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

FORM 10-Q

(Mark One)

[X] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2010

OR

[ ] **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

Commission File Number: 001-34542

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

Nevada	**86-0891931**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
No. 93 West Xinsong Road Kaifeng City, Henan Province People s Republic of China	**475002**
(Address of principal executive offices)	*(Zip Code)*

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

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

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

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

Yes [   ]   No [X]

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 34,642,876 shares of common stock, par value $0.001 per share, outstanding on November 10, 2010.

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PART I FINANCIAL INFORMATION

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

ASSETS

		September 30, 2010 (Unaudited)		December 31, 2009
CURRENT ASSETS:				
Cash and cash equivalents	$	8,387,646	$	14,485,408
Restricted cash		1,321,429		1,047,389
Notes receivable		650,709		414,193
Accounts receivable, net of allowance for doubtful accounts of $1,118,000 and $908,338 as of September 30, 2010 and December 31, 2009, respectively		74,524,480		32,341,042
Other receivables		5,257,317		4,481,610
Other receivables -related party		149,700		-
Inventories, net		20,216,280		9,246,801
Purchase deposits and prepaid expense		2,310,480		1,567,960
Advances on inventory purchases - related party		377,979		385,066
Rental prepayment - short-term		308,888		307,630
Total current assets		113,504,908		64,277,099
PLANT AND EQUIPMENT, net		41,252,690		28,468,866
OTHER ASSETS:				
Accounts receivable - retainage, long term		5,616,060		1,523,395
Deposit for acquisition		-		13,215,650
Advances on equipment purchases		526,627		654,931
Rental prepayment - long-term		36,623		307,630
Long term receivable		-		440,100
Goodwill		32,520,685		20,811,767
Intangibles, net of accumulated amortization		22,558,054		9,639,180
Other investments, at lower of cost or market		780,149		764,515
Total other assets		62,038,198		47,357,168
Total assets	$	216,795,796	$	140,103,133

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:				
Accounts payable - trade	$	13,260,729	$	6,953,499
Short term loans		2,188,439		5,048,246
Other payables		3,487,444		2,662,930
Other payables - related parties		1,705,639		1,891,870
Notes payable		-		733,500
Accrued liabilities		2,783,728		2,033,626
Customer deposits		7,257,010		3,325,906
Customer deposits - related parties		149,700		-

Taxes payable	5,900,061	2,293,346
Warrant liabilities	589,348	1,730,837
Total current liabilities	37,322,098	26,673,760
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $0.001 par value; 300,000,000 shares authorized; 34,642,876 shares and 31,727,212 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively	34,642	31,726
Additional paid-in-capital	96,189,914	70,534,943
Statutory reserves	9,339,320	5,534,575
Retained earnings	64,160,852	31,176,227
Accumulated other comprehensive income	9,748,970	6,151,902
Total shareholders' equity	179,473,698	113,429,373
Total liabilities and shareholders' equity	$ 216,795,796	$ 140,103,133

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER, 2010 AND 2009
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
SALES	$ 55,325,227	27,971,501	$ 131,366,951	$ 70,484,712
COST OF GOODS SOLD	30,197,441	14,191,615	69,394,665	35,565,231
GROSS PROFIT	25,127,786	13,779,886	61,972,286	34,919,481
OPERATING EXPENSES:				
Selling	2,438,379	1,739,431	6,650,841	4,654,287
General and administrative	3,023,265	1,762,085	9,041,799	5,520,928
Non-cash stock compensation expense	11,924	3,779,849	44,095	11,279,336
Research and development	26,929	15,677	181,861	38,493
Total operating expenses	5,500,497	7,297,042	15,918,596	21,493,044
INCOME FROM OPERATIONS	19,627,289	6,482,844	46,053,690	13,426,437
OTHER (INCOME) EXPENSE :				
Other (income) expense, net	(94,892)	304,862	(490,768)	(336,585)
Gain from acquisition	-	-	(1,016,198)	-
Interest and finance expense, net	16,091	11,879	82,289	138,031
Change in fair value of warrant liabilities	(301,871)	(90,491)	262,633	310,143
Total other (income) expense, net	(380,672)	226,250	(1,162,044)	111,589
INCOME BEFORE PROVISION FOR INCOME TAXES	20,007,961	6,256,594	47,215,734	13,314,848
INCOME TAX EXPENSE	4,130,423	2,502,624	10,426,364	6,380,816
NET INCOME	15,877,538	3,753,970	36,789,370	6,934,032
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation gain (loss)	2,910,751	65,058	3,597,068	(16,007)
COMPREHENSIVE INCOME	$ 18,788,289	$ 3,819,028	$ 40,386,438	$ 6,918,025
BASIC EARNINGS PER SHARE:				
Weighted average number of shares	35,097,967	31,398,770	34,513,314	30,559,609
Earnings per share	0.45	0.12	1.07	0.23
DILUTED EARNINGS PER SHARE:				
Weighted average number of shares	35,250,241	31,446,247	34,727,623	30,670,673
Earnings per share	$ 0.45	$ 0.12	$ 1.06	$ 0.23

