officer of the Company. Total valve purchases from Zhengzhou Tonghai Trade Co., Ltd amounted to $4.6 million and $0.02 million for the years ended December 31, 2010 and 2009, respectively. Total valve sales to Zhengzhou Tonghai Trade Co., Ltd amounted to $0.47 million and $0 for the years ended December 31, 2010 and 2009, respectively.

As discussed in note 11 above, the Companys subsidiary, ZhengDie Valve leases its manufacturing plant and office space from ZhengZhou Cheng Long Corporation, a related party. ZhengDie Valve made leasehold improvements to its leased manufacturing plant in the amount of $615,260, which is used as rental payments for the following two years. As of December 31, 2010, prepaid rental of $254,760 remains to be amortized as rental expense.

Note 13 Shareholders' equity

REGISTERED DIRECT OFFERING

On December 27, 2009, China Valves entered into a securities purchase agreement to sell a total of 333,334 shares of common stock, par value $0.001 per share, for an aggregate purchase price of $3,000,006 (gross purchase price). The Company received $2,796,440 in net proceeds. The share price is at $9.00 per share. The purchaser also received 50,000 shares of warrant shares at an exercise price of $9.00 (exercisable for 30 days beginning on the date of initial issuance of the Warrant).

On January 7, 2010, the Company entered another securities purchase agreement to sell a total of 2,414,113 shares of common stock, par value $0.001 per share for an aggregate purchase price of $21,727,017 gross proceeds. Subtracting placement agent fees, legal and other expenses, net proceeds amounted to $20,540,666. The shares are priced at $9.00 per share. The Purchasers also receive warrants to purchase an aggregate of 362,116 shares of common stock (subject to adjustment in certain circumstances) at an exercise price of $9.00. The warrants are exercisable for 30 days beginning on the date of the initial issuance of the warrants.

WARRANTS

2008 placement agent warrants

At the closing of the 2008 private placement, as part of the compensation to the placement agent, the Company issued warrants to the placement agent to acquire 587,249 shares of common stock. The warrants have a strike price equal to $4.29 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 Companys functional currency is the RMB, they do not meet the requirements of the accounting standard to be indexed only to the Companys 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 Companys common stock was estimated by management averaging its own volatility and three other comparable companies volatility, 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 Companys 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 Companys common stock price of $3.576 on the date the warrants were issued.

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.

In the month of February, 2010, the placement agent, Rosewood Securities LLC exercised 10,202 warrants shares into 10,202 shares of common stock. The Company valued the conversion on the exercise date, and recorded a $62,233 loss from changes in fair value of derivative. A total of $94,440 of carrying value and derivative liability had been reclassified into equity. These losses were recorded in the Company's income statement.

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On April 7, 2010, another 82,567 warrant shares were exercised into 82,567 shares of common stock. The Company valued the conversion on the exercise date, and recorded a $280,928 loss from changes in fair value of derivative in the income statement. A total of $786,819 of carrying value and derivative liability had been reclassified into equity.

<u>2009 placement agent warrants</u>

At the closing of the 2009 securities purchase, the Company issued short-term 30-day common stock purchase warrants to acquire 50,000 shares of common stock. The warrants have a strike price equal to $9.00 and a term of 30 days. 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 Companys functional currency is the Renminbi, they do not meet the requirements of the accounting standard to be indexed only to the Companys 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 96%; risk free interest rate 0.030%; dividend yield of 0% and expected term of one month. The value of the warrants was based on the Companys common stock price of $9.140 on the date the warrants were issued. The warrants were valued at $53,560 when they were issued on December 28, 2009. As of December 31, 2009, the estimated fair value of these warrants was $56,484 and a loss of $2,924 was recorded in the Companys income statement.

On January 19, 2010, the 50,000 warrants shares as described above were exercised at $9.00 into 50,000 shares of common stock. The Company valued the conversion on exercise date, and recorded $56,016 loss from changes in fair value of derivative. A total of $112,500 carrying value and derivative liability had been reclassified into equity. These losses and liability were recorded in the Companys income statement and balance sheet, respectively.

