Sino-Global Shipping America, Ltd.
Form DEF 14A
December 31, 2013

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

¨ Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Rule 14a-12

SINO-GLOBAL SHIPPING AMERICA, LTD.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid: _____

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(3) Filing Party: _____

(4) Date Filed: _____

Sino-Global Shipping America, Ltd.

136-56 39th Avenue, Room #305

Flushing, New York 11354

NOTICE OFFICIAL YEAR 2014 ANNUAL MEETING OF SHAREHOLDERS

January 21, 2014, at 11:00 a.m., Beijing time

To the shareholders of Sino-Global Shipping America, Ltd.:

It is my pleasure to invite you to attend our Fiscal Year 2014 Annual Meeting of Shareholders on January 21, 2014, at 11:00 a.m., Beijing time. The meeting will be held at the Company's office located at Room 1108, Tower B, TEWOO Plaza, No. 22 Liuyangdao, Dashi Industrial Zone, Xiqing District. Tianjin, People's Republic of China.

The matters to be acted upon at the meeting are as follows (as described more fully in the accompanying proxy statement:

(1) To elect two Class I members of the Board of Directors, to serve a term expiring at the Annual Meeting of the Shareholders in 2017 or until their successors is duly elected and qualified;

(2) To ratify the appointment of Friedman LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2014;

(3) To vote on an advisory, nonbinding resolution to approve the compensation of the Company's named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission;

(4)

To vote on an advisory, nonbinding resolution to approve the frequency of advisory votes on named executive officer compensation;

(5) To approve the increase of the number of authorized shares of Common Stock from 10 million to 50 million shares;

(6) To approve the increase of the number of authorized shares of Preferred Stock from 1 million to 2 million shares;

(7) To approve the implementation of a new share incentive plan with 10 million shares of Common Stock;

(8) To approve the termination of certain restrictions related to the disposition of shares issued to Mr. Zhong Zhang pursuant to last year's annual meeting of shareholders; and

(9) To transact any other business properly coming before the meeting.

At the meeting, we will also report on the Company's performance and operations during the fiscal year ended June 30, 2013 and respond to shareholder questions. A copy of our 2013 Annual Report on Form 10-K is enclosed.

You may vote if you were a shareholder of record on December 2, 2013. Your vote is very important. Whether or not you plan to attend the annual meeting of shareholders, we urge you to vote and submit your proxy by telephone, the internet or by mail. If you are a registered shareholder and attend the meeting, you may revoke your proxy and vote your shares in person. If you hold your shares through a bank or broker and want to vote your shares in person at the meeting, please contact your bank or broker to obtain a legal proxy. Thank you for your support.

Sincerely,
/s/ Zhikang Huang
Zhikang Huang
Secretary

This Notice and the Proxy Statement are first being mailed to shareholders on or about December 31, 2013.

ABOUT THE 2014 ANNUAL MEETING OF SHAREHOLDERS

What am I voting on? You will be voting on the following proposals:

(1) To elect two Class I members of the Board of Directors, to serve a term expiring at the Annual Meeting of the Shareholders in 2017 or until their successors is duly elected and qualified;

(2) To ratify the appointment of Friedman LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2014;

(3) To vote on an advisory, nonbinding resolution to approve the compensation of the Company's named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission;

(4) To vote on an advisory, nonbinding resolution to approve the frequency of advisory votes on named executive officer compensation;

(5) To approve the increase of the number of authorized shares of Common Stock from 10 million to 50 million shares;

(6) To approve the increase of the number of authorized shares of Preferred Stock from 1 million to 2 million shares;

(7) To approve the implementation of a new share incentive plan with 10 million shares of Common Stock;

(8) To approve the termination of certain restrictions related to the disposition of shares issued to Mr. Zhong Zhang pursuant to last year's annual meeting of shareholders; and

(9) To transact any other business properly coming before the meeting.

Who is entitled to vote? You may vote if you owned shares of the Company's Common Stock as of the close of business on December 2, 2013. Each share of Common Stock is entitled to one vote. As of December 2, 2013, we had 4,703,841 shares of Common Stock outstanding.

How do I vote before the meeting? If you are a registered shareholder, meaning that you hold your shares in certificate form, you have three voting options:

(1) By Internet, which we encourage if you have Internet access, at the address shown on your proxy card;

(2) By phone, at 1-800-652-VOTE or 8683 using any touch-tone telephone to transmit your voting instructions; or

(3) By mail, by completing, signing and returning the enclosed proxy card.

If you hold your shares through an account with a bank or broker, your ability to vote by the Internet depends on their voting procedures. Please follow the directions that your bank or broker provides.

May I vote at the meeting?	If you are a registered shareholder, you may vote your shares at the meeting if you attend in person. If you hold your shares through an account with a bank or broker, please follow the directions provided to you by your bank or broker. If you wish to vote in person at the meeting, please contact your bank or broker to learn the procedures necessary to allow you to vote your shares in person. Even if you plan to attend the meeting, we encourage you to vote your shares by proxy. You may vote by proxy through the Internet, by telephone or by mail.

Can I change my mind after I return my proxy?	You may change your vote at any time before the polls close at the conclusion of voting at the meeting. You may do this by (1) signing another proxy card with a later date and returning it to us before the meeting, (2) voting again over the Internet prior to 11:59 p.m., Beijing time, on January 20, 2014, (3) voting again via the telephone prior to 11:59 p.m., Beijing time, on January 20, 2014, or (4) voting at the meeting if you are a registered shareholder or have obtained a legal proxy from your bank or broker.
What if I return my proxy card but do not provide voting instructions?	Proxies that are signed and returned but do not contain instructions will be voted in favor of all proposals (as to Proposal 4, for "every one year") and in accordance with the best judgment of the named proxies on any other matters properly brought before the meeting.
What does it mean if I receive more than one proxy card or instruction form?	It indicates that your shares are registered differently and are in more than one account. To ensure that all shares are voted, please either vote each account by telephone or on the Internet, or sign and return all proxy cards. We encourage you to register all your accounts in the same name and address. Those holding shares through a bank or broker should contact your bank or broker and request consolidation.
Will my shares be voted if I do not provide my proxy or instruction form?	If you are a registered shareholder and do not provide a proxy, you must attend the meeting in order to vote your shares. If you hold shares through an account with a bank or broker, your shares may be voted even if you do not provide voting instructions on your instruction form. Brokerage firms have the authority to vote shares for which their customers do not provide voting instructions on certain routine matters. The ratification of Friedman LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2014 is considered a routine matter for which brokerage firms may vote without specific instructions. The other matters are not considered routine matters for which brokerage firms may vote without specific instructions. When a proposal is not a routine matter and the brokerage firm has not received voting instructions from the beneficial owner of the shares with respect to that proposal, the brokerage firm cannot vote the shares on that proposal. Shares that a broker is not authorized to vote are counted as "broker non-votes."
How can I attend the meeting?	The meeting is open to all holders of the Company's Common Stock as of December 2, 2013.
May shareholders ask questions at the meeting?	Yes. Representatives of the Company will answer questions of general interest at the end of the meeting.
How many votes must be present to hold the meeting?	Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy by Internet, telephone or mail. In order for us to conduct our meeting, a majority of our outstanding shares of Common Stock as of December 2, 2013 must be present in person or by proxy. This is referred to as a quorum. Abstentions and broker non-votes will be counted for purposes of establishing a quorum at the meeting.

How many votes are needed to approve the Company's proposals?

Proposal 1. The nominees receiving the highest number of "For" votes will be elected as directors. This number is called a plurality. Shares not voted will have no impact on the election of directors. The proxy given will be voted "For" the nominee for director unless a properly executed proxy card is marked "Withhold" as to a particular nominee for director.

Proposal 2. The ratification of the appointment of Friedman LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2014 requires that a majority of the votes cast at the meeting be voted "For" the proposal, excluding properly executed proxy card marked "Abstain," which will not be voted or counted for purposes other than quorum.

Proposal 3. The advisory vote to approve executive officer compensation is advisory in nature and not binding on our Company. A vote "For" the proposal by a majority of the votes cast at the meeting would be considered an advisory approval of the proposed executive officer compensation. If a majority of shares do not vote in favor of the proposal, the Compensation Committee and Board of Directors will carefully consider the outcome when making future compensation decisions.

Proposal 4. The advisory vote to set the frequency of executive officer compensation votes is advisory in nature and not binding on our Company. The plurality of votes cast at the meeting for one, two or three years would be considered an advisory recommendation that executive officer compensation occur as frequently as recommended by such plurality. Although the vote is nonbinding and advisory, the Compensation Committee and Board of Directors will carefully consider the outcome when determining the frequency of shareholder votes on executive compensation.

Proposal 5. The approval of the increase in the number of shares of Common Stock authorized for issuance requires that a majority of **ALL SHARES OF COMMON STOCK** be voted "For" the proposal. For this Proposal 5, a strict majority of all outstanding shares of Common Stock is required for approval, and abstentions and broker non-votes will be counted as votes against the proposal.

Proposal 6. The approval of the increase in the number of shares of Preferred Stock authorized for issuance requires that a majority of **ALL SHARES OF COMMON STOCK** be voted "For" the proposal. For this Proposal 6, a strict majority of all outstanding shares of Common Stock is required for approval, and abstentions and broker non-votes will be counted as votes against the proposal.

Proposal 7. The approval of the implementation of a new share incentive plan requires that a majority of the votes cast at the meeting be voted "For" the proposal, excluding properly executed proxy card marked "Abstain," which will not be voted or counted for purposes other than quorum.

Proposal 8. The approval of the termination of certain contractual restrictions on disposition of shares issued to Mr. Zhong Zhang requires that a majority of the votes cast at the meeting be voted "For" the proposal, excluding properly executed proxy card marked "Abstain," which will not be voted or counted for purposes other than quorum. In addition, Mr. Zhong Zhang will not be permitted to vote on this Proposal 8 and will instead abstain on this Proposal 8.

3

Proposal One:
Election of Director and Director Biographies
(Item 1 on the Proxy Card)

A brief biography of each Director in each Class follows. You are asked to vote for the nominees to serve as Class I members of the Board of Directors. The candidates for the Board have consented to serve if elected. The terms of the Class II members of the Board of Directors continue until 2015 and the terms of the Class III members of the Board of Directors continue until 2016.

Nominees for election as Class I members of the Board of Directors to serve a three year term expiring in 2017:

Dennis O. Laing Independent Director Age — 67 Director since 2007	Mr. Laing joined our Board of Directors in 2007. Mr. Laing has practiced law in Richmond, Virginia for over 30 years. Mr. Laing's law practice centers upon business and corporate law with a special interest in the energy, healthcare and technology sectors. Mr. Laing received a bachelor's degree in government from the University of Virginia and a law degree from the University of Richmond. Mr. Laing currently serves as a director of eFuture Information Technology Inc., an enterprise solutions software and services company that is listed on the NASDAQ Capital Market. Mr. Laing has been chosen as a director because we believe his legal experience as well as his experience serving on the boards of other Chinese companies listed in the U.S. will be beneficial to the guidance of our company.
Anthony S. Chan Acting Chief Financial Officer and Executive Vice President Age — 49	Our Acting Chief Financial Officer and Executive Vice President, Mr. Anthony S. Chan, is a seasoned CPA licensed in New York with over 20 years of professional experience in auditing and SEC reporting, mergers and acquisitions (M&A), SOX compliance, internal controls and risk management. Anthony has advised and audited public companies and privately-held organization across various industries including manufacturing, shipping, media and publishing, entertainment, communications, insurance, and real estate. Prior to joining Sino-Global, Anthony was an audit partner specializing in the delivery of assurance and advisory services to public companies with operations in China. From 2012 until 2013, he was an audit partner with UHY LLP. From 2011 until 2012, he was an audit partner at Friedman LLP. From 2007 through 2011, he was a partner at Berdon LLP, an auditing firm. In addition, Mr. Chan was a former divisional CFO for a publicly traded company and had spent more than a decade at Big Four accounting firms delivering assurance and M&A consulting services. His international experience also includes providing financial due diligence for strategic and financial buyers on various cross-border opportunities in mainland China, Taiwan, Finland, Mexico, and Puerto Rico. Anthony is a Board of Director of the New York State Society of Certified Public Accountants and a member of the editorial board for The CPA Journal. Mr. Chan has been nominated to serve as a director because of his expertise with SEC reporting, internal control procedures and M&A transactions and his experience in the day-to-day operations of our company.

Class II members of the Board of Directors whose terms continue to 2015:

Lei Cao Chief Executive Officer and Director	Mr. Cao is our Chief Executive Officer and a Director. Mr. Cao founded Sino-Global Shipping Agency Ltd. ("Sino-China") in 2001 and has been the Chief Executive Officer since that time. Mr. Cao has been Chief Executive officer of our company since its formation. Prior to founding Sino-China, Mr. Cao was a Chief Representative of Wagenborg-Lagenduk Scheepvaart BV, Holland, from 1992 – 1993, Director of the Penavico-Beijing's shipping agency from 1987 through 1992, and a seaman for Cosco-Hong Kong from 1984 through 1987. Mr. Cao received his EMBA degree in 2009 from

Age — 49 Director since 2001	Shanghai Jiao Tong University. Mr. Cao was chosen as a director because he is the founder of our company and we believe his knowledge of our company and years of experience in our industry give him the ability to guide our company as a director.

4

Tielang Liu Independent Director Age — 54 Director since 2013	Dr. Liu currently serves as the vice president in charge of accounting and finance to China Sun-Trust Group Ltd. and has held this position since 2001. Dr. Liu was a financial controller for Huaxing Group Ltd from 1998 to 2001. From 1996 through 1998, he was the chief accountant of China Enterprise Consulting Co., Ltd. Before working in industry, Dr. Liu taught accounting and finance in a university for more than ten years and has published tens of books and articles. Dr. Liu is a CPA in China. He received a PhD, master and bachelor degrees from Tianjin University of Finance and Economics. Dr. Liu has been chosen to serve as a director because of his accounting and business knowledge and experience in working with Chinese companies.

Class III members of the Board of Directors whose terms continue to 2016:

Jing Wang Independent Director Age — 65 Director since 2007	Mr. Wang joined our Board of Directors in 2007. Mr. Wang currently serves as Chief Economist to China Minsheng Banking Corp., Ltd. and has held this position since December 2002. Mr. Wang was a Chinese Project Advisor for the World Bank from 1990 until 1994. From 1998 through 2000, Mr. Wang was the vice director of Tianjin Security and Futures Supervision Office, in charge of initial public offerings and listing companies. Mr. Wang is an independent director for Tianjin Binhai Energy & Development Co. Ltd., (Shenzhen Stock Exchange: 000695); Tianjin Marine Shipping Co., Ltd. (Shanghai Stock Exchange: 600751); and ReneSola Company (London Stock Exchange: SOLA). Mr. Wang received a Bachelor degree in Economics from Tianjin University of Finance and Economics. Mr. Wang was chosen as a director because of his economics background and experience working with public companies.
Involvement in Certain Legal Proceedings	To the best of our knowledge, none of our directors or executive officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or has been a party to any judicial or administrative proceeding during the past ten years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities or commodities laws, any laws respecting financial institutions or insurance companies, any law or regulation prohibiting mail or wire fraud in connection with any business entity or been subject to any disciplinary sanctions or orders imposed by a stock, commodities or derivatives exchange or other self-regulatory organization, except for matters that were dismissed without sanction or settlement. None of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

Board Leadership Structure

Mr. Lei Cao currently holds both the positions of Chief Executive Officer and Chairman of the Board. These two positions have not been consolidated into one position; Mr. Cao simply holds both positions at this time. The Board of Directors believes that Mr. Cao's service as both Chief Executive Officer and Chairman of the Board is in the best interests of the Company and its shareholders. Mr. Cao possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the Company and its business and is thus best positioned to develop agendas that ensure that the Board's time and attention are focused on the most critical matters. His combined role enables decisive leadership, ensures clear accountability, and enhances the Company's ability to communicate its message and strategy clearly and consistently to the Company's shareholders, employees, customers and suppliers.

We do not have a lead independent director because of the foregoing reasons and also because we believe our independent directors are encouraged to freely voice their opinions on a relatively small company board. We believe this leadership structure is appropriate because we are a smaller reporting company as such we deem it appropriate to be able to benefit from the guidance of Mr. Cao as both our Chief Executive Officer and Chairman of the Board.

Risk Oversight

Our Board of Directors plays a significant role in our risk oversight. The Board of Directors makes all relevant Company decisions. As such, it is important for us to have our Chief Executive Officer serve on the Board as he plays a key role in the risk oversight of the Company. As a smaller reporting company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

WE RECOMMEND THAT YOU VOTE FOR THE ELECTION OF THE CLASS I NOMINEES TO THE BOARD OF DIRECTORS.

Proposal Two
Ratification of the Appointment of Friedman LLP
(Item 2 on the Proxy Card)

What am I voting on?	A proposal to ratify the appointment of Friedman LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2014. The Audit Committee of the Board of Directors has appointed Friedman LLP to serve as the Company's fiscal 2013 independent registered public accounting firm. Although the Company's governing documents do not require the submission of this matter to shareholders, the Board of Directors considers it desirable that the appointment of Friedman LLP be ratified by shareholders.
What services does Friedman LLP provide?	Audit services provided by Friedman LLP for fiscal 2013 included the examination of the consolidated financial statements of the Company and services related to periodic filings made with the SEC. In addition, Friedman LLP provided certain services relating to the Company's quarterly reports.
Will a representative of Friedman LLP be present at the meeting?	One or more representatives of Friedman LLP will be present at the meeting. The representatives will have an opportunity to make a statement if they desire and will be available to respond to questions from shareholders.
What if this proposal is not approved?	If the appointment of Friedman LLP is not ratified, the Audit Committee of the Board of Directors will reconsider the appointment.