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30,
(Unaudited)

	Common stock number of shares	Par value	Additional paid-in capital	Common stock subscription receivable	Retained earnings Statutory reserves	Retained earnings Unrestricted	Accumulat other comprehens income
BALANCE, December 31, 2008	31,192,552	$ 31,192	$ 66,935,968	$ (9,834,000)	$ 2,958,659	$ 10,399,050	$ 6,158,9
Cashless exercise of warrants	201,326	201	755,811				
Release of shares in escrow related to common stock issued for real estate acquisition				9,834,000			
Stock compensation expense related to Make Good Escrow Agreement			11,249,231				
Stock compensation			30,096				
Net income						6,934,032	
Adjustment to statutory reserve					1,933,604	(1,933,604)	
Foreign currency translation adjustment							(16,0
BALANCE, September 30, 2009, unaudited	31,393,878	31,393	78,971,106	-	4,892,263	15,399,478	6,142,9
Stock compensation expense related to Make Good Escrow Agreement			(11,249,231)				
Stock compensation			16,961				
Common stock issuance for cash at $9.00	**333,334**	**333**	**2,796,107**				
Net income						16,419,061	
Adjustment to statutory reserve					642,312	(642,312)	
Foreign currency translation adjustment							8,9
BALANCE, December 31, 2009	31,727,212	31,726	70,534,943	-	5,534,575	31,176,227	6,151,9
Exercised warrants	501,551	502	5,072,624				
Stock compensation			44,095				
Common stock issuance for cash at $9.00	2,414,113	2,414	20,538,252				
Net income						36,789,370	
Adjustment to statutory reserve					3,804,745	(3,804,745)	
Foreign currency translation adjustment							3,597,0
BALANCE, September 30, 2010, unaudited	34,642,876	$ 34,642	$ 96,189,914	$ -	$ 9,339,320	$ 64,160,852	$ 9,748,9

The accompanying notes are an integral part of these statements.

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CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 36,789,370	$ 6,934,032
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	2,594,192	1,111,294
Amortization	513,577	175,413
Bad debt provision	187,768	200,595
Gain on acquisition	(1,016,198)	-
(Gain) loss on disposal of fixed assets	(1,564)	52,098
Stock compensation	44,095	11,279,336
Change in fair value of warrant liabilities	262,633	310,143
Change in operating assets and liabilities:		
Restricted cash due to sales covenant	(1,089,637)	(571,331)
Notes receivable	(224,086)	636,201
Accounts receivable-trade	(40,886,982)	(1,609,558)
Other receivables	(230,878)	(441,139)
Other receivables-related parties	(147,100)	-
Inventories, net	(2,054,795)	885,549
Purchase deposits and prepaid expense	(429,052)	(1,089,182)
Advances on inventory purchases-related party	14,702	106,946
Accounts receivable - retainage, long-term	(4,092,665)	81,689
Accounts payable-trade	6,057,959	1,807,350
Other payables	756,683	(1,136,336)
Other payables - related parties	(29,002)	-
Accrued liabilities	1,030,155	601,564
Customer deposits	3,795,995	(114,511)
Customer deposits - related party	147,100	-
Taxes payable	3,497,989	873,859
Net cash provided by operating activities	5,490,259	20,094,012
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of intangible assets	(220,650)	(768,192)
Advances on equipment purchases	(617,694)	-
Cash paid for acquisitions	(28,546,000)	-
Purchases of equipment	(2,439,388)	(8,636,494)
Construction in progress	(861,280)	-
Proceeds from sale of equipment	4,910	-
Investment deposit	-	(6,010,190)
Net cash used in investing activities	(32,680,102)	(15,414,876)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash due to escrow covenant	105,616	(3,894)
Restricted cash due to notes payable	735,500	586,360
Repayment of notes payable	(735,500)	(586,360)

