

CHINA VALVES TECHNOLOGY, INC
Form 10-Q
August 11, 2010

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 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

*(State or other jurisdiction of
incorporation or organization)*

86-0891931

*(I.R.S. Employer
Identification No.)*

**No. 93 West Xinsong Road
Kaifeng City, Henan Province
People's Republic of China**

(Address of principal executive offices)

475002

(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 No

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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 []

Smaller reporting company [X]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 36,642,876 shares of common stock, par value \$0.001 per share, outstanding on August 10, 2010.

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PART I FINANCIAL INFORMATION

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

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

ASSETS

	June 30, 2010 (Unaudited)	December 31, 2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,362,262	\$ 14,485,408
Restricted cash	732,435	1,047,389
Notes receivable	395,759	414,193
Accounts receivable, net of allowance for doubtful accounts of \$1,100,076 and \$908,338 as of June 30, 2010 and December 31, 2009, respectively	60,923,584	32,341,042
Other receivables	4,153,653	4,481,610
Inventories, net	19,244,059	9,246,801
Purchase deposits and prepaid expense	1,760,187	1,567,960
Advances on inventory purchases - related party	-	385,066
Rental prepayment - short-term	308,888	307,630
Total current assets	100,880,827	64,277,099
PLANT AND EQUIPMENT, net	39,776,606	28,468,866
OTHER ASSETS:		
Accounts receivable - retainage, long-term	2,380,582	1,523,395
Deposit for acquisition	-	13,215,650
Advances on equipment purchases	687,604	654,931
Rental prepayment - long-term	123,685	307,630
Long term receivable	441,900	440,100
Goodwill	31,999,311	20,811,767
Intangibles, net of accumulated amortization	22,383,983	9,639,180
Other investments, at lower of cost or market	767,642	764,515
Total other assets	58,784,707	47,357,168
Total assets	\$ 199,442,140	\$ 140,103,133

LIABILITIES AND SHAREHOLDERS' EQUITY**CURRENT LIABILITIES:**

Accounts payable - trade	\$ 11,902,373	\$ 6,953,499
Accounts payable - related party	226,049	-
Short term loans	6,258,806	5,048,246
Other payables	2,780,862	2,662,930
Other payables - related parties	1,434,176	1,891,870
Notes payable	294,600	733,500
Accrued liabilities	2,293,645	2,033,626

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Customer deposits	6,362,194	3,325,906
Taxes payable	6,324,731	2,293,346
Total current liabilities	37,877,436	24,942,923
WARRANT LIABILITIES	891,219	1,730,837
Total liabilities	38,768,655	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 June 30, 2010 and December 31, 2009, respectively	34,642	31,726
Additional paid-in-capital	96,177,990	70,534,943
Statutory reserves	7,848,251	5,534,575
Retained earnings	49,774,383	31,176,227
Accumulated other comprehensive income	6,838,219	6,151,902
Total shareholders' equity	160,673,485	113,429,373
Total liabilities and shareholders' equity	\$ 199,442,140	\$ 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 (LOSS)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE, 2010 AND 2009
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
SALES	\$ 49,257,487	24,946,420	\$ 76,041,724	\$ 42,513,211
COST OF GOODS SOLD	26,272,523	12,451,804	39,197,224	21,373,616
GROSS PROFIT	22,984,964	12,494,616	36,844,500	21,139,595
OPERATING EXPENSES:				
Selling	2,778,385	1,799,919	4,212,462	2,914,856
General and administrative	3,019,668	1,197,235	6,018,534	3,758,843
Non-cash stock compensation expense	11,924	7,499,487	32,171	7,499,487
Research and development	80,729	17,137	154,932	22,816
Total operating expenses	5,890,706	10,513,778	10,418,099	14,196,002
INCOME FROM OPERATIONS	17,094,258	1,980,838	26,426,401	6,943,593
OTHER EXPENSE (INCOME):				
Other (income) expense, net	(430,665)	(878,987)	(395,876)	(641,447)
Gain from acquisition	-	-	(1,016,198)	-
Interest and finance expense, net	31,412	54,703	66,198	126,152
Change in fair value of warrant liabilities	(789,670)	634	564,504	400,634
Total other (income) expense, net	(1,188,923)	(823,650)	(781,372)	(114,661)
INCOME BEFORE PROVISION FOR INCOME TAXES	18,283,181	2,804,488	27,207,773	7,058,254
INCOME TAX EXPENSE	3,987,574	2,591,777	6,295,941	3,878,192
NET INCOME	14,295,607	212,711	20,911,832	3,180,062
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation gain (loss)	652,538	(72,181)	686,317	(81,065)
COMPREHENSIVE INCOME	\$ 14,948,145	\$ 140,530	\$ 21,598,149	\$ 3,098,997
BASIC EARNINGS PER SHARE:				
Weighted average number of shares	34,634,710	31,393,701	34,447,460	30,133,048
Earnings per share	0.41	0.01	0.61	0.11
DILUTED EARNINGS PER SHARE:				
Weighted average number of shares	34,820,455	31,398,207	34,691,494	30,138,748
Earnings per share	\$ 0.41	\$ 0.01	\$ 0.60	\$ 0.11

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock Number of shares	Common Stock Par Value	Additional Paid-in capital	Common Stock Subscription receivable	Retained Earnings Statutory reserves	Unrestricted	
BALANCE, December 31, 2008	31,192,552	\$ 31,192	\$ 66,935,968	\$ (9,834,000)	\$ 2,958,659	\$ 10,399,050	\$
Cashless exercise of warrants	201,148	201	755,811				
Release of shares in escrow related to common stock issued for real estate acquisition				9,834,000			
Net income						3,180,062	
Adjustment to statutory reserve					1,163,544	(1,163,544)	
Foreign currency translation adjustment							
BALANCE, June 30, 2009, unaudited	31,393,700	31,393	67,691,779	-	4,122,203	12,415,568	
Cashless exercise of warrants	178						
Stock based compensation			47,057				
Common stock issuance for cash at \$9.00	333,334	333	2,796,107				
Net income						20,173,031	
Adjustment to statutory reserve					1,412,372	(1,412,372)	
Foreign currency translation adjustment							
BALANCE, December 31, 2009	31,727,212	31,726	70,534,943	-	5,534,575	31,176,227	
Exercised warrants	501,551	502	5,072,624				
Stock based compensation			32,171				
Common stock issuance for cash at \$9.00	2,414,113	2,414	20,538,252				
Net income						20,911,832	
Adjustment to statutory reserve					2,313,676	(2,313,676)	
Foreign currency translation adjustment							
BALANCE, June 30, 2010, unaudited							