<u>2010 warrants</u>

On January 7, 2010, the Company issued short-term 30-day common stock purchase warrants to acquire 362,116 shares of common stock. The warrants have a strike price equal to $9.00 and a term of 30 days. 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 Companys functional currency is the Renminbi, they do not meet the requirements of the accounting standard to be indexed only to the Companys 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:

- Expected volatility of 19.36%
- Expected dividend yield of 0%
- Risk-free interest rate of 0.020%
- Expected lives of 30 days
- Market price at issuance date of $9.39
- Strike price of $9.00

The value of the warrants was based on the Companys common stock price of $9.39 on the date the warrants were issued. The warrants were valued at $165,296 when they were issued on January 7, 2010.

From January to March 2010, all, but 3,334 shares of warrant shares in connection with the 2010 securities purchase were exercised. A total of $575,576 carrying value and derivative liability had been reclassified to equity. The Company recorded a loss of $410,281 related to these warrants. On February 4, 2010, the expiration date of the warrants shares pursuant to the shares purchase agreement of January 7, 2010, 3,334 shares were not exercised and therefore expired. A total of $3,801 of carrying value and derivative liability had been reversed.

In December, 2010, CCG exercised all of its 50,000 warrant shares into 21,778 shares of common stock. The Company valued the conversion on the exercise date, and recorded a $4,209 gain from changes in fair value of derivative in the income statement. A total of $231,500 of carrying value and derivative liability had been reclassified into equity.

As of December 31, 2010 and December 31, 2009, warrant liabilities amount to $880,565 and $1,730,837, respectively. The Company recorded a total loss of $785,350 and $1,508,997, in the Company's statements of operations related to the change in fair value of warrants for the years ended December 31, 2010 and 2009, respectively.

Warrants issued and outstanding, all of which are exercisable at December 31, 2010,

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	Warrants Outstanding		Weighted Average Exercise Price	Average Remaining Contractual Life
Balance, December 31, 2008	637,249	$	4.42	2.60
Granted	50,000		9.00	0.08
Forfeited	-			
Exercised	(352,349)		4.29	
Balance, December 31, 2009	334,900	$	5.26	1.15
Granted	362,116		9.00	0.08
Forfeited	(3,334)		9.00	
Exercised	(551,551)		7.94	
Balance, December 31, 2010	142,131	$	4.29	0.08

As of December 31, 2010, only 142,131 shares of 2008 placement agent warrants remains outstanding.

STOCK COMPENSATION

In connection with the Company's private placement on August 26, 2008, the Company entered into the Make Good Escrow Agreement, under which 12,583,032 shares of the Company's common stock held by Bin Li, the Company's major shareholder, were placed in escrow. These shares are the subject of an Earn-In Agreement between Bin Li and Siping Fang as described in Note 1 to the consolidated financial statements. 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. As of September 30, 2010, a total of 8,388,688 shares has been returned to the shareholder upon meeting 2008 and 2009's earnings target. In 2008, the Company recorded $15.0 million expenses for the release of the escrow shares as the escrow shares were originally thought to be compensatory. However, in January 2010, FASB issued ASU No. 2010-05 – Escrowed Share Arrangements and the Presumption of Compensation. This update codifies EITF Topic D-110, which clarifies overcoming the presumption that for certain shareholders these arrangements represent compensation. Historically, an escrowed share arrangement involving the release of shares to certain shareholders based on performance-related criteria is presumed to be compensatory. When evaluating whether the presumption of compensation has been overcome, substance of the arrangement should be considered, including whether the arrangement was entered into for purposes unrelated to, and not contingent upon, continued employment. If specific facts and circumstances indicate that the arrangement, such as investors request that specific significant shareholders participate in an escrowed share arrangement, which will be released or canceled without regard to continued employment, is in substance an inducement made to facilitate the transaction on behalf of the company, rather than as compensatory, the arrangement should be recognized and measured according to its nature and reflected as a reduction of the proceeds allocated to the newly-issued securities. The Company's CEO, SiPing Fang's, escrowed shares, in connection with the 2008 Make Good Escrow agreement, are placed in escrow at request of the investors and without regard to continued employment. Based on the clarification from the ASU, the release of the escrowed shares to SiPing Fang as result of the Company meeting the make good annual income target should not be recorded as compensation expense. Hence, the Company did not record compensation expense for Mr. Fang for the years ended December 31, 2010 and 2009.

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.

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 $172,771 fair values of the 100,000 stock options are 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 1.11% (for 27,500 stock options), 1.11% (for 22,500 stock options) and 1.64% (for 50,000 stock options

On May 28, 2010, the Companys CFO resigned and the 50,000 options granted to her were forfeited.

