CHINA VALVES TECHNOLOGY, INC
Form 10-K/A
January 16, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended: December 31, 2007

o 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: 000-28481

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

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

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

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

Intercontinental Resources, Inc.
(Former name, former address and former fiscal year, if changed since last report)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value 0.001

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

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

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 ýNo o

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

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

Large accelerated filer o Accelerated filer o

Non-accelerated filer o Smaller reporting company ý

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

The issuer's revenues for its most recent fiscal year ended December 31, 2007, were $37,036,282.

As of March 27, 2008, the aggregate market value of shares of the issuer's common stock held by non-affiliates (based upon the average bid and asked price of $10 of such shares as reported on the Over-the-Counter Bulletin Board) was approximately $98 million. Shares of the issuer's common stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates of the issuer. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 40,106,500 shares of common stock outstanding as of March 27, 2008.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

CHINA VALVES TECHNOLOGY, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2007

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Exhibits and Financial Statement Schedules

Use of Terms

Except as otherwise indicated by the context, references in this report to the "Company," "China Valves," "we," "us" and "our" are references to the combined business of China Valves Technology, Inc. and its subsidiary, Henan Tonghai Valve Science Technology Co. References to "Henan Tonghai" are references to Henan Tonghai Valve Science Technology Co., Ltd. References to "ZhengDie Valve" are references to Zhengzhou City ZhengDie Valve Co., Ltd. References to "High Pressure Valve" are references to Henan Kaifeng High Pressure Valve Co., Ltd. References to "China" and "PRC" are references to the People's Republic of China. References to "RMB" are to Renminbi, the legal currency of China, references to "HKD" are to the Hong Kong Dollar and references to "$" are to the legal currency of the United States.

Forward-Looking Statements

Certain statements contained in this report under "Item 1—Business," "Item 3—Legal Proceedings," "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," "Item 10—Directors, Executive Officers and Corporate Governance" and "Item 11—Executive Compensation" including, without limitation, those concerning our liquidity and capital resources, contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, concerning our operations; economic performance; financial condition; management forecasts; efficiencies, cost savings and opportunities to increase productivity and profitability; income and margins; liquidity; anticipated growth; economies of scale; the economy; future economic performance; our ability to maintain profitability during adverse economic cycles and unfavorable external events; future acquisitions and dispositions; litigation; potential and contingent liabilities; management's plans; taxes and refinancing of existing debt. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. These statements may be preceded by, followed by or include the words "believes," "expects," "anticipates," "intends," "plans," "estimates," "may," "could," "should," "would" or similar expressions.

Forward-looking statements are not guarantees of performance and by their nature are subject to inherent risks and uncertainties. We caution you therefore that you should not rely on these forward-looking statements. You should understand the risks and uncertainties discussed in "Item 1A—Risk Factors" and elsewhere in this report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements.

Any forward-looking information contained in this report speaks only as of the date of this report. Factors or events may emerge from time to time and it is not possible for us to predict all of them. We undertake no obligation to update or revise any forward-looking statements to reflect new information, changed circumstances or unanticipated events.

PART I

Item 1. Business

Overview

China Valves Technology, Inc., formerly known as Intercontinental Resources, Inc., through its direct and indirectly subsidiaries, focuses primarily on the development, manufacture and sale of high-quality metal values for the electricity, petroleum, chemical, water, gas and metal industries in the People's Republic of China, or the PRC.

Our operations are headquartered in Kaifeng, Henan Province, PRC. Our two Chinese subsidiaries, Zhengzhou ZhengDie Valve Corporation, or ZhengDie Valve, and Kaifeng High Pressure Valve Corporation, or High Pressure Valve, are profitable, mid-sized Chinese companies that focus primarily on the development, manufacture and sale of high-quality metal valves for the electricity, petroleum, chemical, water, gas and metallurgy industries in the PRC.

Our sales revenue and net income were $37,036,282 and $ 7,142,592, respectively, during the fiscal year ended December 31, 2007, and $25,530,183 and $ 4,679,379, respectively, during the same period in 2006.

History and Corporate Organization

Intercontinental Resources, Inc., or Intercontinental, was incorporated August 1, 1997, in Nevada as Meximed Industries to develop and produce a non-reusable medical syringe. We later abandoned that business, as we lacked sufficient capital resources. In January 1999 we changed the co124 urse of our business direction and changed our name to Digital Video Display Technology Corp. We obtained a license to market a patented audio video jukebox technology in Canada and in five U.S. states. In July 2001 we changed our name to Iconet, Inc. in connection with a proposal to build the jukeboxes and sell them back to the licensor of the technology.

In June of 2002 we resolved to investigate some possible opportunities in mineral exploration. We optioned a property in Ontario, Canada, but after our due diligence investigation we elected not to proceed and mutually rescinded the agreement.

In June of 2003 our board appointed Mr. Matthew Markin as president and as a director to replace Randy Miller. Mr. Miller also resigned as director, so that Mr. Markin became the sole executive officer and director of Intercontinental . Mr. Miller's resignation was voluntary to pursue other interests, and not as a result of any dispute with Intercontinental.

In July of 2003, we adopted a plan of reorganization in connection with which we completed a 1-for-143 reverse split of our common stock. Shortly thereafter, we effected a 2-for-1 forward split. In June 2007, we effected a 1-for-500 reverse split.