WE RECOMMEND THAT YOU VOTE FOR THE RATIFICATION OF FRIEDMAN LLP AS THE COMPANY'S FISCAL 2014 INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Proposal Three
Advisory Vote to Approve Named Executive Officer Compensation
(Item 3 on the Proxy Card)

What am I voting on?	We are asking our shareholders to approve, on an advisory basis, the compensation of the Company's Named Executive Officers for 2013 as disclosed in the Proxy Statement pursuant to the requirements of Item 402 of Regulation S-K. This advisory vote, which is sometimes referred to as a "say on pay" vote is required by Section 14A of the Securities and Exchange Act of 1934.
Is this vote binding on our Company?	As an advisory vote, this proposal is not binding upon our Company, the Board or the Compensation Committee and will not be construed as overruling a decision by our Company, the Board or the Compensation Committee or creating or implying any additional fiduciary duty for our Company, the Board or the Compensation Committee. However, the Compensation Committee and the Board value the opinions expressed by shareholders in their vote on this proposal and will continue to consider the outcome of the vote when making future compensation decisions regarding named executive officers.
How often will shareholders vote on named executive officer compensation?	Our current policy is to provide shareholders with an opportunity to approve the compensation of the named executive officers every year at the annual meeting of shareholders. It is expected that the next such vote will occur at the 2015 annual meeting of shareholders.
What vote is required to approve this proposal?	Approval of this Proposal Four requires the affirmative vote of a majority of the shares present or represented by proxy and voting at an Annual Meeting with quorum.
What are shareholders being asked to approve?	The Board of Directors is requesting your non-binding approval of the following resolution:
	Resolved, that the shareholders approve, in a nonbinding vote, the compensation of the Company's Named Executive Officers, as disclosed in this proxy statement.
What if this proposal is not approved?	Pursuant to Section 14A, this vote is advisory only, and accordingly, is not binding on the Company or on our Board of Directors. Although the vote is non-binding, the Compensation Committee and the Board of Directors will carefully consider the outcome of the vote when making future compensation decisions.

WE RECOMMEND THAT YOU VOTE IN FAVOR OF THE NONBINDING ADVISORY RESOLUTION APPROVING NAMED EXECUTIVE OFFICER COMPENSATION.

Proposal Four
Advisory Vote to Approve the Frequency of Advisory Votes on Executive Compensation
(Item 4 on the Proxy Card)

What am I voting on?

In addition to asking for advisory approval of the compensation of the Company's named executive officers, we are asking our shareholders, under an SEC rule, to approve, on an advisory basis, the frequency of advisory votes on executive compensation. By voting on this resolution, shareholders may express their preference for an advisory vote on executive compensation every 1, 2 or 3 years.

The Board and the Compensation Committee have carefully considered the options and concluded that the Company would benefit from the additional shareholder input provided through annual votes on executive compensation; and they are therefore recommending that shareholders vote "one year" in advising on the frequency of votes on executive compensation.

What voting options do you have?

Shareholders may vote "every one year", "every two years" or "every three years" on this Proposal Five. A vote of "every one year" would mean that the shareholder recommends that our Company request shareholder approval of Proposal Four every year. A vote of "every two years" would mean that the shareholder recommends that our Company request shareholder approval of Proposal Four every two years. A vote of "every three years" would mean that the shareholder recommends that our Company request shareholder approval of Proposal Four every three years.

Is this vote binding on our Company?

As an advisory vote, this proposal is not binding upon our Company, the Board or the Compensation Committee and will not be construed as overruling a decision by our Company, the Board or the Compensation Committee or creating or implying any additional fiduciary duty for our Company, the Board or the Compensation Committee. However, the Compensation Committee and the Board value the opinions expressed by shareholders in their vote on this proposal and will continue to consider the outcome of the vote when making future compensation decisions regarding the frequency of shareholder votes on named executive officer compensation.

What vote is required to approve this proposal?

Approval of this Proposal Five requires the affirmative vote of (i) a plurality of the shares present or represented by proxy and voting at the Annual Meeting and (ii) a plurality of the shares required to constitute the quorum.

What if this proposal is not approved?

Pursuant to Section 14A, this vote is advisory only, and accordingly, is not binding on the Company or on our Board of Directors. Although the vote is non-binding, the Compensation Committee and the Board of Directors will carefully consider the outcome of the vote when making future decisions about the frequency of votes on named executive officer compensation.

WE RECOMMEND THAT SHAREHOLDERS VOTE "EVERY ONE YEAR" IN ADVISING ON THE FREQUENCY OF SHAREHOLDER VOTES ON EXECUTIVE COMPENSATION.

Proposal Five
Increase in Number of Authorized Shares of Common Stock
(Item 5 on the Proxy Card)

What Am I Voting On?

On December 18, 2013, our Board approved an amendment to our Certificate of Incorporation to increase the authorized number of shares of Common Stock from 10,000,000 to 50,000,000 shares, subject to stockholder approval at the Annual Meeting, which the Board is recommending to the stockholders for approval. The additional shares of Common Stock to be authorized by adoption of the amendment would have rights identical to the currently outstanding shares of Common Stock. Adoption of the amendment would not affect the rights of the holders of currently outstanding Common Stock, except to the extent additional shares are actually issued, which may have certain effects, including dilution of the earnings per share and voting rights of current holders of Common Stock. If the amendment is adopted, it will become effective upon filing of the certificate of amendment with the Office of the State Corporation Commission of the Commonwealth of Virginia. If the amendment is adopted, the certificate of amendment giving effect to the amendment will be filed as soon as practicable.

How Many Shares of Common Stock Are Currently Authorized and Outstanding?

On December 16, 2013, 4,703,841 shares of Common Stock were outstanding and 302,903 were reserved for options, warrants, employee equity plans and other purposes. Upon the approval of this Proposal 5, there would be approximately 34,993,256 authorized and unreserved shares available for issuance, assuming approval of the incentive share plan described in Proposal 5, or 44,993,256, assuming the incentive share plan is not approved.

What is the Text of the Change to the Articles of Incorporation of the Company?

The increase in authorized shares of Common Stock will be implemented by filing a Certificate of Amendment to the Company's Articles of Incorporation with the State Corporation Commission of the Commonwealth of Virginia, and the increase in the authorized shares of Common Stock will become effective on the date of the filing of the Certificate of Amendment. We propose to amend the first sentence of Article III, Section 1, which will then read as follows (note that the remainder of the section remains unchanged and is not included here):

1. The number of shares of Common Stock which the Corporation shall have authority to issue shall be 50,000,000 shares, without par value per share.

The only change made to the foregoing sentence is the replacement of "10,000,000" with "50,000,000."

Purpose of the Amendment

As previously disclosed in a letter from the Company's Chief Executive Officer, Mr. Lei Cao, dated November 1, 2013, the Company has refined its strategic plan, changed its operational focus and has realigned its compensation for key executives to focus on incentives for growing the business and improving profitability.

The additional authorized shares will serve as a key component of the Company's initiative to grow revenues and profitability associated with its shipping agency and logistic businesses. Such initiative will likely involve partnering with a number of well-established enterprises, including regional and local shipping agents to increase the size and scope of the Company's referral network and drive revenues by way of such referrals. In order to effect this business objective, the Company anticipates that it will need to have additional shares available for issuance to complete business partnership, investment, acquisition and similar transactions.

In addition, as previously mentioned, the Company has realigned the compensation of its key executives to focus more heavily on stock-based compensation. In order to accomplish these objectives, the Company requires additional shares to be available and requests that shareholders approve the increase of authorized shares from 10,000,000 to 50,000,000 shares of Common Stock.

Finally, in the event the Company seeks further capital in the future, whether equity or equity linked debt, it will need to ensure that it has adequate authorized shares of Common Stock to avail itself of such opportunities.

Rights of Additional Authorized Shares

Any newly authorized shares of Common Stock, if and when issued, would be part of our existing class of Common Stock and would have the same rights and privileges as the shares of Common Stock currently outstanding. Our stockholders do not have pre-emptive rights with respect to the Common Stock, nor do they have cumulative voting rights. Accordingly, should the Board issue additional shares of Common Stock, existing stockholders would not have any preferential rights to purchase any of such shares, and their percentage ownership of our then outstanding Common Stock could be reduced.

Potential Adverse Effects of Amendment

Future issuances of Common Stock or securities convertible into Common Stock could have a dilutive effect on our earnings per share, book value per share and the voting power and interest of current stockholders. In addition, the availability of additional shares of Common Stock for issuance could, under certain circumstances, discourage or make more difficult any efforts to obtain control of the Company. The Board is not aware of any attempt, or contemplated attempt, to acquire control of the Company, nor is this proposal being presented with the intent that it be used to prevent or discourage any acquisition attempt. However, nothing would prevent the Board from taking any such actions that it deems to be consistent with its fiduciary duties.

How Can the Company Use the Newly Authorized Shares of Common Stock?

The newly authorized shares of Common Stock would be issuable for any proper corporate purpose, including future acquisitions, capital-raising or financing transactions involving Common Stock, convertible securities or other equity securities, stock splits, stock dividends and current or future equity compensation plans. The Board believes that these additional shares will provide us with needed flexibility to issue shares in the future without the potential expense or delay incident to obtaining stockholder approval for any particular issuance. Other than as described below, there are currently no commitments or understandings with respect to the issuance of any of the additional shares of Common Stock that would be authorized by the proposed amendment.

Notwithstanding the foregoing, we have previously publicly disclosed that we are continuing to pursue a growth strategy that focuses on identifying and capitalizing on strategic investments (both by our company in compatible companies and by third parties in our company), development of our shipping platform and aligning management compensation with Company performance. To facilitate our growth initiatives, we may, among other steps, issue shares under our incentive plan (both the existing plan adopted in 2008 and, if approved, the 2014 Plan described in Proposal 7 and may issue shares to companies in which we invest or to investors in our company.

Effectiveness of Amendment If the proposed amendment is adopted, it will become effective upon the filing of a certificate of amendment to the Articles of Incorporation with the State Corporation Commission of the Commonwealth of Virginia.

Vote Required The affirmative vote of the holders of a majority of the outstanding shares of the Company's Common Stock is required to approve the amendment to the certificate of incorporation. As result, abstentions and broker non-votes will have the same effect as votes against this proposal.

WE RECOMMEND THAT SHAREHOLDERS VOTE IN FAVOR OF THIS AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK.

Proposal Six
Increase in Number of Authorized Shares of Preferred Stock
(Item 6 on the Proxy Card)

What Am I Voting On?

On December 18, 2013, our Board approved an amendment to our Certificate of Incorporation to increase the authorized number of shares of Preferred Stock from 1,000,000 to 2,000,000 shares, subject to stockholder approval at the Annual Meeting, which the Board is recommending to the stockholders for approval. As there are no shares of Preferred Stock outstanding, the additional shares of Preferred Stock to be authorized by adoption of the amendment would have such rights as the Board of Directors determines at the time of issuance. If the amendment is adopted, it will become effective upon filing of the certificate of amendment with the Office of the State Corporation Commission of the Commonwealth of Virginia. If the amendment is adopted, the certificate of amendment giving effect to the amendment will be filed as soon as practicable.

How Many Shares of Preferred Stock Are Currently Authorized and Outstanding?

On December 16, 2013, no shares of Preferred Stock were outstanding or reserved for options, warrants, employee equity plans and other purposes. Upon the approval of this Proposal 6, there would be 2,000,000 authorized and unreserved shares available for issuance.

What is the Text of the Change to the Articles of Incorporation of the Company?

The increase in authorized shares of Preferred Stock will be implemented by filing a Certificate of Amendment to the Company's Articles of Incorporation with the State Corporation Commission of the Commonwealth of Virginia, and the increase in the authorized shares of Preferred Stock will become effective on the date of the filing of the Certificate of Amendment. We propose to amend the first sentence of Article III, Section 2, which will then read as follows (note that the remainder of the section remains unchanged and is not included here):

2. The number of shares of Preferred Stock which the Corporation shall have the authority to issue shall be 2,000,000 shares, without par value per share.

The only change made to the foregoing sentence is the replacement of "1,000,000" with "2,000,000."

Purpose of the Amendment

As previously disclosed in a letter from the Company's Chief Executive Officer, Mr. Lei Cao, dated November 1, 2013, the Company has refined its strategic plan and changed its operational focus.

The additional authorized shares of Preferred Stock will serve as a key component of the Company's initiative to grow revenues and profitability associated with its shipping agency and logistic businesses. Such initiative will likely involve partnering with a number of well-established enterprises, including regional and local shipping agents to increase the size and scope of the Company's referral network and drive revenues by way of such referrals. In order to effect this business objective, the Company anticipates that it will need to have additional shares available for issuance to complete business partnership, investment, acquisition and similar transactions.

13

Finally, in the event the Company seeks further capital in the future, whether equity or equity linked debt, it will need to ensure that it has adequate authorized shares of Preferred Stock to avail itself of such opportunities.

Description of Preferred Stock

The board of directors may provide, out of the unissued shares of Preferred Stock, for one or more series of Preferred Stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers, if any, of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. The powers, preferences and relative, participating, optional and other special rights of each series of Preferred Stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding. As of the date of this proxy statement, there are no issued and outstanding shares of Preferred Stock, and no series of Preferred Stock has been defined.

Rights of Additional Authorized Shares

As there are no shares of Preferred Stock outstanding, the additional shares of Preferred Stock to be authorized by adoption of the amendment would have such rights as the Board of Directors determines at the time of issuance. In addition, holders of our Common Stock do not have pre-emptive rights with respect to the Common Stock, nor do they have cumulative voting rights. Accordingly, should the Board issue shares of Preferred Stock, existing holders of Common Stock would not have any preferential rights to purchase any of such shares.

Potential Adverse Effects of Amendment

Depending on the terms of an issuance, the issuance of Preferred Stock or securities convertible into Preferred Stock could have a negative effect on our remaining earnings per share and the book value per share and the voting power and interest of our stockholders. In addition, the availability of shares of Preferred Stock for issuance could, under certain circumstances, discourage or make more difficult any efforts to obtain control of the Company. The Board is not aware of any attempt, or contemplated attempt, to acquire control of the Company, nor is this proposal being presented with the intent that it be used to prevent or discourage any acquisition attempt. However, nothing would prevent the Board from taking any such actions that it deems to be consistent with its fiduciary duties.

How Can the Company Use the Newly Authorized Shares of Preferred Stock?

The newly authorized shares of Preferred Stock would be issuable for any proper corporate purpose, including future acquisitions, capital-raising or financing transactions involving Preferred Stock. The Board believes that these additional shares will provide us with needed flexibility to issue shares in the future without the potential expense or delay incident to obtaining stockholder approval for any particular issuance. Other than as described below, there are currently no commitments or understandings with respect to the issuance of any of the additional shares of Preferred Stock that would be authorized by the proposed amendment.

Notwithstanding the foregoing, we have previously publicly disclosed that we are continuing to pursue a growth strategy that focuses on identifying and capitalizing on strategic investments (both by our company in compatible companies and by third parties in our company), and development of our shipping platform. To facilitate our growth initiatives, we may, among other steps, issue Preferred Stock to companies in which we invest or to investors in our company.

Effectiveness of Amendment	If the proposed amendment is adopted, it will become effective upon the filing of a certificate of amendment to the Articles of Incorporation with the State Corporation Commission of the Commonwealth of Virginia.
Vote Required	The affirmative vote of the holders of a majority of the outstanding shares of the Company's Common Stock is required to approve the amendment to the certificate of incorporation. As result, abstentions and broker non-votes will have the same effect as votes against this proposal.

WE RECOMMEND THAT SHAREHOLDERS VOTE IN FAVOR OF THIS AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF PREFERRED STOCK.

Proposal Seven
Implementation of 2014 Share Incentive Plan
(Item 7 on the Proxy Card)

What am I voting on?	The Board of Directors adopted the Sino-Global Shipping America, Ltd. 2014 Share Incentive Plan (the "2014 Plan") on December 18, 2013, subject to approval by the shareholders of the Company. The Board of Directors believes that the 2014 Plan will advance the long-term success of the Company by incentivizing those key employees, officers, advisors and members of the Board who are not employees for adding value to the organization.
How is the 2014 Plan administered?	The 2014 Plan is administered by the Compensation Committee of the Board of Directors. The 2014 Plan provides the Compensation Committee with flexibility to design compensatory awards that are responsive to the Company's strategic and business needs. Subject to the terms of the 2014 Plan, the Compensation Committee has the discretion to determine the terms of each award. The Compensation Committee may delegate to one or more officers of the Company the authority to grant awards to individuals who are not directors, executive officers or 5% shareholders of the Company.
What kind of awards may be granted?	Awards under the 2014 Plan may be in the form of incentive stock options, nonqualified incentive stock options or Common Stock awards. All of the securities issuable under the 2014 Plan relate ultimately to the Company's Common Stock and not to its Preferred Stock.
Who is eligible to receive awards?	Employees of the Company, officers, employee and non-employee directors, consultants, independent contractors and advisors may all be selected by the Compensation Committee to receive awards under the 2014 Plan. The benefits or amounts that may be received by or allocated to participants under the 2014 Plan will be determined at the discretion of the Compensation Committee and are not presently determinable.
How many shares are available for issuance under the 2014 Plan?	The maximum number of shares as to which awards may be granted under the 2014 Plan is 10,000,000 shares. The fair market value of an ordinary share of the Company on December 13, 2013 was $2.19, as reported on the Nasdaq Capital Market.
Upon what terms may options be awarded?	Options may be either incentive stock options or nonqualified stock options, provided that only employees may be granted incentive stock options. All options must be evidenced by an award agreement approved by the Compensation Committee. The Compensation Committee shall determine the number of shares subject to the option, the per share exercise price under the option, the period during which the option may be exercised, and all other terms and conditions of the option, subject to certain restrictions enumerated in the 2014 Plan, attached as Exhibit A hereto.
Upon what terms may shares be awarded?	An award of shares involves the immediate transfer from the Company to a participant of ownership of a specific number of ordinary shares in return for the performance of services. The participant is entitled immediately to voting, dividend and other ownership rights in such shares, subject to the discretion of the Compensation Committee. The transfer may be made without additional consideration from the participant. The Compensation Committee shall determine the number of shares to be awarded. If the share award is being earned upon the satisfaction of performance goals pursuant to an award agreement, then the Compensation Committee shall: (a)

determine the nature, length and starting date of any performance period for each share award; (b) select from among any performance factors to be used to measure the performance, if any; and (c) determine the number of shares that may be awarded. The Compensation Committee may also specify performance objectives that must be achieved for any restrictions on the shares to lapse.