For the years ended December 31, 2010 and 2009, $56,019 and $47,057 were expensed and recorded as compensation expense in the Companys income statements, respectively.

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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	6.56	
Balance, December 31, 2009	100,000	$ 6.56	279,000
Forfeited	(50,000)	6.00	-
Exercised	-	-	-
Balance, December 31, 2010	50,000	$ 6.90	$ 179,000

Following is a summary of the status of options outstanding at December 31, 2010:

Outstanding Options				Exercisable Options	
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number	Average Remaining Contractual Life
$6.00	27,500	3.49	$ 6.00	18,333	3.49
$8.00	22,500	2.89	$ 8.00	15,002	2.89
Total	50,000			33,335	

The aggregate intrinsic value of exercisable shares amounts to $119,335 as of December 31, 2010.

On April 24, 2009, the Company's Board of Directors approved a one-for-two reverse split (the "Reverse Split") of the Company's common shares. On July 24, 2009, the Company filed a Certificate to Accompany Restated Articles or Amended and Restated Articles with the Secretary of State of the State of Nevada that affects the reverse split. Shareholders are not entitled to receive fractional shares as a result of the Reverse Split. Any fractional shares will be rounded up to the next highest whole share.

All share and per share amounts used in the Company's consolidated financial statements and notes thereto have been retroactively restated to reflect the 1-for-2 reverse stock split, which are effective on August 13, 2009.

Note 14 - Earnings per Share

The following is a reconciliation of the basic and diluted earnings per share computation for the years ended December 31, 2010 and 2009:

Basic earnings per share	2010	2009
Net income attributable to holders of common shares	$ 43,197,529	$ 23,353,093
Basic weighted average number of common shares outstanding	34,547,224	30,771,356
Basic earnings per share	$ 1.25	$ 0.76

Dilutive earnings per share	2010	2009
Net income attributable to holders of common shares	$ 43,197,529	$ 23,353,093
Basic weighted average number of common shares outstanding	34,547,224	30,771,356
Warrants	118,821	160,110
Stock compensation	29,594	14,926
Dilutive weighted average number of common shares outstanding	34,695,639	30,946,392

Dilutive earnings per share	$ 1.25	$ 0.75

The warrants issued in 2008 with an exercise price of $4.29, 50,000 warrants issued in 2007 with an exercise price of $6.00, and investor warrants issued in 2009 and 2010 have been included in the diluted earnings per share calculation for the year ended December 31, 2010 and warrants issued in 2008 and 2009 have been included in the diluted earnings per share calculation for the year ended December 31, 2009 due to their dilutive nature.

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As described in Note 13, the Company granted its independent directors and officer restricted common stocks of 5,000 shares vesting in 2011 and 100,000 option shares on June 29th and June 30th, 2009. The stock compensations are included in the diluted earnings per share for the years-ended December 31, 2010 and 2009 due to its dilutive nature.

Note 15 - 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 Companys 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:

	For the years ended December 31,			
	2010		2009	
	(in thousands)			
Power Supply	$	51,963	$	28,206
Petrochemical and Oil		55,635		16,250
Water Supply		43,626		28,301
Metallurgy		8,999		6,173
Other		23,473		16,440
Total sales revenue	$	183,696	$	95,370

	For the years ended December 31,			
	2010		2009	
	(in thousands)			
China	$	177,006	$	89,538
International		6,690		5,832
Total sales revenue	$	183,696	$	95,370

Note 16 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 standards 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. If the fair value of the identifiable assets and liabilities is still greater than the consideration transferred, then the acquirer is to recognize a gain for the difference on the acquisition date.

Yangzhou Rock acquisition

In January, 2010, a subsidiary of the Company completed the acquisition of Yangzhou Rock Valve Lock Technology Co., Ltd. ("Yangzhou Rock"), for a total cash consideration of $7.2 million. The acquisition was accounted as a business combination in accordance to the terms of the purchase agreement. The Company assumed the following net assets:

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Yangzhou Rock	Fair Value	Assumed by the Company
Inventory	$ 1,734,593	$ 1,734,593
Buildings and Equipment	3,350,119	3,350,119
Intangible Assets	3,111,580	3,111,580
Total assets	8,196,292	8,196,292
Total liabilities	-	-
Net assets	$ 8,196,292	$ 8,196,292

The Company allocated the purchase price based on the fair value of the assets acquired and recorded a gain of approximately $1.0 million in other income in the current period.