Other payables-related party		-		(505,130)
Cash proceeds from public offering and warrants exercised		23,881,858		-
Proceeds from short-term loan - banks and others		1,891,434		3,037,517
Repayments of short-term loan- banks and others		(4,888,065)		(6,733,530)
Proceeds from short-term loans-related parties		-		99,307
Repayments of short-term loans-related parties		(99,971)		(251,638)
Net cash provided by (used in) financing activities		20,890,872		(4,357,368)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		201,209		(80,065)
(DECREASE)/INCREASE IN CASH		(6,097,762)		241,703
CASH and CASH EQUIVALENTS, beginning of period		14,485,408		16,427,883
CASH and CASH EQUIVALENTS, ending of period	$	8,387,646	$	16,669,586
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$	284,271	$	138,133
Cash paid for income taxes	$	8,180,186	$	1,324,470

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 1 Organization

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

RECENT DEVELOPMENTS

On January 13, 2010, Henan Tonghai Fluid Equipment Co, Ltd acquired 100% of the assets of Yangzhou Rock Valve Lock Technology Co. Ltd., or Yangzhou Rock for $7.3 million in cash. Yangzhou Rock became an operating subsidiary. See Note 16- business combinations for details.

On February 3, 2010, China Fluid Equipment Holdings Limited ("China Fluid"), entered into an asset purchase agreement with Able Delight Investment Limited to purchase all of the assets of Able Delight (Changsha) Valve Co., Ltd. ("Able Delight") for a cash price of $15.0 million. Able Delight (Changsha) Valve became an operating subsidiary. See Note 16- business combinations for details.

On April 8, 2010, the Company acquired 100% assets of Shanghai Pudong Hanwei Valve Co., Ltd ("Hanwei Valve"), which is the sole producer of the fully-welded ball valve and 24-way rotary valve in China, for a total cash consideration of approximately $19.6 million pursuant to an Asset Transfer Agreement. See Note 16 business combination for details.

Note 2 Summary of significant accounting policies

THE REPORTING ENTITIES

The accompanying consolidated financial statements include the following subsidiaries:

Name of entity	Place of incorporation	Ownership	Principle business
Able Delight (Changsha) Valve Co.	PRC	100% Indirectly	Manufacturing
Yangzhou Rock Valve Lock Technology Co., Ltd.	PRC	100% Indirectly	Manufacturing
Henan Kai Feng High Pressure Valve Co., Ltd.	PRC	100% Indirectly	Manufacturing
Zhengzhou City ZhengDie Valve., Ltd.	PRC	100% Indirectly	Manufacturing
Tai Zhou Tai De Valve Co., Ltd.	PRC	100% Indirectly	Manufacturing
Shanghai Pudong Hanwei Valve Co., Ltd	PRC	100% Indirectly	Manufacturing

Henan Tonghai Fluid Equipment Co., Ltd.	PRC	100% Indirectly	Holding Company
China Fluid Equipment Holdings Limited	Hong Kong	100% Directly	Holding Company

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 2 Summary of significant accounting policies (continued)

The results of operations of the three acquired entities, Yangzhou Rock, Able Delight and Hanwei Valve, are included in the consolidated statement of income since the acquisition dates accordingly to the end of the quarter.

BASIS OF PRESENTATION

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

Management has included all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation of operating results for the periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the 2009 annual report filed on Form 10-K.

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.

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 asset, 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 18 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.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 2 Summary of significant accounting policies (continued)

COST OF GOODS SOLD

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

SHIPPING AND HANDLING

Shipping and handling costs incurred for shipping of finished products to customers are included in selling expense and totaled $226,925 and $94,011 for the three months ended September 30, 2010, and 2009, respectively. Shipping and handling costs amounted to $745,919 and $306,650 for the nine months ended September 30, 2010 and 2009, respectively.