Are awards made under the 2014 Plan transferable?	Except as provided below, no award under the 2014 Plan may be transferred by a participant other than by will or the laws of descent and distribution, and options and stock appreciation rights may be exercised during the participant's lifetime only by the participant or, in the event of the participant's legal incapacity, the guardian or legal representative acting on behalf of the participant. The Compensation Committee may expressly provide in an award agreement (other than an incentive stock option) that the participant may transfer the award to a spouse or lineal descendant, a trust for the exclusive benefit of such family members, a partnership or other entity in which all the beneficial owners are such family members, or any other entity affiliated with the participant that the Compensation Committee may approve. Notwithstanding the foregoing, any shares awarded (subject to any vesting requirements in a given grant) may be transferred in accordance with applicable law.
When does the 2014 Plan terminate?	The Board of Directors may terminate the 2014 Plan at any time.
How can the 2014 Plan be amended?	The 2014 Plan may be amended by the Board of Directors, but without further approval by the shareholders of the Company, the Board shall not amend the 2014 Plan in any manner that requires shareholder approval under the Internal Revenue Code of 1986, as amended. The Board may condition any amendment on the approval of the shareholders if such approval is necessary or deemed advisable with respect to the applicable listing or other requirements of a national securities exchange or other applicable laws, policies or regulations.
What are the tax consequences of the 2014 Plan?	The following is a brief summary of certain of the federal income tax consequences of certain transactions under the 2014 Plan. This summary is not intended to be exhaustive and does not describe state or local tax consequences. In general, an optionee will not recognize income at the time a nonqualified stock option is granted. At the time of exercise, the optionee will recognize ordinary income in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares on the date of exercise. At the time of sale of shares acquired pursuant to the exercise of a nonqualified stock option, any appreciation (or depreciation) in the value of the shares after the date of exercise generally will be treated as capital gain (or loss).

An optionee generally will not recognize income upon the grant or exercise of an incentive stock option. If shares issued to an optionee upon the exercise of an incentive stock option are not disposed of in a disqualifying disposition within two years after the date of grant or within one year after the transfer of the shares to the optionee, then upon the sale of the shares any amount realized in excess of the option price generally will be taxed to the optionee as long-term capital gain and any loss sustained will be a long-term capital loss. If shares acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to any excess of the fair market value of the shares at the time of exercise (or, if less, the amount realized on the disposition of the shares) over the option price paid for the shares. Any further gain (or loss) realized by the optionee generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

Subject to certain exceptions for death or disability, if an optionee exercises an incentive stock option more than three months after termination of employment, the exercise of the option will be taxed as the exercise of a nonqualified stock option. In addition, if an optionee is subject to federal “alternative minimum tax,” the exercise of an incentive stock option will be treated essentially the same as a nonqualified stock option for purposes of the alternative minimum tax.

A recipient of plan stock grants generally will be subject to tax at ordinary income rates on the fair market value of the plan stock grant (reduced by any amount paid by the recipient) at such time as the shares are no longer subject to a risk of forfeiture or restrictions on transfer for purposes of Code Section 83. However, a recipient who so elects under Code Section 83(b) within 30 days of the date of transfer of the plan stock grant will recognize ordinary income on the date of transfer of the shares equal to the excess of the fair market value of the plan stock grant (determined without regard to the risk of forfeiture or restrictions on transfer) over any purchase price paid for the shares. If a Code Section 83(b) election has not been made, any dividends received with respect to plan stock grants that are subject at that time to a risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the recipient.

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or subsidiary for which the participant performs services will be entitled to a corresponding deduction, provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an “excess parachute payment” within the meaning of Code Section 280G and is not disallowed by the $1,000,000 limitation on certain executive compensation under Section 162(m) of the Internal Revenue Code.

Where can I get a copy of the 2014 Plan?

This summary is not a complete description of all provisions of the 2014 Plan. A copy of the 2014 Plan is attached hereto as Exhibit A.

WE RECOMMEND THAT YOU VOTE FOR THE APPROVAL OF THE 2014 PLAN.

Proposal Eight
Termination of Trading Restrictions on Zhong Zhang Common Stock
(Item 8 on the Proxy Card)

What am I voting on?

At last year's annual shareholder meeting, we requested shareholder approval to issue 1,800,000 shares to Mr. Zhong Zhang, for a cash payment of $1.71 per share, which represented 95% of the 10 day trading average for our company's stock closing price as of the date the Company and Mr. Zhang. The discount to the 10-day trading average was negotiated between the parties. In addition to agreeing to direct business to our Company from his affiliated companies, Mr. Zhang agreed to restrict the trading of such shares for a year (in addition to any other applicable restrictions such as Rule 144 limitations). One of the reasons the Board of Directors requested such a limitation was the uncertainty about the frequency and nature of business Mr. Zhang would ultimately direct to the Company.

Since becoming a shareholder of our Company, Mr. Zhang has directed new business activities to our Company, including the signing of a 5-year logistic service agreement in June 2013 and the execution of our first logistic service contract in September 2013 to transport approximately 51,000 tons of chromite from South Africa to China. As a result of the new service contract, we reported our first profitable quarter since becoming public.. Accordingly, the Board of Directors believes that Mr. Zhang has shown his good faith in directing business to our company.

Mr. Zhang has recently requested that the one-year limitation be lifted, so that he may use his shares of the Company as leverage for financing for his other businesses. This will, he believes, permit him to grow his other businesses, for his benefit and, to a smaller extent, for the Company's benefit to the extent such growth of business could result in additional logistic service opportunities for our Company.

What is the text of the restriction?

The shares held by Mr. Zhang are restricted shares of Common Stock, all of which bear the following legend:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE ARE GOVERNED BY THAT CERTAIN SHARE PURCHASE AGREEMENT DATED MARCH 5, 2013 (THE "PURCHASE AGREEMENT") AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED (A) IN COMPLIANCE WITH THE TERMS OF THE PURCHASE AGREEMENT, INCLUDING IN PARTICULAR THE RESTRICTION AGAINST SALE FOR A PERIOD OF ONE (1) YEAR AFTER RECEIPT OF THE SECURITIES AND (B) EXCEPT (1) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS, AND IN THE CASE OF A TRANSACTION EXEMPT FROM REGISTRATION, UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS."

18

How would the restriction read after shareholder approval?

If shareholders approve the change to the restrictive legend on shares held by Mr. Zhang, the new restrictive legend would read as follows (note stricken language):

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE ~~ARE GOVERNED BY THAT CERTAIN SHARE PURCHASE AGREEMENT DATED MARCH 5, 2013 (THE "PURCHASE AGREEMENT") AND~~ HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ~~(A) IN COMPLIANCE WITH THE TERMS OF THE PURCHASE AGREEMENT, INCLUDING IN PARTICULAR THE RESTRICTION AGAINST SALE FOR A PERIOD OF ONE (1) YEAR AFTER RECEIPT OF THE SECURITIES AND (B)~~ EXCEPT (1) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS, AND IN THE CASE OF A TRANSACTION EXEMPT FROM REGISTRATION, UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS."

When would the one-year limitation expire in the absence of shareholder approval?

Last year's shareholder meeting was held on April 19, 2013. At that time, we had already received payment in full for Mr. Zhang's subscription. Mr. Zhang's certificate was issued on May 28, 2013, so it will be eligible for sale in the absence of shareholder approval on or after May 27, 2014, subject to other applicable limitations.

What are the risks to shareholders if Mr. Zhang receives approval?

Mr. Zhang is the Company's largest shareholder. If he were to begin selling shares on the market, it could result in a decrease in our stock price, depending on the number of shares he seeks to sell and the speed with which he seeks to sell such shares. Although Mr. Zhang would be limited in his volume and manner of sale, such sales could negatively impact our stock price.

Notwithstanding the foregoing, we believe Mr. Zhang is likely to use the shares for financing purposes rather than sell them on the market (although the removal of the one year limitation would free him to do so). In the course of such financing, he may be required to relinquish title to his shares, subject to a right to receive them back upon repayment. If he were to default in such circumstances, the lender could be in position to sell the shares for its own account and would not have the same strategic relationship with our Company as we believe Mr. Zhang holds. This could result in a sale at a lower price by such lender than Mr. Zhang might be willing to sell such shares.

Why are we requesting shareholder approval of this matter?	We were required by NASDAQ to obtain shareholder approval of the issuance of shares to Mr. Zhang that last year's annual shareholder meeting. Because this change to the terms of the initial issuance required shareholder approval under NASDAQ Marketplace Rule 4350(i)(1)(B) and 4350(i)(1)(D), we are also requesting shareholder approval to adjust one of the terms of stock issued. This is not considered a new issuance, but we want to give our shareholders an opportunity to voice their thoughts on such a change to the terms of this restriction.
Will Mr. Zhang be permitted to vote on this proposal?	Mr. Zhang has, as a condition of our Board of Directors' willingness to propose this matter to shareholders for vote, agreed that he will not vote on this matter. Instead, his shares will be marked as abstentions for purposes of this proposal.
What vote is required for approval of this proposal?	The approval of the termination of certain contractual restrictions on disposition of shares issued to Mr. Zhang requires that a majority of the votes cast at the meeting be voted "For" the proposal, excluding properly executed proxy card marked "Abstain," which will not be voted or counted for purposes other than quorum. As noted, Mr. Zhang will not be permitted to vote on this Proposal 8 and will instead abstain on this Proposal 8.

WE RECOMMEND THAT SHAREHOLDERS VOTE IN FAVOR OF THIS PROPOSAL TO REMOVE THE CONTRACTUAL LIMITATIONS ON MR. ZHONG ZHANG'S ABILITY TO DISPOSE OF HIS SHARES IN THE COMPANY.

Board of Directors and Corporate Governance Information

What if a nominee is unwilling or unable to serve?

Each of the nominees listed in the Proxy Statement has agreed to serve as a director, if elected. If for some unforeseen reason a nominee becomes unwilling or unable to serve, proxies will be voted for a substitute nominee selected by the Board of Directors.

How are directors compensated?

Non-employee directors are entitled to receive $5,000 per quarter. From time to time we may issue securities to our directors as well in compensation for services, but the amount and frequency of such grants is not set. In addition, non-employee directors are entitled to receive compensation for their actual travel expenses for each Board of Directors meeting attended.

How does the Board determine which directors are independent?

The Board of Directors reviews the independence of each director yearly. During this review, the Board of Directors considers transactions and relationships between each director (and his or her immediate family and affiliates) and the Company and its management to determine whether any such relationships or transactions are inconsistent with a determination that the director is independent in light of applicable law, listing standards and the Company's director independence standards. The Company believes that it maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Listing Rule 5605(a)(2).

What role does the Corporate Governance Committee play in selecting nominees to the Board of Directors?

Two of the primary purposes of the Board's Corporate Governance Committee are (i) to develop and implement policies and procedures that are intended to ensure that the Board of Directors will be appropriately constituted and organized to meet its fiduciary obligations to the Company and its shareholders and (ii) to identify individuals qualified to become members of the Board of Directors and to recommend to the Board of Directors the director nominees for the annual meeting of shareholders. The Corporate Governance Committee is also responsible for considering candidates for membership on the Board of Directors submitted by eligible shareholders. The Corporate Governance Committee's charter is available on the Company's website at *www.sino-global.com* and in print upon request. The Corporate Governance Committee of the Company's Board of Directors was the only entity or person to nominate and/or recommend any of the director nominees.

Are the members of the Corporate Governance Committee independent?

Yes. All members of the Corporate Governance Committee have been determined to be independent by the Board of Directors.

How does the Corporate Governance Committee identify and evaluate nominees for director?

The Corporate Governance Committee considers candidates for nomination to the Board of Directors from a number of sources. Current members of the Board of Directors are considered for re-election unless they have notified the Company that they do not wish to stand for re-election. The Corporate Governance Committee also considers candidates recommended by current members of the Board of Directors, members of management or eligible shareholders. From time to time the Board may engage a firm to assist in identifying potential candidates, although the Company did not engage such a firm to identify any of the nominees for director proposed for election at the meeting.

21

The Corporate Governance Committee evaluates all candidates for director, regardless of the person or firm recommending such candidate, on the basis of the length and quality of their business experience, the applicability of such candidate's experience to the Company and its business, the skills and perspectives such candidate would bring to the Board of Directors and the personality or "fit" of such candidate with existing members of the Board of Directors and management. The Corporate Governance Committee does not have a specific policy in place with regard to the consideration of diversity when identifying director nominees; however, the corporate governance committee does consider diversity of opinion and experience when nominating directors.

What are the Corporate Governance Committee's policies and procedures for considering director candidates recommended by shareholders?

The Corporate Governance Committee will consider all candidates recommended by eligible shareholders. An eligible shareholder is a shareholder (or group of shareholders) who owns at least 5% of the Company's outstanding shares and who has held such shares for at least one year as of the date of the recommendation. A shareholder wishing to recommend a candidate must submit the following documents to the Secretary of the Company at Sino-Global Shipping America, Ltd., 136-56 39th Avenue, Room #305, Flushing, New York 11354:

- a recommendation that identifies the name and address of the shareholder and the person to be nominated;
- documentation establishing that the shareholder making the recommendation is an eligible shareholder;
- the written consent of the candidate to serve as a director of the Company, if elected;
- a description of all arrangements between the shareholders and such nominee pursuant to which the nomination is to be made; and
- such other information regarding the nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC.

Upon timely receipt of the required documents, the Company's Secretary will determine whether the shareholder submitting the recommendation is an eligible shareholder based on such documents. If the shareholder is not an eligible shareholder, the Corporate Governance Committee may, but is not obligated to, evaluate the candidate and consider such candidate for nomination to the Board of Directors.

If the candidate is to be evaluated by the Corporate Governance Committee, the Secretary will request a detailed resume, an autobiographical statement explaining the candidate's interest in serving as a director of the Company, a completed statement regarding conflicts of interest, and a waiver of liability for a background check from the candidate.

What are the minimum qualifications required to serve on the Company's Board of Directors?

All members of the Board of Directors must possess the following minimum qualifications as determined by the Corporate Governance Committee:

- A director must demonstrate integrity, accountability, informed judgment, financial literacy, creativity and vision;
- A director must be prepared to represent the best interests of all Company shareholders, and not just one particular constituency;
- A director must have a record of professional accomplishment in his or her chosen field; and
- A director must be prepared and able to participate fully in Board activities, including membership on committees.

What other considerations does the Corporate Governance Committee consider?

The Corporate Governance Committee believes it is important to have directors from various backgrounds and professions in order to ensure that the Board of Directors has a wealth of experiences to inform its decisions. Consistent with this philosophy, in addition to the minimum standards set forth above, business and managerial experience and an understanding of financial statements and financial matters are very important.

How may shareholders communicate with the members of the Board of Directors?

Shareholders and others who are interested in communicating directly with members of the Board of Directors, including communication of concerns relating to accounting, internal accounting controls or audit matters, or fraud or unethical behavior, may do so by writing to the directors at the following address:

Name of Director or Directors
c/o Zhikang Huang, Secretary
Sino-Global Shipping America, Ltd.
136-56 39th Avenue, Room #305
Flushing, New York 11354

Does the Company have a Code of Conduct?

The Company has adopted a Code of Conduct, which is applicable to all directors, officers and associates of the Company, including the principal executive officer and the principal financial and accounting officer. The complete text of the Code of Conduct is available on the Company's web site at *www.sino-global.com* and is also available in print upon request. The Company intends to post any amendments to or waivers from its Code of Conduct (to the extent applicable to the Company's principal executive officer and principal financial and accounting officer) at this location on its web site.

How often did the Board meet in fiscal 2013?

The Board of Directors met a total of four times, at regular meetings, during fiscal 2013. The Compensation Committee, the Audit Committee and the Corporate Governance Committee each met one time during fiscal 2013. Each incumbent director attended all of the meetings of the Board of Directors and of the standing committees of which he or she was a member during fiscal 2013. The Board invites, but does not require, directors to attend the annual meeting of shareholders.

What are the committees of the Board?

During fiscal 2013, the Board of Directors had standing Audit, Corporate Governance, and Compensation Committees. The members of each of the Committees as of December 2, 2013, their principal functions and the number of meetings held during the fiscal year ended June 30, 2013 are shown below.

Compensation Committee

The members of the Compensation Committee are:

Dennis O. Laing
Tielang Liu
Jing Wang, Chairman

The Compensation Committee held one meeting during the fiscal year ended June 30, 2013. The Compensation Committee's charter is available on the Company's website at *www.sino-global.com* and in print upon request. The Compensation Committee's principal responsibilities include:

- Making recommendations to the Board of Directors concerning executive management organization matters generally;
- In the area of compensation and benefits, making recommendations to the Board of Directors concerning employees who are also directors of the Company, consult with the CEO on matters relating to other executive officers, and make recommendations to the Board of Directors concerning policies and procedures relating to executive officers; provided, however, that the Committee shall have full decision-making powers with respect to compensation for executive officers to the extent such compensation is intended to be performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code;
- Making recommendations to the Board of Directors regarding all contracts of the Company with any officer for remuneration and benefits after termination of regular employment of such officer;
- Making recommendations to the Board of Directors concerning policy matters relating to employee benefits and employee benefit plans, including incentive compensation plans and equity based plans; and
- Administering the Company's formal incentive compensation programs, including equity based plans.

The Compensation Committee may not delegate its authority to other persons. Similarly, the Compensation Committee has not engaged a compensation consultant to assist in the determination of executive compensation issues. While the Company's executives will communicate with the Compensation Committee regarding executive compensation issues, the Company's executive officers do not participate in any executive compensation decisions.

Audit Committee

The members of the Audit Committee are:

Dennis O. Laing
Tielang Liu, Chairman
Jing Wang

The Audit Committee held one meeting during the fiscal year ended June 30, 2013. The primary responsibility of the Audit Committee is to assist the Board of Directors in monitoring the integrity of the Company's financial statements and the independence of its external auditors. The Company believes that each of the members of the Audit Committee is "independent" and that Dr. Liu qualifies as an "audit committee financial expert" in accordance with applicable NASDAQ Capital Market listing standards. In carrying out its responsibility, the Audit Committee undertakes to:

- Review and recommend to the directors the independent auditors to be selected to audit the financial statement of the Company;
- Meet with the independent auditors and management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof review such audit, including any comments or recommendations of the independent auditors;
- Review with the independent auditors and financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of the Company. The Committee elicits recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. The Committee emphasizes the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper;
- Review the internal accounting function of the Company, the proposed audit plans for the coming year and the coordination of such plans with the Company's independent auditors;
- Review the financial statements contained in the annual report to shareholders with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and contents of the financial statements to be presented to the shareholders;
- Provide sufficient opportunity for the independent auditors to meet with the members of the Committee without members of management present. Among the items discussed in these meetings are the independent auditors' evaluation of the Company's financial, accounting, and auditing personnel, and the cooperation that the independent auditors received during the course of the audit;
- Review accounting and financial human resources and succession planning within the Company;

- Submit the minutes of all meetings of the Audit Committee to, or discuss the matters discussed at each committee meeting with, the Board of Directors; and

- Investigate any matter brought to its attention within the scope of its duties, with the power to retain outside counsel for this purpose, if, in its judgment, that is appropriate.

The Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Corporate Governance Committee

The members of the Corporate Governance Committee are:

Dennis O. Laing, Chairman
Tielang Liu
Jing Wang

The Corporate Governance Committee had one meeting during the fiscal year ended June 30, 2013. All members of the Corporate Governance Committee are independent, as such term is defined by the NASDAQ Capital Market listing standards. The Corporate Governance Committee undertakes to:

- Identify individuals qualified to become members of the Board of Directors and to make recommendations to the Board of Directors with respect to candidates for nomination for election at the next annual meeting of shareholders or at such other times when candidates surface and, in connection therewith, consider suggestions submitted by shareholders of the Company;

- Determine and make recommendations to the Board of Directors with respect to the criteria to be used for selecting new members of the Board of Directors;

- Oversee the process of evaluation of the performance of the Company’s Board of Directors and committees;

- Make recommendations to the Board of Directors concerning the membership of committees of the Board and the chairpersons of the respective committees;

- Make recommendations to the Board of Directors with respect to the remuneration paid and benefits provided to members of the Board in connection with their service on the Board or on its committees; and

- Evaluate Board and committee tenure policies as well as policies covering the retirement or resignation of incumbent directors.

The Board of Directors has determined to provide a process by which shareholders may communicate with the Board as a whole, a Board committee or individual director. Shareholders wishing to communicate with the Board as a whole, a Board committee or an individual member may do so by sending a written communication addressed to the Board of Directors of the Company or to the committee or to an individual director, c/o Zhikang Huang, Secretary, Sino-Global Shipping America, Ltd., 136-56 39th Avenue, Room #305, Flushing, New York 11354. All communications will be compiled by the Secretary of the Company and submitted to the Board of Directors or the addressee not later than the next regular Board meeting.

Management—Business History of Named Executive Officers

For information as to the business history of our Chief Executive Officer, Mr. Cao, and our Chief Financial Officer, Mr. Anthony S. Chan, see the section "Proposal One: Election of Directors" elsewhere in this Proxy Statement. For information as to the business history of our Chief Operating Officer, Mr. Zhikang ("Michael") Huang, please see the following paragraph.

Zhikang "Michael" Huang
Chief Operating Officer
Age — 36

Mr. Huang has been our Chief Operating Officer since 2010. Prior to 2010, he served as Director of Sino-Global Shipping Australia, for which he was responsible for regional operations, marketing and regulation oversight. From 2006 through 2010, Mr. Huang served as our Company's Vice President, with duties focused on company operation and strategy, international shipping and marketing. From 2004 through 2006, Mr. Huang served as our Company's Operations Manager, and from 2002 through 2004, he served as an operator with our Company. Mr. Huang obtained his degree in English from Guangxi University in 1999.

Employment Agreements With The Company's Named Executive Officers

Sino-China has employment agreements with each of Mr. Lei Cao, Mr. Anthony S. Chan and Mr. Zhikang Huang. These employment agreements provide for one-year terms that extend automatically in the absence of termination provided at least 60 days prior to the anniversary date of the agreement. If we fail to provide this notice or if we wish to terminate an employment agreement in the absence of cause, then we are obligated to provide at least 30 days' prior notice. In such case during the initial term of the agreement, we would need to pay such executive (a) in the absence of a change of control, one-time the then applicable annual salary of such executive or (b) in the event of a change of control, one-and-a-half times the then applicable annual salary of such executive. In the event of termination due to death or disability, the payment is equal to two times the executive's salary.

We are, however, permitted to terminate an employee for cause without penalty to our company, where the employee has committed a crime or the employee's actions or inactions have resulted in a material adverse effect to us.

Summary Compensation Table

The following table shows the annual compensation paid by us to Mr. Lei Cao, our Principal Executive Officer, and Mr. Mingwei Zhang, our Principal Accounting and Financial Officer, for the years ended June 30, 2013 and 2012. These individuals were our own named executive officers during this period, although Mr. Anthony S. Chan and Mr. Zhikang Huang are expected to qualify as named executive officers for the year ending June 30, 2014. No other officer had a salary during either of the previous two years of more than $100,000.

27

Name	**Year**	Salary US$	Bonus US$	Securities-based compensation US$	All other compensation US$	Total US$
Lei Cao, Principal Executive Officer	2013	150,811	—	—(1)	—	150,811
	2012	198,550	—	—(1)	—	198,550
Mingwei Zhang, Principal Accousnting and Financial Officer	2013	75,999	—	—(1)	—	75,999
	2012	131,309	—	—(1)	—	131,309

(1) We granted each of Mr. Cao and Mr. Zhang options to purchase 36,000 shares of our Common Stock for $7.75 per share. We granted these options on May 20, 2008. Although we recognize $53,114 in compensation expense for these options as 10,800 options vested for each of Mr. Cao and Mr. Zhang in fiscal 2013, changes in SEC disclosure requirements require us to disclose the grant date fair value of these shares. As the grant was made in fiscal 2008, the amount is not reflected in this summary compensation table.

Director Compensation[1]

Name (a)	Fees earned or paid in cash ($) (b)	Stock awards ($) (c)	Option awards **($)[2]** (d)	Non-equity incentive plan compensation ($) (e)	Nonqualified deferred compensation earnings ($) (f)	All other compensation ($) (g)	Total ($) (h)
Dennis Laing	13,000	0	0	0	0	0	13,000
Tielang Liu[3]	4,000	0	0	20,100	0	0	24,100
Jing Wang	13,000	0	0	0	0	0	13,000
Joseph Jhu[4]	9,000	0	0	0	0	0	9,000

(1) This table does not include Mr. Cao Lei, our Principal Executive Officer, or Mr. Zhang Mingwei, our Principal Financial and Accounting Officer, who are both directors and named executive officers, because their compensation is fully reflected in the Summary Compensation Table.

(2) We granted options to purchase 10,000 shares of our Common Stock to each of Mr. Dennis Laing, Mr. Jing Wang and Mr. Joseph Jhu on May 20, 2008 and December 15, 2009. Although we recognized $14,754 for Mr. Dennis Laing and Mr. Jing Wang and $3,880 for Mr. Tielang Liu in compensation expense such directors' options in fiscal 2013, no value is reflected for the award in this table.

(3) Mr. Tielang Liu became a director on January 31, 2013 and received options to purchase 10,000 shares of our Common Stock. We have recognized the full grant-date fair value of these options in the above table.

(4) Mr. Joseph Jhu resigned as a director on January 31, 2013. All options granted to Mr. Jhu have been forfeited.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	$ 102,000	$ 6.90	200,903
Equity compensation plans not approved by security holders	-	-	-
Total	102,000	$ 6.90	200,903

Outstanding Equity Awards at Fiscal Year-End

Option Awards[(1)]

					Equity incentive
				(3.3)%	
Metallurgy		6,581	6,236	5.5%	
Other		21,585	14,439	49.5%	
Total sales revenue	$	161,395	$ 131,367	22.9%	

36

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

INCOME STATEMENT ITEMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2010

REVENUE	YZ	% contributed to overall	CS	% contributed to overall	HW	% contributed to overall	Consolidated 2010
Total Revenue	5,983,351	3.3%	31,265,638	17.0%	31,116,982	16.9%	183,696,126
COST OF GOODS SOLD	3,282,485	3.2%	18,139,730	17.6%	19,023,043	18.4%	103,276,910
GROSS PROFIT	2,700,866	3.4%	13,125,908	16.3%	12,093,939	15.0%	80,419,216
EXPENSES:							
Selling expense	98,479	0.9%	2,608,774	25.0%	514,005	4.9%	10,414,293
G&A expense	504,593	3.2%	2,976,715	19.1%	809,797	5.2%	15,563,906
Other expense							284,877
Total Operating Expenses	603,072	2.3%	5,585,489	21.3%	1,323,802	5.0%	26,263,076
INCOME FROM OPERATIONS	2,097,794	3.9%	7,540,419	13.9%	10,770,137	19.9%	54,156,140
OTHER (INCOME) EXPENSE:							
Other income, net	(966,108)	144.3%	(3,188,752)	476.3%	7,260	-1.1%	(669,462)
Gain from acquisition							(3,714,840)
Interest expense, net	54	0.1%	(1,263)	-1.3%	(16,646)	-16.5%	100,997
Change in fair value of derivative instruments							785,350
Total Other (Income) Expense, net	(966,054)	27.6%	(3,190,015)	91.2%	(9,386)	0.3%	(3,497,955)
INCOME BEFORE PROVISION	3,063,848	5.3%	10,730,434	18.6%	10,779,523	18.7%	57,654,095

FOR INCOME TAXES							
PROVISION FOR INCOME TAXES	814,603	5.6%	1,836,442	12.7%	1,616,929	11.2%	14,456,566
NET INCOME	2,249,245	5.2%	8,893,992	20.6%	9,162,594	21.2%	43,197,529

Note: YZ stands for Yangzhou Valve, CS for Changsha Valve and HW for Hanwei Valve. Same for the table below.

40

BALANCE SHEETS ITEMS
AS OF DECEMBER 31, 2010

ASSETS	YZ	% contributed to overall	CS	% contributed to overall	HW	% contributed to overall	Consolidated December 31, 2010
CURRENT ASSETS:							
Cash and cash equivalents& Restrict cash	56,533	0.2%	2,784,729	10.3%	3,395,184	12.6%	26,985,205
Accounts receivables, net	3,746,234	4.4%	13,281,036	15.7%	12,346,307	14.6%	84,347,311
Inventories, net	338,833	2.1%	3,918,745	24.1%	2,018,153	12.4%	16,251,938
Other current assets	314,471	3.7%	751,355	8.8%	729,826	8.6%	8,515,991
Total current assets	4,456,071	3.3%	20,735,865	15.2%	18,489,470	13.6%	136,100,445
PLANT AND EQUIPMENT, net	3,435,765	8.4%	4,542,538	11.1%	4,607,399	11.3%	40,773,562
OTHER ASSETS:							
Intangibles, net	3,080,085	13.4%	6,169,258	26.8%	4,161,934	18.1%	23,027,880
Other non-current assets	-	0.0%	-	0.0%	-	0.0%	38,605,775
Total other assets	3,080,085	5.0%	6,169,258	10.0%	4,161,934	6.8%	61,633,655
Total assets	10,971,921	4.6%	31,447,661	13.2%	27,258,803	11.4%	238,507,662
LIABILITIES							
CURRENT LIABILITIES:							
Accounts payable - trade	87,638	0.4%	2,697,113	12.3%	5,688,991	26.0%	21,913,247
Short-term loans	-	0.0%	758,500	13.4%	-	0.0%	5,648,794
Taxes payable	95,053	1.4%	912,969	13.4%	993,446	14.5%	6,828,118
Other current liabilities	768,390	5.0%	5,294,570	34.1%	2,397,517	15.5%	15,510,786
Total current liabilities	951,081	1.9%	9,663,152	19.4%	9,079,954	18.2%	49,900,945

INCOME STATEMENT ITEMS
FOR THE YEARS ENDED DECEMBER 31,

(in thousands)	**Yangzhou Valve**	**Changsha Valve**	**Hanwei Valve**	**Total revenue from acquisitions**	**% of consolidation**	**CVVT original (1)**	**% of consolidation**	**Con 201**
REVENUE	5,983	31,266	31,117	68,366	37.2%	115,330	62.8%	
COST OF GOODS SOLD	3,282	18,140	19,023	40,445	39.2%	62,832	60.8%	
GROSS PROFIT	2,701	13,126	12,094	27,921	34.7%	52,498	65.3%	
GROSS PROFIT RATE	45.1%	42.0%	38.9%	40.8%		45.5%		
GENERAL AND ADMINISTRATIVE EXPENSES	505	2,976	810	4,291	16.3%	21,972	83.7%	
SELLING EXPENSES	98	2,609	514	3,221	30.9%	7,193	69.1%	
INCOME FROM OPERATIONS	2,196	10,150	11,284	23,630	43.6%	30,526	56.4%	
OTHER INCOME								
(EXPENSES), NET	(966)	(3,190)	(9)	(4,165)	-1919.4%	4,382	2019.4%	
GAIN FROM ACQUISITIONS	-	-	-	(3,715)(2)	100.0%	-	0.0%	
NET INCOME	2,249	8,894	9,163	24,021	55.6%	19,176,858	44.4%	

(1) Represented operation result for the organization structure of the Company as disclosed in the Annual Report on Form 10-K for fiscal year ended December 31, 2009 for comparative purpose.
(2) Gain from acquisition was accounted under total revenue generated from acquisitions according its nature.

Cost of Sales 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 New Subsidiaries contributed 6.8%, 37.4% and 39.2%, or an aggregate percentage of 83.3% to the increase of cost of sales, only 29.5% of the increase was incurred by Kaifeng Valve and ZD Valve in 2010. The increase was in line with the increase in sales revenues due to higher labor, management costs of those newly acquired entities and an increase in cost of sales.

Gross Profit Our gross profit increased by $33.6 million or 71.7% to $80.4 million in 2010 from $46.8 million in 2009. The New Subsidiaries contributed 59.6% to our gross profit for the year ended December 31, 2010. However, 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 mainly due to the fact that: 1) the New Subsidiaries had 40.8% overall gross profit margin, as the products sold by the New 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. Changsha Valve and Hanwei Valve had 42.0% and 38.9% average gross margin for the year ended December 31, 2010, respectively. Furthermore, the Company sold more medium to low pressure valves in 2010, which generally have lower selling prices and thus 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 their production capacity.

General and Administrative Expenses Our general and administrative 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 was primarily due to increases in salary expenses for the New Subsidiaries, as well as the hiring of more educated, entry-level administrative and technological personnel with higher education. Professional fees, travel expense and meal and entertainment expenses also increased due to our business acquisition activities. Depreciation expenses increased as result of increased fixed asset purchases. General and administrative expenses as percentage of total revenue are 8.5% in 2010 as compared to 7.7% in 2009. The increase was primarily due to the increased expenses added by the New Subsidiaries.

Selling Expenses Selling expenses were $10.4 million for 2010, compared to $6.3 million for 2009, an increase of $4.1 million or 64.8%, which is in line with the sales revenue increase. However, the implementation of the strengthened cost control policy and the establishment of the department 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 sales and marketing expenses as a percentage of sales was 5.7%, compared to 6.6% in 2009.

Total Operating Expenses Our total operating expenses increased by $12.5 million, or 90.6%, to $26.3 million in 2010 from $13.8 million in 2009, which is 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 by $19.8 Million, or 85.0%, to $43.2 million in 2010 from $23.4 million in 2009 as result of a 92.6% increase in sales revenue and a lower effective income tax rate in 2010. Among other things, net income of the three acquired subsidiaries contributed 102.9% of total net income for the year ended December 31, 2010.

Foreign Currency Translation Gains

We had a foreign currency translation gain of $6.5 million for the nine months ended September 30, 2011 as compared to a $3.6 million currency translation gain in the same period of 2010. 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. As of September 30, 2011, the period end exchange rate was RMB1 to US$0.15640 and the average exchange rate for fiscal year of 2011 was RMB1 to US$0.15390. The average exchange rate for the nine months ended September 30, 2010 was RMB1 to US$0.14710. RMB appreciated approximately 4.6% in 2011 in terms of the period-end exchange rate of 2011 compared with that of 2010.

Our sales revenue for the nine months ended September 30, 2011 increased by RMB 155.4 million or 17.4% compared with the same period in 2010, and our operating expenses increased by RMB 73.4 million or 67.9% compared with the same period in 2010. As the Renminbi appreciated against the U.S. dollar during the period, our reported sales revenues and operating expenses were affected, increasing 22.9% and 75.5%, respectively, in U.S. dollar terms, as follows:

(in millions)	Nine Months Ended September 30, 2011			2010 (Unaudited)			Change		%	
	US$	*Average Rate*	*RMB*	*US$*	*Average Rate*	*RMB*	*US$*	*RMB*	*US$*	*RMB*
Revenue	161.4	0.15390	1,048.7	131.4	0.14710	893.3	30.0	155.4	22.9%	17.4%
Total operating expenses	27.9	0.15390	181.5	15.9	0.14710	108.1	12.0	73.4	75.5%	67.9%

We had a foreign currency translation gain of $6.1 million in 2010 as compared to a $0.007 million currency translation loss in 2009. As of 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. On 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 for the year ended December 31, 2010 increased by RMB 594.1 million or 91.3% compared with the same period in 2009 and our operating expenses increased by RMB 84.0 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:

(in million)	Years Ended December 31, 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 Accounts

Our trade receivables net of allowance for doubtful accounts were $124.5 million as of September 30, 2011, an increase of $40.4 million, or 48.0%, from $84.1 million as of December 31, 2010. Our allowance for doubtful accounts totaled $4,052,398 as of September 30, 2011, compared with $998,739 at December 31, 2010.

Management reviewed accounts receivable balances periodically based on an assessment of historical bad debts rate, individual customer receivable balances and aging, customers financial conditions, project status in which our valves used, retainage and current economic trends. 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. Due to specificities of our industry, collectability of accounts receivable with aging more than one year was assessed case by case. Before our customers projects in which our valves installed are completed and/or the corresponding retainage is due, the customers receivable with aging more than one year is generally considered to be recoverable.

Further, our allowance for doubtful debts accounted an insignificant portion of the receivable balance in spite of the increasing trade receivable balance throughout the reporting periods. Many of our customers who have long-time business relationships have good settlement histories. In the absence of significant bad debt experience, we consider the existing provisioning policy as adequate.