Changsha Valve acquisition

In February 2010, the Company acquired all the equity interests in Able Delight (Changsha) Valve Co, Ltd. (Changsha Valve), formerly an indirect subsidiary of Watts Water Technologies, Inc. (Watts), for a purchase price of $12.12 million plus certain assumed obligations and acquisition expenses, for which the Company paid off $2.81 million, or an aggregate expenditure of approximately $15 million at time of acquisition. Changsha Valve was purchased from Able Delight Investment, Ltd., which had acquired Changsha Valve from Watts in January 2010 with $6.07 million from funds loaned to it by the Company. Able Delight Investment, Ltd. had been formed in November 2009 by Qing Lu, the wife of Bin Li, a 34% stockholder of the Company, in order to facilitate the Company s purchase of Changsha Valve. The Company s purchase price included the discharge of the loan, payments to certain of Watt s subsidiaries, and certain other financial obligations of Changsha Valve. The acquisition was accounted as a business combination in accordance to the terms of the purchase agreement. Net assets acquired included the following:

Changsha Valve	Fair Value	Assumed by the Company
Cash	$ 8,740	$ 8,740
Receivables	3,454,156	3,454,156
Inventory	4,954,596	4,954,596
Buildings and equipment	4,595,254	4,595,254
Intangible Assets	5,490,873	5,490,873
Total assets	18,503,619	18,503,619
Payables	3,703,845	3,703,845
Total liabilities	3,703,845	3,703,845
Net assets	$ 14,799,774	$ 14,799,774

The Company allocated the purchase price based on the fair value of the assets acquired and liabilities assumed and recorded a gain of approximately $2.68 million in other income in the current period.

Hanwei Valve acquisition

In April 2010, the Company acquired from certain unaffiliated individuals the two entities that were owners of the joint venture that in turn owned Shanghai Pudong Hanwei Valve Co., Ltd. (Hanwei Valve), together with certain intangible assets used in the operation of Hanwei Valve, for an aggregate of $19.5 million. Net Assets acquired are as follow:

Hanwei Valve	Fair Value	Assumed by the Company
Inventory	$ 1,802,490	$ 1,802,490
Buildings and Equipment	2,526,087	2,526,087
Intangible Assets	4,121,271	4,121,271
Goodwill purchased	11,046,074	11,046,074
Total assets	19,495,922	19,495,922

Total liabilities	-	-
Net assets	$ 19,495,922	$ 19,495,922

The Company allocated the purchase price based on the fair value of the assets acquired and recorded a goodwill of approximately $11.0 million in the current period.

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Note 17 Subsequent events

On January 4, 2011, China Valves Technology, Inc. (the Company) entered into a Securities Purchase Agreement (the Securities Purchase Agreement) with certain purchasers (the Purchasers) pursuant to which the Company will sell a total of 1,000,000 shares (the Shares) of common stock, par value $0.001 per share (the Common Stock), for an aggregate purchase price of $10,000,000 (the Purchase Price). The Shares are priced at $10.00 per share. The Purchasers will also receive a warrant to purchase an aggregate of 250,000 shares (the Warrant Shares) of Common Stock (subject to adjustment in certain circumstances) at an exercise price of $10.00 (the Warrant). The Warrant is exercisable for 180 days beginning on the date of the initial issuance of the Warrant. The Shares and the Warrant Shares are to be sold pursuant to a shelf registration statement (the Registration Statement) declared effective by the Securities and Exchange Commission (the SEC) on December 14, 2009.

Also, on January 4, 2011, the Company entered into a placement agency agreement (the Placement Agency Agreement) with Rodman & Renshaw, LLC (the Placement Agent) in which the Placement Agent agreed to act as placement agent in connection with this offering. The Placement Agent has no obligation to buy any securities from the Company.