ADVERTISING

Advertising costs are expensed as incurred and totaled $47,736 and $24,975 for the three months ended September 30, 2010, and 2009, respectively and $66,411 and $32,819 for the nine months ended September 30, 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, 2010 and December 31, 2009 were translated at 6.68 RMB and 6.79 RMB to $1.00. The average translation rates applied to the statements of operations and cash flows for the nine months ended September 30, 2010 and 2009 were 6.80 RMB and 6.82 RMB to $1.00, respectively.

PLANT AND EQUIPMENT

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

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

INTANGIBLE ASSETS

Intangible assets consist of patents, software and land use rights. Patents and software are subject to amortization. Patents are being amortized over 5-17[A1] years as management believes those are the estimated useful life of the patents currently owned by the Company. Land use rights are carried at cost and charged to expense on a straight-line basis over the period the rights are granted, 46.4 - 50 years. Software is amortized over 10 years, its estimated useful life.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized, but is instead tested for impairment. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles in the United States of America. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The Company performs its annual impairment review of goodwill every year at December 31 and when a triggering event occurs between annual impairment tests. No impairment loss was recorded for the nine months ended September 30, 2010.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 2 Summary of significant accounting policies (continued)

LONG-LIVED ASSETS

The Company reviews the carrying amount of its long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is considered not recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. As of September 30, 2010, the Company determined no impairment charges were necessary.

INVENTORIES

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

RESEARCH AND DEVELOPMENT COSTS

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

RETIREMENT BENEFIT COSTS

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

INCOME TAXES

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

Under the accounting standard regarding, accounting for uncertainty in income taxes, a tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than

50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. No significant penalties or interest relating to income taxes have been incurred during the nine months ended September 30, 2010 and 2009. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

The Company s restricted cash consists of cash in the bank as security for its product shipments, notes payable, government required housing fund, and cash held in escrow pursuant to the Securities Purchase Agreement entered into on August 26, 2008. For restricted cash held in bank, the restriction is released after the customers have received and inspected the products. The Company has notes payable outstanding with various banks and is required to keep certain amounts on deposit that are subject to withdrawal restrictions. Cash held in escrow pursuant to the Securities Purchase Agreement is released after the Company satisfies certain covenants as stated in the Securities Purchase Agreement. Restricted cash amounted to $ 1,321,429 and $1,047,389 as of September 30, 2010 and December 31, 2009, respectively.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 2 Summary of significant accounting policies (continued)

	September 30, 2010 (Unaudited)		December 31, 2009	
Deposit for notes payable issued	$	-	$	733,500
Cash held in escrow account		-		105,616
Employee housing fund		151,257		-
Cash held for sales covenants		1,170,172		208,273
Total restricted cash	$	1,321,429	$	1,047,389

CONCENTRATION RISKS

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

Certain financial instruments may subject the Company to concentration of credit risk. The Company maintains bank deposits within state-owned banks within the PRC, Hong Kong and United States. Balances at financial institutions of state owned banks within the PRC are not covered by insurance. As of September 30, 2010 and December 31, 2009, the Company s cash and restricted cash balances, totaling $8,053,925 and $14,505,745 respectively at those dates, were not covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

Five major suppliers represented approximately 28% and 27% of the Company s total purchases for the three months ended September 30, 2010 and 2009, respectively. Five major suppliers, including a related party, represented approximately 22% and 18% of the Company s total purchases for the nine months ended September 30, 2010 and 2009, respectively.

The Company does not have customer concentration as no customer represent more than 10% of the Company s total sales for the three and nine months ended September 30, 2010 and 2009.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Company analyzes all financial instruments with features of both liabilities and equity under the accounting standards regarding accounting for certain financial instruments with characteristics of both liabilities and equity, accounting for derivative instruments and hedging activities, accounting for derivative financial instruments indexed to, and potentially settled in, a 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.

CHINA VALVES TECHNOLOGY, INC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 2 Summary of significant accounting policies (continued)

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

A discussion of the valuation technique used to measure the fair value of the warrant liabilities is provided in Note 13.

	Carrying Value as of September 30, 2010 (Unaudited)	Fair Value Measurements at September 30, 2010 using Fair Value Hierarchy Level 1	Level 2	Level 3
Other investments	$ 780,149			$ 780,149
Warrant liabilities	$ 589,348			$ 589,348