For the nine months ended September 30, 2011, management decided there would be a higher possibility of failure to make collection from several customers due to unfavorable national macro-control and poor market liquidity based on individual collectability assessment, including aging analysis, irregular customer visiting, background research and interviews, and $4.1 million allowance has been reserved against their accounts receivable.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flows from operations, augmented by short-term bank borrowings and equity contributions by our stockholders. As of September 30, 2011, we had cash and cash equivalents of $28.1 million. The following table sets forth a summary of our cash flows for the periods indicated:

(in thousands)	**Nine Months Ended September 30,**		**Year ended December 31,**	
	2011	**2010**	**2010**	**2009**
		(Unaudited)		
Net cash (used in) provided by operating activities	$ (5,262,657)	$ 6,579,896	$ 18,064,391	$ 24,725,412
Net cash used in investing activities	(3,306,714)	(32,928,623)	(30,679,353)	(23,587,433)
Net cash provided by financing activities	10,070,457	20,049,756	23,375,117	(3,261,029)
Effect of exchange rate changes on cash and cash equivalents	754,999	201,209	575,044	180,575
Net increase (decrease) in cash and cash equivalents	2,256,085	(6,097,762)	11,335,199	(1,942,475)
Cash and cash equivalents at beginning of the period	25,820,607	14,485,408	14,485,408	16,427,883
Cash and cash equivalent at end of the period	$ 28,076,692	$ 8,387,646	$ 25,820,607	$ 14,485,408

Operating Activities

Net cash used in operating activities was $5.3 million in the nine months ended September 30, 2011, compared with net cash provided by operating activities of $6.6 million in the same period in 2010. The decrease was primarily attributable to the increase in accounts receivable and inventory.

In the fiscal year ended December 31, 2010, our net cash flow provided by operating activities was $18.1 million, a decrease of $6.6 million from the net cash flow provided by operating activities of $24.7 million for the same period in 2009. The three acquired subsidiaries and other subsidiaries operating activities contributed $3.1 million and $14.1 million net cash for the year ended December 31, 2010, respectively. This was attributed to an increase in accounts receivables of $44.6 million, which offsets a strong increase in net profit of $19.8 million compared with 2009.

Investing Activities

Net cash used in investing activities decreased to $3.3 million in the nine months ended September 30, 2011, compared to $32.9 million in the same period in 2010, which was used primarily for the acquisitions of Hanwei Valve, Changsha Valve and Yangzhou Rock. The net cash used in investing activities during the period ended September 30, 2011 was primarily used for the purchase of equipment, intangible assets, payments made for construction in progress and cash deposit due to notes payable and sales covenant. We invested $25.6 million in 2010 in the acquisitions of the New Subsidiaries. In addition, we spent another $4.3 million on plant and equipment purchases as well as building improvements. Net cash used in investing activities in 2010 was $30.7 million, as compared to $23.6 million in 2009.

Financing Activities

Net cash provided by financing activities was $10.1 million in the nine months ended September 30, 2011, compared to net cash provided by financing activities of $20.0 million in the same period in 2010, as we received less net proceeds from the January 2011 registered direct offering than those from the January 2010 registered direct offering. As of September 30, 2011, we had $4.7 million short-term bank loans outstanding under our credit facilities and lines of credit.

45

In January 2011, we conducted a registered direct offering of an aggregate of 1,000,000 shares of our common stock to several accredited institutional investors at a price of $10.00 per share for gross proceeds of approximately $10 million. In addition, we issued the investors warrants to purchase an aggregate of 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 been used for working capital.

Net cash provided by financing activities in 2010 totaled $23.4 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.

As of September 30, 2011 and December 31, 2010, the maturities for our bank loans were all below one year.

We believe that we maintain good relationships with the banks with which we deal, 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

The capital expenditures in the nine months ended September 30, 2011 and 2010 are set out as below. Our capital expenditures were used primarily for plant construction and the purchase of equipment to expand our production capacity. The table below sets forth the breakdown of our capital expenditures by use for the periods indicated.

	Nine Months Ended September 30,			
(In thousands)		**2011**		**2010**
				(Unaudited)
Advance on equipment purchases	$	(322)	$	(618)
Purchase of equipment and intangible assets		(1,860)		(29,628)
Acquisition and investment		-		(2,439)
Total capital expenditures	$	(2,182)	$	(32,685)

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

Our depreciation and amortization expense for the nine months ended September 30, 2011 and 2010, and the income statement line items in which it is included, was as follows:

	Nine Months Ended September 30,			
		2011		**2010**
				(Unaudited)
		(in thousands)		
Cost of goods sold	$	2,956	$	1,698
General and administrative expenses		1,281		1,410
Total depreciation and amortization expense	$	4,237	$	3,108

46

Obligations under Material Contracts

Below is a table setting forth our contractual obligations as of September 30, 2011:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$ 1,388,349	$ 609,059	$ 608,628	$ 170,662	$ -

Business Combinations

Yangzhou Rock

On January 13, 2010, the Company acquired 100% equity interests of Yangzhou Rock 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.

Changsha Valve

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), and later known as Changsha Valve, 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. (Able Delight), 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 8-KA released on November 18, 2010.

Able Delight. 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 formation of Able Delight was required by Watts Regulator. Watts Regulator required, as a condition of the sale of Changsha Valve, that the purchasing party be a company whose registered owner was not the Company, a direct competitor of Watts Regulator. It also required the purchasing party to be a wholly foreign owned entity outside China to ensure that Changsha Valve would maintain its status as a wholly foreign owned enterprise in China after the acquisition. Mr. Siping Fang, the then CEO of the Company asked Qing Lu to form Able Delight because Qing Lu is a Canadian citizen and would be qualified to set up such a wholly foreign owned entity, be it in Hong Kong or the British Virgin Islands, or somewhere else outside China. In addition, Qing Lu is a trusted relative of Mr. Siping Fang. Therefore, Able Delight was formed in November 2009 after we entered into serious negotiations with Watts Regulator to facilitate the acquisition 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.

The acquisition of Changsha Valve was a two step process. Because Watts (the owner of Changsha Valve) preferred not to sell Changsha Valve to a public company, Able Delight was set up as an intermediary to facilitate the transaction. Able Delight signed a loan agreement with the Company to acquire Changsha Valve from Watts. Then Able Delight acquired Changsha Valve on behalf of the Company, and then transferred its ownership to the Company on February 3, 2010. Pursuant to the purchase agreement between Able Delight and Watts, Able Delight paid $6 million to Watts. Pursuant to email communications, Able Delight, the Company and Watts agreed that as a post-closing condition to the agreement between Watts and Able Delight, the Company would pay $8.93 million to Watts in order to settle certain liabilities of Changsha Valve concurrently, including vendor payables, unpaid salaries and sales commissions, severance payments and etc, besides the cash consideration paid by the Company through Able Delight to Watts.

Although the Company purchased Changsha Valve through Able Delight, the essence of the transaction was that the Company purchased Changsha Valve from Watts in an arm-length transaction. As mentioned above, the acquisition was a two step process to satisfy the seller requirement that Changsha Valve would not be sold to a publicly traded company.

The Company acquired Changsha Valves through the formation of a new corporation, Able Delight. Although in form the creation of a new company to effect the business combination is different than a business combination between the separate companies, in substance the transaction is no different from a transaction in which one of the combining entities directly acquires the other. Therefore, the transaction should be accounted for as if one of the combining entities directly acquires the other and the acquisition method is applied to each of the combining entities.

Hanwei Valve

On April 8, 2010, the Company acquired, from certain unaffiliated individuals, 100% of equity interests in the two entities that were owners of the joint venture that in turn owned Hanwei Valve; together, with certain intangible assets used in the operation of Hanwei Valve, Hanwei Valve was acquired 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. They contributed $59.0 million to the Company's fiscal year 2011 sales revenues, representing 36.6% of such revenues.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In August 2011, the Company changed its fiscal year end to September 30 from December 31. The Company made this change to better align its financial reporting period, as well as its annual planning and budgeting process. As a result of this change, the Consolidated Financial Statements include the Company's financial results for the nine months transition period of January 1, 2011 through September 30, 2011 and the unaudited comparative information for the nine months ended September 30, 2010. The years ended December 31, 2010 and 2009 reflect the twelve-month results of the respective calendar year.

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, and 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 on the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows, they will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments resulting from this process are included in the 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.

The balance sheet amounts with the exception of equity at September 30, 2011 and December 31, 2010 were translated at 6.39 and 6.59 RMB to $1.00. The average translation rates applied to the statements of operations and cash flows were 6.50 RMB and 6.80 RMB to $1.00 for the nine months ended September 30, 2011 and 2010, respectively, and 6.78 RMB and 6.82 RMB to $1.00 for the years ended December 31, 2010 and 2009.

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. Provisions 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 to temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and that of 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 which 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 nine months ended September 30, 2011. 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 September 30, 2011 and December 31, 2010, 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 the United States. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of September 30, 2011 and December 31, 2010, the Company's cash and restricted cash balances, totaling $29,508,367 and $26,596,872 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 customers represented approximately 14% of the Company's total sales for the nine months ended September 30, 2011. Five major customers represented approximately 9% and 11% of the Company's total sales for the years ended December 31, 2010 and 2009, respectively.

Five major suppliers, including one related party, Kaifeng High-Pressure Valve Steel Casting Co., Ltd, represented approximately 18% of the Company's total purchases for the nine months ended September 30, 2011. 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.

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 is 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.

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 nine months ended September 30, 2011, the Company impaired equipment in the amount of $110,096, which was included in general and administrative expenses. It is because that the products manufactured by certain equipments did not meet the customer's needs any more. The Company determined that the equipments were technically obsolete and needed to be replaced with new equipments to meet the customer's current and future needs

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 at internal reporting unit - individual operating subsidiary basis in accordance with U.S. GAAP. The Company determines the reporting units based on following factors: a. it engages in business activities from which it may earn revenues and incur expenses; b. its operating results are regularly reviewed by the Company's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance; and c. its discrete financial information is available.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include current period operating or cash flow losses combined with a historical of operating or cash flow losses, a projection or forecast that demonstrates continuing operating or cash flow losses, a significant adverse change in AR collection and unanticipated technology revolution in valves industry, among others. The Company performs its annual impairment review of goodwill every year at September 30 and when a triggering event occurs between annual impairment tests. 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 Company 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. In additional of cash flow projection, management also considers the change of stock price representing of a triggering event for an impairment evaluation. The Company believes that the current decline in its stock price is temporary due to the negative publicity about Chinese companies going public in the United States through reverse merger transactions. The fundamentals of the Company's business remain strong as evidenced by over $30.0 Million of net income over the past nine months. The Company does not believe impairing its goodwill is necessary at this time just because its stock price has temporarily dropped while the fundamental of the business remain strong.

51

The Company has acquired several entities resulting in the recording of intangible assets, including goodwill, which represents the excess of the purchase price over the fair value of the net assets of businesses acquired.

No impairment loss was incurred for the nine months ended September 30, 2011 and 2010 based on the Company's annual impairment test.

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 April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03), intended to improve financial reporting of repurchase agreements and refocus the assessment of effective control on a transferor's contractual rights and obligations rather than practical ability to perform those rights and obligations. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company does not expect the adoption of ASU 2011-03 to have a significant impact on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) on fair value measurement. A variety of measures are included in the update intended to either clarify existing fair value measurement requirements, change particular principles requirements for measuring fair value or for disclosing information about fair value measurements. For many of requirements, the FASB does not intend to change the application of existing requirements under Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and early application is not permitted. The Company is evaluating the impact adoption of ASU 2011-04 and does not expect the adoption of ASU 2011-04 will have significant impact on its financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), intended to increase the prominence of items reported in other comprehensive income and to facilitate convergence of accounting guidance in this area with that of the IASB. The amendments require that all non-owner changes in stockholders' equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. Amendments under ASU 2011-05 for public entities should be applied retrospectively for fiscal years, and interim periods within those years, beginning December 15, 2011. The Company is evaluating the impact adoption of ASU 2011-05 and does not expect the adoption of ASU 2011-05 will have significant impact on its financial statements.

In July 2011, the FASB issued accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance expands disclosures for the allowance for credit losses and financing receivables by requiring entities to disclose information at disaggregated levels. It also requires disclosure of credit quality indicators, past due information and modifications of financing receivables. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

52

In September 2011, the FASB issued Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment (ASU No. 2011-08), which amends ASC 350 to first assess qualitative factors before performing the quantitative goodwill impairment testing. The ASU provides the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative analysis indicate it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step impairment test, which is required under current U.S. GAAP, would not be necessary. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The implementation of the ASU is not expected to have a material impact on the Company's financial statements.

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 Disclosures about Market Risk.***

We may be exposed to changes in financial market conditions in the normal course of business. Market risk generally represents the risk that losses may occur as a result of movements in interest rates and equity prices. We currently do not use financial instruments in the normal course of business that are subject to changes in financial market conditions.

Interest Rate Risk

We are exposed to interest rate risk primarily with respect to our short-term bank loans and long-term bank loans. Although the interest rates, which are based on the banks' prime rates with respect to our short-term loans, are fixed for the terms of the loans, the terms are typically three to twelve months for short-term bank loans and interest rates are subject to change upon renewal. There were no material changes in interest rates for short-term bank loans renewed during the nine months ended September 30, 2011.

We have $4.7 million in short-term bank loans and no long-term bank loans outstanding as of September 30, 2011, and we have not used any derivative financial instruments or engaged in any interest rate hedging activities to manage our interest rate risk exposure. Our future interest expense on short-term or long-term bank loans may increase or decrease due to changes in market interest rates. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of bank loans relative to other sources of funds.

Foreign Exchange Risk

While our reporting currency is the U.S. Dollar, all of our consolidated sales and consolidated costs and expenses are denominated in the RMB. All of our assets are denominated in the RMB except for cash. As a result, we are exposed to foreign exchange risk as our sales and results of operations may be affected by fluctuations in the exchange rate between the U.S. Dollar and the RMB. If the RMB depreciates against the U.S. Dollar, the value of our RMB sales, earnings and assets as expressed in our U.S. Dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of stockholders' equity. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the RMB has not 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 or the Euro in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in RMB exchange rate and lessen intervention in the foreign exchange market.

Inflation

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material effect on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross profit and selling, general and administrative expenses as a percentage of net sales if the selling prices of our products do not increase with these increased costs.

Item 8. ***Financial Statements and Supplementary Data.***

The following consolidated financial statements, notes thereto, and the related independent auditors reports contained on pages F-1 and F-2 of our consolidated financial statements are herein incorporated:

Consolidated Statements of Earnings for the nine months ended September 30, 2011and 2010 (unaudited), and the years ended December 31, 2010 and 2009.

Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010

Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (unaudited), and the years ended December 31, 2010 and 2009.

Consolidated Statements of Stockholders Equity and Comprehensive Income for the nine months ended September 30, 2011 and the years ended December 31, 2010 and 2009

Notes to Consolidated Financial Statements

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

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 our assessment, the CEO and the CFO determined that, as of September 30, 2011, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, because of the material weaknesses in our internal control over financial reporting described below, our disclosure controls and procedures were not effective to satisfy all objectives for which they are intended.

54

(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 September 30, 2011, our management identified material weakness related to the following:

Lack of Internal Audit System – The Company lacks qualified resources to perform the internal audit function properly, which renders ineffective the ability to prevent and detect control lapses of certain areas in accordance with the Company’s internal control design.

Accounting and Finance Personnel Weaknesses – The Company did not maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with the Company’s financial reporting requirements, and did not implement adequate supervisory review to ensure the financial statements were prepared in conformity with generally accepted accounting principles in the United States of America. Additionally, we identified numerous internal control deficiencies that were indentified as being significant. The number and nature of these significant deficiencies, when aggregated, was determined to be a material weakness. In the aggregate, these significant deficiencies could result in a misstatement of the Company’s account balances or disclosures which could cause a material misstatement of the consolidated financial statements that would not be prevented or detected.

As disclosed in our Annual Report on Internal Control over Financial Reporting filed with the 2010 Form 10-K, the Company's management has identified the steps necessary to address the material weaknesses described above and in 2011, we continued to implement these remedial procedures.

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

b. Required 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 also consulted experts in the event that transactions were beyond our comprehension;

c. Trained internal accounting personnel in generally accepted accounting principles in the United States; and

d. Strengthened our internal audit function by hiring an experienced internal audit manager.

Our management is not aware that any of the material weakness in our internal control over financial reporting is cause to believe that any material inaccuracies or errors existed in our financial statement as of September 30, 2011. 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 more 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

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

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 September 30, 2011, 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.

Lack of Internal Audit System – The Company is lack qualified resources to perform the internal audit function properly, which renders ineffective the ability to prevent and detect control lapses of certain key areas in accordance with the Company's internal control design.

57

Accounting and Finance Personnel Weaknesses – The Company did not maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with the Company's financial reporting requirements, and did not implement adequate supervisory review to ensure the financial statements were prepared in conformity with generally accepted accounting principles in the United States of America. Additionally, we identified numerous internal control deficiencies that were identified as being significant. The number and nature of these significant deficiencies, when aggregated, was determined to be a material weakness. In the aggregate, these significant deficiencies could result in a misstatement of the Company's account balances or disclosures which could cause a material misstatement of the consolidated financial statements that would not be prevented or detected.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 financial statements, and this report does not affect our report dated November 18, 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 September 30, 2011, 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 as of September 30, 2011 and the related statements of income and other comprehensive income, shareholders' equity, and cash flows of China Valves Technology, inc and Subsidiaries for the nine months ended September 30, 2011. , These two material weaknesses stated above were considered in determining the nature, timing, and extent of audit tests applied in our audit of those consolidated financial statements, and this report does not affect our report dated November 18, 2011, which expressed an unqualified opinion on those consolidated financial statements.

/s/ Frazer Frost, LLP
Brea, California
November 18, 2011

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2012 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of the fiscal year 2011.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2012 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of fiscal year 2011.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2012 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of fiscal year 2011.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2012 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of fiscal year 2011.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2012 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of fiscal year 2011.

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

(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

59

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) English translation of Asset Transfer Agreement, dated as of April 8, 2010, by and among Henan Tonghai Fluid Equipment
10.20	Co., Ltd., Shanghai Pudong Hanwei Valve Co., Ltd., Shanghai Hanhuang Valve Co., Ltd. and Hong Kong Get Success Investemt Limited (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).
10.23	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on January 6, 2011).
10.24	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.2 to the registrant s current report on Form 8-K filed on January 6, 2011).
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.