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Exhibit No.	Description
2.1	Share Exchange Agreement, dated December 18, 2007, among the Company, the stockholders of the Company, China Valves and the China Valves Shareholder (incorporated herein by reference to Exhibit 2.1 to the registrant s current report on Form 8-K filed on December 21, 2007).
3.1	Articles of Incorporation of the Company as filed with the Secretary of State of Nevada on August 1, 1997 (incorporated herein by reference to Exhibit 3.1 to the SB-2 Registration Statement filed on November 1, 2001)
3.2	Certificate of Amendment to Certificate of Incorporation changing the corporate name filed with the Secretary of State of Nevada (incorporated herein by reference to Exhibit 3.2 to the registrant s current report on Form 8-K filed on December 21, 2007).
3.	3 Bylaws of the registrant, as amended to date, (incorporated herein by reference to Exhibit 3.2 to the SB-2 Registration Statement filed on November 1, 2001).
3.4	Certificate to Accompany Restated Articles or Amended and Restated Articles of China Valves Technology, Inc. (incorporated herein by reference to Exhibit 3.1 to the registrant s current report on Form 8-K filed on July 30, 2009.
4.1	Form of warrants, (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 31, 2009).
4.2	Form of warrants, (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 29, 2009).
10.1	Form of Securities Purchase Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.2	Form of Registration Rights Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 4.1 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.3	Escrow Agreement, dated August 26, 2008, by and among the Company, Brean Murray, Carret & Co., LLC, The Pinnacle Fund, LLC, Pinnacle China Fund, LLC and Escrow, LLC. (incorporated herein by reference to Exhibit 10.4 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.4	Form of Holdback Escrow Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.2 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.5	Form of Make Good Escrow Agreement, dated August 26, 2008 (incorporated herein by reference to Exhibit 10.3 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.6	Form of Lockup Agreement, dated August 26, 2008 by and between the Company and the stockholders listed therein (incorporated herein by reference to Exhibit 4.2 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.7	Form of Warrant (incorporated herein by reference to Exhibit 4.3 to the registrant s current report on Form 8-K filed on August 27, 2008).

10.8	English version of Agreement for Transfer of Land Use Right and Housing Titles, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.5 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.9	English version of Premises Lease Agreement, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.6 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.10	English version of Premises Leaseback Agreement, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.7 to the registrant s current report on Form 8-K filed on August 27, 2008).
10.11	English version of Manufacturing and Supply Agreement, dated August 26, 2008, by and between the Company s wholly owned subsidiary Kaifeng High Pressure Valve Co., Ltd. and Kaifeng High Pressure Valve Steel Casting Limited Liabilities Company (incorporated herein by reference to Exhibit 10.9 to the registrant s current report on Form 8-K filed on August 27, 2008).

10.12	Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (Incorporated by reference to Exhibit 10.2 to the Company s current report on Form 8-K filed on December 27, 2009)
10.13	Amendment Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 30, 2009 (incorporated herein by reference to Exhibit 10.3 to the registrant s current report on Form 8-K filed on December 31, 2009.)
10.14	Form of Securities Purchase Agreement (incorporated herein by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 29, 2009)
10.15	Placement Agency Agreement between the Company and Rodman & Renshaw, LLC, effective as of December 27, 2009 (incorporated herein by reference to Exhibit 10.2 to the registrant s current report on Form 8-K filed on December 29, 2009)
10.16	Asset Purchase Agreement, dated as of February 15, 2009, by and between Taizhou Taide Valve Co., Ltd. and Taizhou Wote Valve Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on April, 21, 2009).
10.17	Amendment to Registration Rights Agreement, dated March 4, 2009, among China Valves Technology, Inc. and the purchasers identified therein. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on March 9, 2009).
10.18	English Translation of Asset Purchase Agreement, dated January 13, 2010, by and among Henan Tonghai Fluid Equipment Co., Ltd., Guichun Xie, Lizhen Huang and Lanzhou Sufa Technology Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on January 19, 2010)
10.19	English Translation of Asset Purchase Agreement, dated February 3, 2010, by and between China Fluid Equipment Limited and Able Delight Investment Limited. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on February 8, 2010)
10.20	English translation of Asset Transfer Agreement, dated as of April 8, 2010, by and among Henan Tonghai Fluid Equipment Co., Ltd., Shanghai Pudong Hanwei Valve Co., Ltd., Shanghai Hanhuang Valve Co., Ltd. and Hong Kong Hanxi Investment Co., Ltd. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on April 9, 2010)
10.21	English translation of Loan Agreement by and between China Fluid Equipment Holdings Limited and Able Delight Investment Limited, dated December 10, 2009. (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K/A filed on November 18, 2010)
10.22	English Translation of Employment Agreement with Gang Wei dated December 15, 2010 (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on December 16, 2010).
21	List of Subsidiary *
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a 14(a). *
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a 14(a). *
32.1	

	Certification of Chief Executive Officer, 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 Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

* filed herein.