November 18, 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	November 18, 2011
/s/ Jianbao Wang Jianbao Wang	Chief Executive Officer (Principal Executive Officer)	November 18, 2011
/s/ Gang Wei Gang Wei	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	November 18, 2011
/s/ Peter Li Peter Li	Director	November 18, 2011
/s/ William Haus William Haus	Director	November 18, 2011
/s/ Zengbiao Yu Zengbiao Yu	Director	November 18, 2011
/s/ Binjie Fang Binjie Fang	Chief Operating Officer and Director	November 18, 2011

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 September 30, 2011 and December 31, 2010, and the related statements of income and other comprehensive income, shareholders' equity, and cash flows for the nine months ended September 30, 2011 and the years ended December 31, 2010 and 2009. 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 September 30, 2011 and December 31, 2010, and the results of its operations and its cash flows for the nine months ended September 30, 2011 and the years ended December 31, 2010 and 2009 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 September 30, 2011, 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 November 18, 2011 expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

/s/ Frazer Frost, LLP

Brea, CA

November 18, 2011

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

		September 30, 2011		December 31, 201
CURRENT ASSETS:				
Cash and cash equivalents	$	28,076,692	$	25,820,60
Restricted cash		2,344,276		1,164,59
Notes receivable		1,465,369		2,815,93
Accounts receivable, net of allowance for doubtful accounts of $4,052,398 and $998,739 as of September 30, 2011 and December 31, 2010, respectively		124,514,274		84,147,12
Accounts receivable - related party		-		200,18
Other receivables		5,106,572		3,176,64
Other receivable -related party		-		152,17
Inventories, net of allowance of $2,394,319 and $1,148,663 as of September 30, 2011 and December 31, 2010, respectively.		23,868,885		16,251,93
Advances on inventory purchases		2,421,390		1,094,67
Advance on inventory purchase - related party		1,552,123		917,20
Prepaid expenses and other current assets		79,295		359,35
Total current assets		189,428,876		136,100,44
PLANT AND EQUIPMENT, net		40,192,636		40,773,56
OTHER ASSETS:				
Accounts receivables - retainage, long term		5,724,024		4,751,60
Goodwill		33,976,186		32,955,16
Intangibles, net of accumulated amortization		22,914,008		23,027,88
Other investments, cost		815,066		790,57
Other non-current assets		395,514		108,43
Total other assets		63,824,798		61,633,65
Total assets	$	293,446,310	$	238,507,66

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:				
Accounts payable - trade	$	24,575,461	$	19,530,34
Accounts payable - related parties		786,471		2,382,90
Short-term loans		6,513,810		5,648,79
Other payables		5,287,964		3,405,20
Other payables - related parties		94,226		1,899,62
Notes payable		469,200		
Accrued liabilities		4,091,998		2,825,56
Customer deposits		11,139,936		6,499,83
Taxes payable		5,791,440		6,828,11
Warrant liabilities		-		880,56
Total current liabilities		58,750,506		49,900,94

COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY:				
Common stock, $0.001 par value; 300,000,000 shares authorized; 35,869,654 and 34,664,654 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively		35,869		34,66
Additional paid-in capital		106,508,099		96,433,31
Statutory reserves		11,224,490		10,046,71
Retained earnings		98,242,189		69,861,61
Accumulated other comprehensive income		18,685,157		12,230,40
Total shareholders' equity		234,695,804		188,606,71
Total liabilities and shareholders' equity	$	293,446,310	$	238,507,66

See report of independent registered public accounting firm.

The accompanying notes are an integral part of these consolidated financial statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

	Nine months ended September 30, 2011	Nine months ended September 30, 2010 (Unaudited)	Year ended December 31, 2010	Year ended December 31, 2009
SALES	$ 161,296,932	$ 131,366,951	$ 183,077,333	$ 95,370,012
SALES - RELATED PARTIES	97,643	-	618,793	-
Total sales	161,394,575	131,366,951	183,696,126	95,370,012
COST OF GOODS SOLD	95,752,849	69,394,665	103,276,910	48,527,336
GROSS PROFIT	65,641,726	61,972,286	80,419,216	46,842,676
OPERATING EXPENSES:				
Selling	10,133,474	6,650,841	10,414,293	6,317,766
General and administrative	17,518,864	9,085,894	15,619,925	7,359,496
Research and development	286,204	181,861	228,858	126,750
Total operating expenses	27,938,542	15,918,596	26,263,076	13,804,012
INCOME FROM OPERATIONS	37,703,184	46,053,690	54,156,140	33,038,664
OTHER INCOME (EXPENSE):				
Other income, net	(522,015)	(490,768)	(669,462)	(258,509)
Gain from acquisition	-	(1,016,198)	(3,714,840)	(252,183)
Interest and finance expense, net	207,926	82,289	100,997	128,518
Change in fair value of warrant liabilities	(990,031)	262,633	785,350	1,508,997
Total other income (expenses), net	(1,304,120)	(1,162,044)	(3,497,955)	1,126,823
INCOME BEFORE PROVISION FOR INCOME TAXES	39,007,304	47,215,734	57,654,095	31,911,841
PROVISION FOR INCOME TAXES	9,448,956	10,426,364	14,456,566	8,558,748

NET INCOME		29,558,348		36,789,370		43,197,529		23,353,093
OTHER COMPREHENSIVE INCOME:								
Foreign currency translation gain (loss)		6,454,751		3,597,068		6,078,504		(7,075)
COMPREHENSIVE INCOME	$	36,013,099	$	40,386,438	$	49,276,033	$	23,346,018
BASIC EARNINGS PER SHARE:								
Weighted average number of shares		35,654,398		34,513,314		34,547,224		30,771,356
Earnings per share	$	0.83	$	1.07	$	1.25	$	0.76
DILUTED EARNINGS PER SHARE:								
Weighted average number of shares		35,677,873		34,727,623		34,695,639		30,946,392
Earnings per share	$	0.83	$	1.06	$	1.25	$	0.75

See report of independent registered public accounting firm.
The accompanying notes are an integral part of these consolidated financial statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock		Additional	Common Stock	Retained Ear	
	Number of shares	Par Value	Paid-in capital	Subscription Receivable	Statutory reserves	Un
BALANCE, December 31, 2008	31,192,552	$ 31,192	$ 66,935,968	$ (9,834,000)	$ 2,958,659	$ 10
Cashless exercise of warrants	201,326	201	755,811			
Release of shares in escrow for shares issued for real estate acquisition				9,834,000		
Stock based compensation			47,057			
Common stock issuance for cash at $9.01	333,334	333	2,796,107			
Net income						23
Adjustment to statutory reserve					2,575,916	(2
Foreign currency translation adjustment						
BALANCE, December 31, 2009	31,727,212	31,726	70,534,943	-	5,534,575	31
Exercised warrants	523,329	524	5,304,102			
Stock-base compensation			56,019			
Common stock issuance for cash at $9.00	2,414,113	2,414	20,538,252			
Net income						43
Adjustment to statutory reserve					4,512,138	(4
Foreign currency translation adjustment						
BALANCE, DECEMBER 31, 2010	34,664,654	34,664	96,433,316	-	10,046,713	69
Stock-based compensation	205,000	205	793,767			
Reclassification of warrant liabilities			(109,466)			
Common stock issuance for cash at $10.00	1,000,000	1,000	9,390,482			
Net income						29
Adjustment to statutory reserve					1,177,777	(1
Foreign currency translation adjustment						
BALANCE, September 30, 2011	35,869,654	$ 35,869	$ 106,508,099	$ -	$ 11,224,490	$ 98

See report of independent registered public accounting firm.

The accompanying notes are an integral part of these consolidated financial statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		(Unaudited)		
Net income	$ 29,558,348	$ 36,789,370	$ 43,197,529	$ 23,353,093
Adjustments to reconcile net income to cash (used in) provided by operating activities:				
Depreciation and amortization	4,236,618	3,107,769	4,870,172	1,955,724
Bad debt provision (recovery)	2,974,399	187,768	57,836	(254,963)
Gain on acquisition	-	(1,016,198)	(3,714,840)	(252,183)
Gain (loss) on disposal of fixed assets	173,286	(1,564)	343,333	87,876
Impairment of equipments	110,096	-	-	-
Stock compensation	793,972	44,095	56,019	47,057
Change in fair value of warrant liabilities	(990,031)	262,633	785,350	1,508,997
Inventory allowance and write-off	1,262,246		1,859,681	432,707
Change in operating assets and liabilities:				
Notes receivable	1,414,831	(224,086)	(2,323,098)	465,721
Accounts receivable - trade and retainage, short term	(40,130,902)	(40,886,982)	(44,986,649)	(4,009,629)
Accounts receivable - related parties	209,248	-	-	-
Other receivables and	(1,535,314)	(230,878)	1,992,250	269,749

prepaid expenses				
Other receivables - related parties	158,451	(147,100)	(149,669)	-
Inventories, net	(8,261,967)	(2,054,795)	198,527	1,563,708
Advances on inventory purchases	(1,272,140)	(429,052)	264,940	(213,271)
Advances on inventory purchases - related parties	(610,203)	14,702	(490,053)	966,947
Long-term receivable	-	-	442,800	(57,513)
Accounts receivable - retainage, long term	(812,013)	(4,092,665)	(4,623,183)	(1,031,325)
Accounts payable - trade	4,399,697	6,057,959	10,188,249	322,728
Accounts payable - trade - related parties	(1,177,131)	-	2,303,572	14,832
Other payables	1,755,247	756,683	1,079,284	(1,552,141)
Other payables - related parties	(1,852,908)	(29,002)	235,194	(471,648)
Accrued liabilities	1,194,301	1,030,155	(1,005,589)	317,514
Customer deposits	4,367,772	3,795,995	2,959,823	196,078
Customer deposits - related party	-	147,100	-	-
Taxes payable	(1,228,560)	3,497,989	4,522,913	1,065,354
Net cash (used in) provided by operating activities	(5,262,657)	6,579,896	18,064,391	24,725,412
CASH FLOWS FROM INVESTING ACTIVITIES:				
Restricted cash due to escrow covenant	-	105,616	105,616	-
Restricted cash due to notes payable	(461,700)	735,500	738,000	2,199,183
Restricted cash due to sales	(663,616)	(1,089,637)	(923,572)	(56,652)

covenant				
Acquisition of intangible assets	-	(220,650)	(573,142)	(1,524,071)
Advances on equipment purchases	(321,574)	(617,694)	(124,895)	(654,530)
Purchases of equipment and intangible assets	(1,860,092)	(29,407,280)	(4,299,998)	(9,738,815)
Cash paid for acquisitions	-	(2,439,388)	(25,606,289)	-
Cash proceeds from sale of equipment	17,368	-	4,927	11,729
Advance on lease	(17,100)	4,910	-	(614,882)
Investment deposit	-	-	-	(13,209,395)
Net cash (used in) investing activities	(3,306,714)	(32,928,623)	(30,679,353)	(23,587,433)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayments of short-term notes payable	-	(735,500)	(1,033,200)	(2,199,150)
Proceeds from short-term loans	923,400	1,891,434	4,018,346	3,232,751
Repayments of short term loans	(244,425)	(4,888,065)	(3,391,577)	(6,982,848)
Repayments of short term loans - related parties	-	(99,971)	(100,310)	(161,782)
Proceeds from private placement financing	9,391,482	23,881,858	23,881,858	2,850,000
Net cash provided by (used in) financing activities	10,070,457	20,049,756	23,375,117	(3,261,029)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	754,999	201,209	575,044	180,575
INCREASE (DECREASE) IN	2,256,085	(6,097,762)	11,335,199	(1,942,475)

CASH								
CASH and CASH EQUIVALENTS, beginning of period		25,820,607		14,485,408		14,485,408		16,427,883
CASH and CASH EQUIVALENTS, ending of period	$	28,076,692	$	8,387,646	$	25,820,607	$	14,485,408
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:								
Cash paid for interest	$	261,184	$	169,710	$	178,441	$	302,058
Cash paid for income taxes	$	9,308,801	$	8,180,186	$	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

See report of independent registered public accounting firm.
The accompanying notes are an integral part of these consolidated financial statements.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

Note 1 Description of Business and Basis of Presentation

DESCRIPTION OF BUSINESS

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 (the PRC). The Company s operations are headquartered in Zhengzhou, Henan Province, PRC.

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. (Yangzhou Rock)	PRC	100% Indirectly	Manufacturing
Henan Kai Feng High Pressure Valve Co., Ltd. (Kaifeng Valve)	PRC	100% Indirectly	Manufacturing
Zhengzhou City ZhengDie Valve., Ltd. (ZD Valve)	PRC	100% Indirectly	Manufacturing
Tai Zhou Tai De Valve Co., Ltd. (Taide Valve)	PRC	100% Indirectly	Manufacturing
Shanghai Pudong Hanwei Valve Co., Ltd. (Hanwei Valve)	PRC	100% Indirectly	Manufacturing
Henan Tonghai Fluid Equipment Co., Ltd.	PRC	100% Indirectly	Holding Company
Shanghai Hanhuang Valve Co., Ltd. *	PRC	100% Indirectly	Holding Company
Get Success Investment Limited *	Hong Kong	100% Indirectly	Holding Company
China Valves Technology Holdings Co., Ltd. (formerly China Fluid Equipment Holdings Limited) (Changsha Valve)	Hong Kong	100% Directly	Holding Company

* Shanghai Han Huang Valve Co., Ltd. was dissolved on October 19, 2011and Get Success Investment Limited was dissolved on September 16, 2011.

CHANGE IN FISCAL YEAR

In August 2011, the Company changed its fiscal year end to September 30 from December 31. The Company made this change to better align its financial reporting period, as well as its annual planning and budgeting process. As a result of this change, the Consolidated Financial Statements include the Company s financial results for the nine months transition period of January 1, 2011 through September 30, 2011 and the unaudited comparative information for the nine months ended September 30, 2010. The years ended December 31, 2010 and 2009 reflect the twelve-month results of the respective calendar year.

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, shareholders 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.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

The Renminbi (RMB) of the People s Republic of China has been determined to be the Company s 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.

Note 2 Summary of significant accounting policies

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 Company s wholly indirectly owned subsidiaries. All intercompany transactions have been eliminated. The results of companies acquired or disposed of 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 right, plant and equipment; and accruals for income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

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. Retainage is considered as a payment term included as a part of the contract price, and recognized as revenue based upon shipment of products. Due to nature of the retainage, the Company s policy is to take into revenue the full value of the contract without VAT, including any retainage, as it performs against the contact since the Company has experienced insignificant warranty claims historically 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 provides warranty for all of its products and provides 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.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

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 valves and other products to customers are included in selling expense and totaled $529,756 for the nine months ended September 30, 2011, and $1,131,575 and $386,929 for the years ended December 31, 2010 and 2009, respectively.

SELLING EXPENSE

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

GENERAL AND ADMINISTRATIVE EXPENSE

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

ADVERTISING

Advertising costs are expensed when incurred and are included in selling, general and administrative expenses, which amounted to $53,991 for the nine months ended September 30, 2011, and $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 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 September 30, 2011 and December 31, 2010 were translated at 6.39 and 6.59 RMB to $1.00. The average translation rates applied to the statements of operations and cash flows were 6.50 RMB to $1.00 for the nine months ended September 30, 2011, and 6.78 RMB and 6.82 RMB to

$1.00 for the years ended December 31, 2010 and 2009, 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.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

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 the period required to complete the 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 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 50.0 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 at internal reporting unit - individual operating subsidiary basis in accordance with U.S. GAAP. The Company determines the reporting units based on following factors: a. it engages in business activities from which it may earn revenues and incur expenses; b. its operating results are regularly reviewed by the Company s chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance; and c. its discrete financial information is available.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include current period operating or cash flow losses combined with a historical of operating or cash flow losses, a projection or forecast that demonstrates continuing operating or cash flow losses, a significant adverse change in AR collection and unanticipated technology revolution in valves industry, among others. The Company performs its annual impairment review of goodwill every year at September 30 and when a triggering event occurs between annual impairment tests. 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 Company 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. In additional to cash flow projections, management also considers if the change of stock price representing of a triggering event for an impairment evaluation. The Company believes that the current decline in its stock price is temporary due to the negative publicity about Chinese companies going public in the United States through reverse merger transactions. The fundamentals of the Company s business remain strong as evidenced by over $30.0 million of net income over the past nine months. The Company does not believe impairing its goodwill is necessary at this time just because its stock price has temporarily dropped while the fundamentals of the business remain strong.

The Company has acquired several entities resulting in the recording of intangible assets, including goodwill, which represents the excess of the purchase price over the fair value of the net assets of businesses acquired.

The Company has six operating subsidiaries as reporting units included in continuing operations as of September 30, 2011, among which three reporting units had goodwill. The following table represents goodwill of the three subsidiaries as of September 30, 2011 and December 31, 2010, respectively.

(in thousands)	September 30, 2011	December 31, 2010
Kaifeng Valve	$ 10,783	$ 10,783
Zhengdie Valve	10,029	10,029
Hanwei Valve	11,046	11,046
Foreign currency translation adjustment	2,118	1,097
Total	$ 33,976	$ 32,955

See report of independent registered public accounting firm Page F-9

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

No impairment loss was incurred for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009 based on the Company s annual impairment test.

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 nine months ended September 30, 2011, the Company determined that $110,096 equipment was impaired due to the carrying value could not be recoverable. This is because the products manufactured by certain equipment did not meet the customer s needs any more. The Company determined that the equipment was technically obsolete and needed to be replaced with new equipment to meet the customer s current and future needs.

INVENTORIES

The Company s aggregate inventories are carried at cost or, if lower, net realizable value determined on the weighted average method. The Company provides a reserve for estimated inventory obsolescence or excess quantities on hand equal to the difference between the cost of the inventory and its estimated realizable value. The future estimated realizable value of inventory is generally based on the historical usage of such inventory. The Company ages its inventory with no recent demand and applies various valuation factors based on the last demand from customers for such material. If future conditions cause a reduction in the Company s current estimate of realizable value, due to a decrease in customer demand, a drop in commodity prices or other market-related factors that may influence demand for particular products, additional provisions may be required. In addition, the Company also reviews most recent quotes from vendors and compares with the carrying value of its inventory. If carrying amount of raw materials exceeds prices available at the balance sheet date, then the excess amount is directly written off and included in cost of the goods sold.

As of September 30, 2011 and December 31, 2010, the Company reserved $2,394,319 and $1,148,663 in allowance due to slow moving inventory, most of which are commodity valves whose technical specification no longer matched customers demand. Commodity valves are universal products we produce to meet general needs.

$71,521, $1,177,692 and $0 were directly written off and included in cost of goods sold after comparing the carrying value of inventory and recent market prices for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively.

Semi-finished products are work-in-process (WIP) inventory at the finishing stages of production. These products that are awaiting final assembly have similar physical shape to finished goods. The Company differentiates these products from WIP for inventory management purposes.

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.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

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 nine months ended September 30, 2011. U.S. 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 are comprised 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.

RESTRICTED CASH

The Company s restricted cash consists of cash in the bank as security for its exported products, security deposits for contract performance, notes payable and cash held in escrow to pay for certain investor relations expenses. 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 is expensed as incurred. Restricted cash amounted to $2,344,276 and $1,164,598 as of September 30, 2011 and December 31, 2010, respectively.

		September 30, 2011		December 31, 2010
Employee housing fund	$	163,936	$	153,278
Cash held for sales covenants		2,180,340		1,011,320
Total restricted cash	$	2,344,276	$	1,164,598

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 the United States. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of September 30, 2011 and December 31, 2010, the Company s cash and restricted cash balances, totaling $29,508,367 and $26,596,872 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 customers represented approximately 14%, 9% and 11% of the Company s total sales for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively. The five major customers accounted for 6% and 5% of total accounts receivable as of September 30, 2011 and December 31, 2010, respectively

Five major suppliers, including one related party, represented approximately 18%, 24% and 17% the Company s total purchases for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively, and accounted 5% and 13% of total accounts payable as of September 30, 2011 and December 31, 2010, respectively.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Company analyzes all financial instruments with features of both liabilities and equity under the accounting standards regarding accounting for certain financial instruments with characteristics of both liabilities and equity, accounting for derivative instruments and hedging activities, accounting for derivative financial instruments indexed to, and potentially settled in, a company s own stock, and the accounting standard regarding determining whether an instrument (or embedded feature) is indexed to an entity s own stock. The accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company s own stock and (b) classified in stockholders equity in the statement of financial position would not be considered a derivative financial instrument. This standard provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer s own stock and thus able to qualify for this accounting standard scope exception. All warrants issued by the Company are denominated in 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.

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 September 30, 2011	Fair Value Measurements at September 30, 2011 using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Warrant liabilities	$ -			$ -

Except for the warrant liabilities, 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, 2010	$	880,565
Issuance of new warrants		110,815
Warrants expired reclassified to APIC		(1,349)
Current period fair value change of exercised warrants		-
Current period fair value change		(990,031)
Balance, September 30, 2011	$	-

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.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

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 0.0955% of China Perfect Machinery Industry Co. Ltd. and approximately 1.6% 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 $815,066 and $790,572 as of September 30, 2011 and December 31, 2010, respectively. There has been no change in the carrying value since initial investment, other than the effects of translation difference.

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 September 30, 2011, management believes no impairment charge is necessary.

CUSTOMER DEPOSITS

Customer deposits represent amounts advanced by customers on product orders. The product normally is shipped within six months after receipt of the advance payment and the related sale is recognized in accordance with the Company s revenue recognition policy. As of September 30, 2011 and December 31, 2010, customer deposits amounted to $11,139,936 and $6,499,833, respectively.

STOCK COMPENSATION

The Company applies the accounting standard regarding accounting for stock-based compensation, which defines a fair-value-based method of accounting for stock based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from employees and non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with this accounting standard and the accounting standard regarding accounting for equity instruments that are issued to non-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 April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (ASU 2011-03), intended to improve financial reporting of repurchase agreements and refocus the assessment of effective control on a transferor s contractual rights and obligations rather than practical ability to perform those rights and obligations. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company does not expect the adoption of ASU 2011-03 to have a significant impact on its consolidated financial statements.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) on fair value measurement. A variety of measures are included in the update intended to either clarify existing fair value measurement requirements, change particular principles requirements for measuring fair value or for disclosing information about fair value measurements. For many of requirements, the FASB does not intend to change the application of existing requirements under Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and early application is not permitted. The Company is evaluating the impact adoption of ASU 2011-04 and does not expect the adoption of ASU 2011-04 will have significant impact on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), intended to increase the prominence of items reported in other comprehensive income and to facilitate convergence of accounting guidance in this area with that of the IASB. The amendments require that all non-owner changes in stockholders equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. Amendments under ASU 2011-05 for public entities should be applied retrospectively for fiscal years, and interim periods within those years, beginning December 15, 2011. The Company is evaluating the impact adoption of ASU 2011-05 and does not expect the adoption of ASU 2011-05 will have significant impact on its consolidated financial statements.

In July 2011, the FASB issued accounting guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance expands disclosures for the allowance for credit losses and financing receivables by requiring entities to disclose information at disaggregated levels. It also requires disclosure of credit quality indicators, past due information and modifications of financing receivables. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

In September 2011, the FASB issued Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment (ASU No. 2011-08), which amends ASC 350 to first assess qualitative factors before performing the quantitative goodwill impairment testing. The ASU provides the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative analysis indicate it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step impairment test, which is required under current U.S. GAAP, would not be necessary. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The implementation of the ASU is not expected to have a material impact on the Company s financial statements.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation. These classifications have no effect on net income.

Note 3 Accounts receivable, net

Accounts receivable consists of the following:

	September 30, 2011	December 31, 2010
Total accounts receivable	$ 134,290,696	$ 89,897,470

Accounts receivable related party	-	200,185
Allowance for bad debts	(4,052,398)	(998,739)
Accounts receivable, net	130,238,298	89,098,916
Accounts receivable non-current retainage	(5,724,024)	(4,751,605)
Accounts receivable (including related party) current	$ 124,514,274	$ 84,347,311

Retainage represents 5% to 10% of the contract prices held by customers to guarantee product quality ranging from 12-18 months after shipment of products. Retainage is considered as a payment term included as a part of the contract price, and recognized as revenue based upon shipment of products. Due to the nature of the retainage, the Company s policy is to take into revenue the full value of the contract, including any retainage, as it performs against the contact since the Company has experienced insignificant warranty claims historically 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. As of September 30, 2011 and December 31, 2010, retainage held by customers included in the Company s accounts receivable is as follows:

See report of independent registered public accounting firm Page F-14

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

	September 30, 2011		December 31, 2010	
Retainage				
Current	$	13,854,814	$	7,754,714
Non-current		5,724,024		4,751,605
Total retainage	$	19,578,838	$	12,506,319

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

	September 30, 2011		December 31, 2010	
Balance, beginning of the period	$	998,739	$	908,338
Additions to the allowance		2,974,399		353,036
Recovery of amounts previously reserved		-		(295,200)
Foreign currency translation adjustment		79,260		32,565
Balance, end of the period	$	4,052,398	$	998,739

Note 4 Inventories, net

	September 30, 2011		December 31, 2010	
Raw materials	$	5,438,464	$	4,742,643
Work-in-progress		9,088,975		3,764,667
Finished goods		8,613,573		7,810,526
Semi-finished products		1,417,185		1,082,765
Inventory in transit		1,705,007		-
Total		26,263,204		17,440,601
Less: Inventory Allowance		(2,394,319)		(1,148,663)
Inventories, net	$	23,868,885	$	16,251,938

The Company values its inventories at the lower of cost or market, determined on a weighted average method, or net realizable value. Management determined the carrying amount of inventory exceeded net realizable value; therefore, $71,521, $1,177,692 and $0 have been written down and included in cost of goods sold for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively.

Management reviews inventories for obsolescence and cost in excess of net realizable value at least annually and records a reserve against the inventory and additional costs of goods sold. The Company recorded additional $1,190,725 and $681,989 inventory allowance for the nine months ended September 30, 2011 and for the year ended December 31, 2010 respectively. Inventory allowance amounted to $2,394,319 and $1,148,663 as of September 30, 2011 and December 31, 2010, respectively.

Note 5 Plant and equipment, net

Plant and equipment consist of the following:

	September 30, 2011		December 31, 2010	
Buildings and improvements	$	23,592,085	$	22,043,897
Machinery and equipment		27,934,105		26,569,403
Motor vehicles		2,925,919		2,701,563
Office equipment		1,665,384		1,473,776
Construction in progress		165,511		497,652

Total		56,283,004		53,286,291
Less: Accumulated depreciation		(16,090,368)		(12,512,729)
Plant and equipment, net	$	40,192,636	$	40,773,562

See report of independent registered public accounting firm

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

The Company has no major capital commitments as of September 30, 2011. Depreciation expenses were $3,644,599, $4,167,004 and $1,694,674 for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively. Capitalized interest amounted to $8,292, $60,152 and $147,537 for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively.

For the nine months ended September 30, 2011, the Company impaired long lived assets in the amount of $110,096 which was included in Other Expense. This is because the products manufactured by certain equipment did not meet customer needs any more. The Company determined that the equipment was technically obsolete and needed to be replaced with new equipment to meet customer s current and future needs. For the year ended December 31, 2010, the Company changed estimate of useful lives for certain equipment and recorded additional depreciation amounted $1,341,962, which was included in cost of goods sold.

Note 6 Goodwill

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 company s identifiable assets and liabilities. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

In 2004, the Company acquired two companies engaged in the production of valves. The Company recorded goodwill representing the fair value of the assets acquired over the cost of the assets acquired.

On April 8, 2010, the Company acquired 100% of Hanwei Valve with a total cash consideration of approximately $19.5 million. 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 said acquisition.

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 recognition. These values include but are not limited to:

i) Expected synergies from combining operations of the Company s operating subsidiaries and Hanwei Valve;
ii) The experienced work force;
iii) Proprietary technologies related to certain products; and
iv) The proprietary manufacturing processes.

As of September 30, 2011 and December 31, 2010, the carrying value of goodwill amounted to $33,976,186 and $32,955,163, 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
Goodwill purchased		-

Foreign currency translation adjustment		1,021,023
Balance, September 30, 2011	$	33,976,186

Note 7 - Intangible assets, net

Intangible assets consist of the following:

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

	September 30, 2011	December 31, 2010
Patents	$ 2,765,836	$ 2,682,719
Software	1,850,982	2,014,267
Land use rights*	20,019,196	19,417,596
Total	24,636,014	24,114,582
Less: Accumulated amortization	(1,722,006)	(1,086,702)
Intangibles, net	$ 22,914,008	$ 23,027,880

* Land use rights consist of land use rights of $817,567 acquired as part of the acquisition of Taide Valve; $1,129,427 was acquired as part of the acquisition of Yangzhou Rock, $6,104,542, acquired as part of the acquisition of Changsha Valve, $3,903,744 acquired as part of the acquisition of Hanwei Valve and land use rights of $8,063,916 acquired by Kaifeng Valve by issuing 2,750,000 shares of common stock of the Company.

The gross amount of the intangible assets amounted to $24,636,014 and $ 24,114,582 as of September 30, 2011 and December 31, 2010, respectively. The remaining weighted average amortization period is 38.3 years.

Amortization expense was $592,019, $703,168 and $261,050 for the nine months ended September 30, 2011 and 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:

For the years ended September 30,	**Estimated Amortization Expense**	**Net carrying Amount**
2012	$ 789,359	$ 22,124,649
2013	789,359	21,335,290
2014	789,359	20,545,931
2015	789,359	19,956,572
2016	789,359	18,967,213
Thereafter	18,967,213	$ -
Total	**$** 22,914,008	

Note 8 Loans

SHORT TERM LOANS:	September 30, 2011	December 31, 2
Communications Bank of China, Changsha branch, due December 2011, annum interest at 6.1% , pledged by Changsha Valve s land use rights	$ 625,600	$ 758
China Everbright Bank Changsha branch, due June 2012, 7.6% annum interest rate, pledged by Changsha Valve s land use rights	938,400	
China Citic Bank, Zhengzhou branch Due December 2011 annum interest at 6.7%, , guaranteed by Kaifeng Cast Iron Co., Ltd.	3,128,000	3,034
Unrelated third parties, due on demand, non-interest bearing and unsecured	982,511	1,017
Local Bureau of Finance, Kaifeng City, due on demand, non-interest bearing and unsecured	839,299	838
Total short term loans	$ 6,513,810	$ 5,648

Interest expense incurred for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009 amounted to $216,203, $127,113 and $138,562, respectively. Capitalized interest amounted to $8,292, $60,152 and $147,537 for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

As of September 30, 2011, 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.

The United States of America

The Company is incorporated in the State of Nevada in the U.S. and is subject to a graduated 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 subsidiary, China Valves Holdings is incorporated in Hong Kong. China Valves Holdings did not earn any income that was derived in Hong Kong for the nine months ended September 30, 2011 and 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 the PRC. The operating subsidiaries are governed by the income tax laws of the PRC, the company do 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: Kaifeng Valve, Changsha Valve, Taide Valve, and Yangzhou Rock are subject to an income tax at an effective rate of 25%. Hanwei Valve is subject to a preferential income tax at rate of 15%. ZD Valve received the National High-Tech Enterprise status and thus became entitled to a preferential tax rate of 15% as well.

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 nine months ended September 30, 2011 and for 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 nine months ended September 30, 2011	For the years ended December 31, 2010	2009
U.S. Statutory rate	34.0%	34.0%	34.0%
Foreign income not recognized in USA	(34.0)	(34.0)	(34.0)
Non-deductible expenses (1)	1.3	7.1	1.8
China income taxes	25.0	25.0	25.0
China income tax exemption	(2.1)	(7.0)	-
Total provision for income taxes	24.2%	25.1%	26.8%

(1) The 1.3% , 7.1% and 1.8% represents net expenses incurred by the Company that are not deductible for PRC income tax purpose for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

The estimated tax savings due to the reduced tax rate are $2,177,023, $1,827,508 and $0 for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively. The net effect on basic and diluted earnings per share if the income tax had been applied would decrease earnings per dilutive share by $0.06, $0.05 and $0 for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively.

The Company has cumulative undistributed earnings of foreign subsidiaries of around $142.3 million as of September 30, 2011, 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.

Value Added Tax

VAT on sales and VAT on purchases in the PRC amounted to $26,225,634 and $15,656,180 for the nine months ended September 30, 2011, respectively. VAT on sales and VAT on purchases in China amounted to $30,738,159 and $9,119,027 for the year ended December 30, 2010, and $14,902,035 and $5,870,603 for the year 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:

	September 30, 2011	December 31, 2010
VAT	$ 1,775,373	$ 2,505,802
Income tax	3,694,160	4,013,347
Other taxes	321,907	308,969
Total taxes payable	$ 5,791,440	$ 6,828,118

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 Company s registered capital. The transfer to this reserve must be made before distribution of any dividends to shareholders. The Company had $11,224,490 and $10,046,713 statutory reserves as of September 30, 2011 and December 31, 2010, respectively, and the remaining reserve to fulfill the 50% registered capital requirement amounted approximately $27.0 million and $27.8 million.

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

The Company s 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 September 30, 2011, prepaid rental of $19,941 remains to be amortized as rental expense.

The Company s 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 $227,549.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

For the nine months ended September 30, 2011, total lease expense, including rental expense under cost of sales, was $406,778. Total lease expense, including expense under 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 September 30, 2011, are as follows:

For the years ended September 30,		Amount
2012	$	609,059
2013		350,061
2014		258,567
2015		170,662
Thereafter		-
Total	$	1,388,349

Make Good Escrow Agreement

In connection with the Company s private placement on August 26, 2008, the Company entered into a Make Good Escrow Agreement (the Escrow Agreement), under which the 12,583,032 shares of the Company s common stock held by Bin Li, the Company s 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 Escrow Agreement on behalf of Siping Fang. For each of the calendar years 2008, 2009 and 2010, 4,194,344 shares would 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 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 met the specified earnings targets and accordingly, 4,194,344 shares were released from escrow and returned to Bin Li for each of the years 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 was released from escrow on March 24, 2011.

Net income target required by the Escrow Agreement for calendar year of 2010 was $34,000,000, and the target for fully diluted earnings per share was $1.082. If the Company had not acquired Changsha Valve, the consolidated net income for the calendar year 2010 would be $34,303,537, which was slightly higher than the net income target; the fully diluted earnings per share would be $0.99, $0.092 less than the target. If the Company had not acquired Hanwei Valve, the consolidated net income for the calendar year of 2010 would be $34,034,935, which was also slightly higher than the net income target, and fully diluted earnings per share would be $0.98, $0.102 less than the target. If the Company had not acquired Changsha Valve and Hanwei Valve, the Company would not be able to meet the targets for net income and fully diluted earnings per share.

Please also refer to the table below for the impacts of the acquisitions of Changsha Valve and Hanwei Valve.

US$	
2010 Net income target pursuant to the Escrow Agreement	34,000,000
2010 Diluted Earnings Per Share target pursuant to the Escrow Agreement	1.082

Consolidated net income for the calendar year of 2010	43,197,529
Weighted average number of shares	34,695,639
Diluted Earnings Per Share	1.25
Net income of Changsha Valve for the calendar year of 2010	8,893,992
Consolidated net income for the calendar year of 2010 without Changsha Valve	34,303,537
Diluted Earnings Per Share without Changsha Valve	0.99
Net income of Hanwei Valve for the calendar year of 2010	9,162,594
Consolidated net income for the calendar year of 2010 without Hanwei Valve	34,034,935
Diluted Earnings Per Share without Hanwei Valve for the calendar year of 2010	0.98
Consolidated net income for the calendar year of 2010 without Changsha Valve and Hanwei Valve	25,140,943
Diluted Earnings Per Share without Changsha Valve and Hanwei Valve	0.72

See report of independent registered public accounting firm

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

Restricted Share Grant Agreements

On May 16, 2011, the Company entered into Restricted Stock Grant Agreements (the Stock Grant Agreement) with three officers of the Company. Pursuant to the Stock Grant Agreement, the Company granted 500,000 shares of restricted stock to Mr. Jianbao Wang, the Company s Chief Executive Officer, 250,000 shares to Mr. Gang Wei, the Company s Chief Financial Officer, and 125,000 shares to Mr. Renrui Tang, the Company s Vice President of Finance.

125,000 shares of Mr. Jianbao Wang s restricted stock vested immediately on May 16, 2011. The remaining shares for Mr. Jianbao Wang and all restricted shares for Mr. Gang Wei and Mr. Renrui Tang will vest in three equal installments over a three-year period starting from January 1, 2012, subject to performance criteria set forth by the Board and the Compensation Committee.

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 was styled *Donald Foster, et al. v. China Valves Technology, Inc., et al.*, was filed in the U.S. District Court for the Southern District of New York. Several substantially identical complaints were subsequently filed in the same court. On or about June 29, 2011, the Court consolidated the three cases referenced above and appointed Bristol Investment Fund, LTD (Bristol) as lead plaintiff. In the consolidation order the Court renamed the case *In re China Valves Technology Securities Litigation*. On August 29, 2011, Bristol filed a consolidated class action complaint, which named additional defendants including an individual shareholder of the Company and the Company s auditor. The Company and the individual defendants intend to file a motion to dismiss the consolidated complaint on November 21, 2011.

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

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

Nevertheless, there is possibility that a loss may have been incurred from above class actions. In accordance with ASC Topic 450, no loss contingency was accrued as of September 30, 2011 since the possible loss or range of loss cannot be reasonable estimated.

Note 12 Related party transactions

The Company had the following significant related party balances as of September 30, 2011 and December 31, 2010, respectively:

	September 30, 2011	December 31, 2010
Accounts Receivable related party; receivable from Zhengzhou Tonghai Trade (2)	$ -	$ 200,185
Other receivable related party: receivable from Zhengzhou Tonghai Trade, unsecured, interest-free.	-	152,179
Advance to inventory purchase related party, the Casting Company (1)	1,552,123	917,202
Accounts payable related party, payable to Zhengzhou Tonghai Trade (2)	(783,148)	(2,382,906)
Accounts payable related party: Kaifeng Zhenghe Northern Song Porcelain Art Co., Ltd. (3)	(3,323)	-
Other payables related parties: cash advance from officers, unsecured, interest-free, due on demand (4)	(94,226)	(1,899,627)
Total	$ 671,426	$ (3,012,967)

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

(1) On August 26, 2008, Kaifeng Valve purchased some land use rights and real estate from Kaifeng High-Pressure Valve Steel Casting Co., Ltd, a company controlled by the Company s chairmen, Mr. Siping Fang,through the issuance of 2,750,000 shares of the Company s common stock at $3.576 per share. On April 11, 2009, Kaifeng Valve and the Casting Company entered into a leasing agreement pursuant to which the Casting Company leased back the portion of the Real Estate used at an annual rental of $400,000 for a period of two years starting on April 1, 2009. The lease agreement was automatically extended for one more year when no disagreement was raised as of April 1, 2011. For the nine months ended September 30, 2011, total rental income from the Casting Company amount to $300,000. For the years ended December 31, 2010 and 2009, total rental income from the Casting Company amount to $400,000 and $400,000, respectively. The Company also purchases raw material, such as castings, from and sells scrap metals and valves to the Casting Company. Total raw material purchases from the related party amounted to $2.5 million for the nine months ended September 30, 2011, and $4.1 million and $4.4 million for the years ended December 30, 2010 and 2009, respectively. The Company also sold a total of $0.1 million scrap metals valves to the Casting Company for the nine months ended September 30, 2011, and sold a total of $0.15 million of valves to the related party for the year ended December 31, 2010. For the nine months ended September 31, 2011, the Company also received $12.1 million from the Casting Company in excess of the sales related cash receipts for cash flow purposes and made payments to the related party in the amount of $ 15.5 million. As of September 30, 2011 and December 31, 2010, the Company's advance for purchase to the Casting Company amounted to $1.6 million and $0.9 million, respectively.

(2) The Company makes finished goods and raw material purchases from and valve sales to related party -Zhengzhou Tonghai Trade Co., Ltd, which is established by an officer. Total purchases from Zhengzhou Tonghai Trade Co., Ltd amounted to $2.5 million for the nine months ended September 30, 2011, and $4.6 million and $0.02 for the years ended December 31, 2010 and 2009, respectively. Total valve sales to Zhengzhou Tonghai Trade Co., Ltd amounted to $0.03 million and $0.47 million for the nine months ended September 30, 2011 and for the year ended December 31, 2010, respectively. During the nine months ended September 30, 2011, the Company also received $0.86 million from Zhengzhou Tonghai Trade in excess of the sales related cash receipts for cash flow purposes and made payments to Zhengzhou Tonghai Trade in the amount of $ 4.6 million. As of September 30, 2011 and December 31, 2010, the Company had payable to the related party in the amount of $0.8 million and $2.2 million (net of accounts receivable balance as of December 31, 2010), respectively.

(3) Kaifeng Zhenghe Northern Song Porcelain Art Co., Ltd. is a related party established by the Company's Chairman, Mr. Siping Fang. For the nine months ended September 30, 2011, the Company purchased porcelain from the related party in the amount of $0.02 million and made payment of $0.02 million. The Company did not have any transaction with the related party in 2010 or 2009. As of September 30, 2011 and December 31, 2010, the Company had payable to the related party in the amount of $3,323 and $0, respectively.

(4) Other payable to officers are expenses the officers paid on Company's behalf or the Company sometimes make short term advances to the officers for business purposes. For the nine months ended September 30, 2011, the Company repaid the amount owed to officers in the amount of $1.9 million that was outstanding as of December 31, 2010. The Company also made short term advances to officers in the amounts of $2.3 million of which $0.6 million was for business reimbursements and $1.7 million was paid back by the

officers.

As discussed in note 11 above, the Company s subsidiary, ZD Valve leases its manufacturing plant and office space from ZhengZhou Cheng Long Corporation, a company owned by relatives of the Company s chairman..ZD Valve made leasehold improvements to its leased manufacturing plant in the amount of $615,260, which is used as rental payments for the two years ended December 31, 2011. As of September 30, 2011, prepaid rental of $19,941 remains to be amortized as rental expense and the Company has incurred $238,832 rental expense associated with the lease agreement. During the nine months ended September 30, 2011, the Company also made advance to and received repayment from Cheng Long in the amount of $0.9 million. As of September 30, 2011 and December 31, 2010, the Company did not have remaining balances with the related party.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

Note 13 Shareholders' equity

Registered Direct Offerings

In January 2011, the Company entered into a Securities Purchase Agreement with certain purchasers pursuant to which the Company sold a total of 1,000,000 shares of common stock, par value $0.001 per share, for an aggregate purchase price of $10,000,000. Subtracting placement agent fees, legal and other expenses, net proceeds amounted to $9,391,482. The shares were priced at $10.00 per share. The Purchasers also received warrants to purchase an aggregate of 250,000 shares of Common Stock (subject to adjustment in certain circumstances) at an exercise price of $10.00 per share. The Warrant was exercisable for 180 days beginning on the date of the initial issuance of the Warrant.

Warrants

In January 2011, the Company issued common stock purchase warrants to acquire 250,000 shares of common stock. The warrants have a strike price equal to $10.00 and a term of 180 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 Company s functional currency is the Renminbi, they do not meet the requirements of the accounting standard to be indexed only to the Company s stock. Accordingly, they are accounted for at fair value as derivative liabilities and marked to market each period. The initial value of the warrants was determined using the Cox-Ross-Rubinstein binomial model using the following assumptions:

- Expected volatility of 34.03%
- Expected dividend yield of 0%
- Risk-free interest rate of 0.190%
- Expected lives of 180 days
- Market price at issuance date of $8.85
- Strike price of $10.00

The value of the warrants was based on the Company s common stock price of $8.85 on the date the warrants were issued. The warrants were valued at $110,815 when they were issued on January 11, 2011 and expired on July 10, 2011.

	Warrants Outstanding		Average Exercise Price	Average Remaining Contractual Life
Balance, December 31, 2010	142,131	$	4.29	0.66
Granted	250,000		10.00	0.50
Expired	(392,131)		-	-
Exercised	-			
Balance, September 30, 2011	-	$	-	-

No warrants were outstanding as of September 30, 2011. 142,131 shares of warrants issued to placement agent in connection with the 2008 securities purchase agreement and 250,000 shares of warrants issued in connection with the 2011 registered direct offering were expired in July 2011 and August 2011, respectively $1,349 warrant liability as of June 30, 2011 was reclassified back to additional paid-in capital upon expiration of the warrants.

As of September 30, 2011 and December 31, 2010, warrant liabilities amount to null and $880,565, respectively. The Company recorded a total income of $990,031 and a total loss of $785,350 and $1,508,997 in the Company s statements of income related to the change in fair value of warrants for the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, respectively.

Stock Compensation

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

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

In February, 2011, the Company issued 5,000 vested shares of common stock to a director pursuant to his Stock Grant Agreement dated June 29, 2009.

On April 27, 2011, the Compensation Committee of the Board of Directors approved the grant of restricted stock to three directors and three officers of the Company. On May 1, 2011, the Company entered into a restricted stock grant agreement with each of the directors. Pursuant to the Stock Grant Agreement, the Company granted 25,000 shares of restricted stock to each of Mr. William Haus, Mr. Peter Li and Mr. Zengbiao Yu, independent directors of the Company. The restricted stock granted vested immediately on May 1, 2011.

On May 16, 2011, the Company entered into the Stock Grant Agreement with three officers of the Company. Pursuant to the Stock Grant Agreement, the Company granted 500,000 shares of restricted stock to Mr. Jianbao Wang, the Company s Chief Executive Officer, 250,000 shares to Mr. Gang Wei, the Company s Chief Financial Officer, and 125,000 shares to Mr. Renrui Tang, the Company s Vice President of Finance. 125,000 shares of Mr. Jianbao Wang s restricted stock vested immediately on May 16, 2011. The remaining shares for Mr. Jianbao Wang and all restricted shares for Mr. Gang Wei and Mr. Renrui Tang will vest in three equal installments over a three-year period starting from January 1, 2012, subject to performance criteria set forth by the Board and the Compensation Committee.

For the nine months ended September 30, 2011 and for the years ended December 31, 2010 and 2009, $793,972, $56,019 and $47,057 were recorded as compensation expense in the Company s income statements, respectively.

The following is a summary of the stock options activity:

	Number of Options Outstanding	Weighted-Average Exercise Price	Aggre Intrir Valu
Balance, January 1, 2011	50,000	$ 6.90	$ 179
Granted	-		
Forfeited	-		
Exercised	-		
Balance, September 30, 2011	50,000	6.90	

Following is a summary of the status of options outstanding at September 30, 2011:

Outstanding Options			Exercisable Options		
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number	Average Remaining Contractual Life
$6.00	27,500	2.75	$ 6.00	27,500	1.51
$8.00	22,500	2.15	$ 8.00	22,500	0.97
Total	50,000			50,000	2.48

There is no aggregate intrinsic value of exercisable shares as of September 30, 2011.

Note 14 - Earnings per Share

The following is a reconciliation of the basic and diluted earnings per share computation for:

See report of independent registered public accounting firm Page F-24

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

	Nine months ended September 30,		Years ended December 31,	
Basic earnings per share	2011	2010	2010	2009
		(Unaudited)		
Net income attributable to holders of common shares	$ 29,558,348	$ 36,789,370	$ 43,197,529	$ 23,353,093
Basic weighted average number of common shares outstanding	35,654,398	34,513,314	34,547,224	30,771,356
Basic earnings per share	$ 0.83	$ 1.07	$ 1.25	$ 0.76

	Nine months ended September 30,		Years ended December 31,	
Dilutive earnings per share	2011	2010	2010	2009
		(Unaudited)		
Net income attributable to holders of common shares	$ 29,558,348	$ 36,789,370	$ 43,197,529	$ 23,353,093
Basic weighted average number of common shares outstanding	35,654,398	34,513,314	34,547,224	30,771,356
Warrants	23,475	180,004	118,821	160,110
Stock compensation	-	34,305	29,594	14,926
Dilutive weighted average number of common shares outstanding	35,677,873	34,727,623	34,695,639	30,946,392
Dilutive earnings per share	$ 0.83	$ 1.06	$ 1.25	$ 0.75

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, 2009. The stock compensation is included in the diluted earnings per share for the periods ended December 31, 2010 and 2009 due to its dilutive nature. The 50,000 option shares granted to its independent directors was anti-dilutive for the nine months ended September 30, 2011.

The warrants issued in 2008 with an exercise price of $4.29 and expired on August 2011 was included in the diluted earnings per share for the period ended September 30, 2011. 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 period ended September 30, 2011 and 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.

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

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:

(in thousands)	Nine Months Ended September 30,		Years Ended December 31,	
	2011	2010 (Unaudited)	2010	2009
Power Supply	$ 48,814	$ 38,798	$ 51,963	$ 28,206
Petrochemical and Oil	51,007	37,346	55,635	16,250
Water Supply	33,408	34,548	43,626	28,301
Metallurgy	6,581	6,236	8,999	6,173
Other	21,585	14,439	23,473	16,440
Total sales revenue	$ 161,395	$ 131,367	$ 183,696	$ 95,370

See report of independent registered public accounting firm Page F-25

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

(in thousands)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010 (Unaudited)	Years Ended December 31, 2010	Years Ended December 31, 2009
Domestic sales in the PRC	$ 153,223	$ 126,856	$ 177,006	$ 89,538
International sales	8,172	4,511	6,690	5,832
Total sales revenue	$ 161,395	$ 131,367	$ 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 standard s cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. 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.

China s valve industry is highly fragmented in terms of geography and industries served. The Company has been planning to consolidate the industry and expand its products portfolio. Yangzhou Rock is the only Chinese company to produce valve locks. It has a number of invention patents. Changsha Valve produces large size butterfly valves for the hydropower industry. Hanwei valve manufactures ball valves for the petro-chemical industry, and is also one of only two companies in the world that can produce the 24-way rotary valve.

Yangzhou Rock acquisition

In January, 2010, a subsidiary of the Company completed the acquisition of Yangzhou Rock for a total cash consideration of $7.2 million from an unaffiliated third party. The acquisition was accounted as a business combination in accordance to the terms of the purchase agreement and no contingent consideration arrangements were associated with the acquisition. The Company assumed the following net assets:

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., formerly an indirect subsidiary of Watts Water Technologies, Inc. (Watts), and later known as Changsha Valve, 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.(Able Delight), 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 8-KA released on November 18, 2010.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

Able Delight 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 formation of Able Delight Investment was required by Watts Regulator. Watts Regulator required, as a condition of the sale of Changsha Valve, that the purchasing party be a company whose registered owner was not the Company, a direct competitor of Watts Regulator. It also required the purchasing party to be a wholly foreign owned entity outside China to ensure that Changsha Valve would maintain its status as a wholly foreign owned enterprise in China after the acquisition. Mr. Siping Fang, the then CEO of the Company asked Qing Lu to form Able Delight because Qing Lu is a Canadian citizen and would be qualified to set up such a wholly foreign owned entity, be it in Hong Kong or the British Virgin Islands, or somewhere else outside China. In addition, Qing Lu is a trusted relative of Mr. Siping Fang. Therefore, Able Delight was formed in November 2009 after the Company entered into serious negotiations with Watts Regulator to facilitate the acquisition 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.

The acquisition of Changsha Valve was a two step process. Because Watts (the owner of Changsha Valve) preferred not to sell Changsha Valve to a public company, Able Delight was set up as an intermediary to facilitate the transaction. Able Delight signed a loan agreement with the Company to acquire Changsha Valve from Watts. Then Able Delight acquired Changsha Valve on behalf of the Company, and then transferred its ownership to the Company on February 3, 2010. Pursuant to the purchase agreement between Able Delight and Watts, Able Delight paid $6 million to Watts. Pursuant to email communications, Able Delight, the Company and Watts agreed that as a post-closing condition to the agreement between Watts and Able Delight, the Company would pay $8.93 million to Watts in order to settle certain liabilities of Changsha Valve concurrently, including vendor payables, unpaid salaries and sales commissions, severance payments and etc, besides the cash consideration paid by the Company through Able Delight to Watts.

Although the Company purchased Changsha Valve through Able Delight, the essence of the transaction was that the Company purchased Changsha Valve from Watts in an arm-length transaction. As mentioned above, the acquisition was a two step process to satisfy the seller requirement that Changsha Valve would not be sold to a publicly traded company.

The Company acquired Changsha Valves through the formation of a new corporation, Able Delight. Although in form the creation of a new company to effect the business combination is different than a business combination between the separate companies, in substance the transaction is no different from a transaction in which one of the combining entities directly acquires the other. Therefore, the transaction should be accounted for as if one of the combining entities directly acquires the other and the acquisition method is applied to each of the combining entities.

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	5,490873
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

See report of independent registered public accounting firm Page F-27

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

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

On April 8, 2010, the Company acquired, from certain unaffiliated individuals, 100% of equity interests in the two entities that were owners of the joint venture that in turn owned Hanwei Valve. Together with certain intangible assets used in the operation of Hanwei Valve, Hanwei Valve was acquired 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.

Net assets of Hanwei Valve acquired at the acquisition date were as follows:

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
Total assets		8,449,848		8,449,848
Total liabilities		-		-
Net assets	$	8,449,848	$	8,449,848
Consideration paid		19,495,922		19,495,922
Goodwill	$	11,046,074	$	11,046,074

The Company allocated the purchase price based on the fair value of the assets acquired and recorded goodwill of approximately $11.0 million in the current period. The goodwill recognized in conjunction with the acquisition of Hanwei represents intangible values that Hanwei has built over its more than 16 years of history, which do not qualify for separate recognitions. These values include, but are not limited to:

v) Expected synergies from combining operations of the Company s operating subsidiaries and Hanwei Valve;
vi) The experienced work force;
vii) Proprietary technologies related to certain products; and
viii) The proprietary manufacturing processes.

Pursuant to Regulation Section 197(c)(1), amortization under Section 197 is not available for the cost of acquiring stock. Thus, no goodwill would be deductible for tax purposes in connection with the Hanwei acquisition.

Pro Forma

The following unaudited pro forma condensed income statement for the fiscal years ended, September 30, 2011 and December 31, 2010 were prepared under generally accepted accounting principles, as if the acquisitions of Hanwei Valve, Yangzhou Rock and Changsha Valve had occurred as of the first day of the respective periods. The pro forma information may not be indicative of the results that actually would have occurred if the acquisition had been in effect from and on the date indicated.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

	Pro forma			
	For the nine months ended September 30, 2011		For the years ended, December 31 2010	
Revenue	$	245,684,743	$	186,157,313
Net income	$	53,835,263	$	43,284,793