Reverse Merger Transaction

On December 16, 2007, Intercontinental entered into a Stock Purchase Agreement and Share Exchange Agreement, or the Exchange Agreement, with China Valve Holding Limited, or China Valve Samoa, a company incorporated under the laws of Samoa on June 6, 2007, and the owner of China Valve Samoa. The closing of the transaction took place on December 16, 2007, and resulted in the merger between Intercontinental and China Valve Samoa. Pursuant to the terms of the Exchange Agreement, Intercontinental acquired all of the outstanding capital stock and ownership interests of China Valve Samoa from the sole shareholder of China Valve Samoa for an aggregate of 40,000,000 shares, or 99.8% of Intercontinental's common stock. In addition, China Valve Samoa agreed to pay cash of $490,000. Because the acquisition is treated as a reverse acquisition, the financial statements of Intercontinental have been retroactively adjusted to reflect the acquisition from the beginning of the reported period included in this report. The share exchange transaction has been accounted as a reverse acquisition and recapitalization of Intercontinental whereby China Valve Samoa is deemed to be the accounting acquirer (legal acquiree) and Intercontinental to be the accounting acquiree (legal acquirer). The historical financial statements for periods prior to December 16, 2007, are those of China Valve Samoa except that the equity section and earnings per share have been retroactively restated to reflect the reverse acquisition.

Pursuant to the Exchange Agreement, on December 18, 2007, Intercontinental filed with the Secretary of State for the state of Nevada a Certificate of Amendment to our Certificate of Incorporation changing our name to "China Valves Technology, Inc." to better reflect our business plan.

China Valve Samoa's wholly owned subsidiary China Valve Holdings Limited ("China Valve Hong Kong") was incorporated under the laws of the Hong Kong Special Administrative Region on June 11, 2007. Neither China Valve Samoa nor China Valve Hong Kong has any active business operations other than their ownership of Henan Tonghai, which is the primary company that manufactures our products. Henan Tonghai was incorporated in the PRC with a registered capital of HKD 10 million ($1,370,000). Henan Tonghai owns 100% of the issued and outstanding capital stock of both ZhengDie Valve, a company formed under the laws of the PRC, and High Pressure Valve, a company formed under the laws of the PRC.

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

Our Industry

China is currently experiencing growth in urbanization and heavy industrialization. The Company believes that increased demand for energy and water treatment in urban centers will increase demand for valve products. According to the China Valve Industry Association's research, sales of valve products in the Chinese domestic market in 2006 reached $5.36 billion, an increase 32% from the previous year, and the Chinese market is expected to increase at an annual rate of more than 30% for the next 5 years.

According to the China Valve Industry Association's research, the valve market is divided into five primary segments: (i) power; (ii) petrochemical; (iii) oil; (iv) water supply; and (v) metallurgy, which account for approximately 21 , 12 , 24.5 , 14 and 8 of market share, respectively. All other valve products account for the remaining 18.5%.

1. Power industry

Thermal power

The power industry has experienced rapid growth since the founding of the PRC, aided particularly by economic reforms by the Chinese government and the opening of the Chinese market to the outside world. In 2006, total installed capacity achieved 600 million KW and generated electricity volume of 284 million KWh, both of which were the highest in the world. Although overall installed capacity is relatively sufficient, the structure of such units has been inefficient. Small thermal power generating units account for approximately 70% of total capacity, however, the above-300 KW units account for less than 30% of the total. Compared to technology used in developed countries, technology used in the PRC is falling far behind. Equipment is outdated and the majority of thermal power units are sub-critical pressure and super-critical pressure units. These units have high coal consumption, low efficiency and high pollution, which lead to environmental and energy-saving problems. Based on the current development of the Chinese domestic power market, in 2010 China power generating installed capacity should reach approximately 950 million KW and thermal power installed capacity should reach approximately 550-600 million KW. Thermal power installed capacity has been increasing by over 30 million KW annually.

The focus of thermal power industry development is primarily on adjusting and optimizing thermal power units. High-temperature, high-pressure and high-parameter thermal power generating units have high-thermal efficiency, good economic results and light pollution, which is good for environmental protection and energy saving. 600 MW thermal power generating units have had the lowest demand in China. There has been a trend toward 1000 MW supercritical pressure units and these units are expected to become more prevalent in the future. Currently in China, there are sixteen projects that are under construction or are scheduled to commence operation in the near future. These include facilities at Zhejing Ninghai, Waigaoqiao, Wuhu, Pingdingshan and Shanxi Zhangze, with a total capacity of 34 million KW of 34 units. Kaigao Company is the sole company that would have the capacity to manufacture valves used for ultra-critical thermal power generating units. We expect to have an extensive market share in the supercritical pressure unit market.

Nuclear power

There are about 500 nuclear power generating units in the world, 11 of which have been built in China with total installed capacity of 8.7 million KW. Presently, six nuclear power generating units having a capacity of over a million KW are planned to be built at the Sanmen nuclear power station and four nuclear power generating units are planned at the Tianwan nuclear power station. Based on the Chinese state energy plan, by 2020 approximately 20 nuclear power generating units are proposed to be established in Lingdong in Shenzhen, Yangjiang, Taishan, Peiling, Chongqing and Dalian, with an aggregate capacity of 40 million KW, or 4-5% total installed capacity. Demand for valves used in the nuclear power industry is higher than demand in the thermal power industry for power stations having similar capacity. A nuclear power station with two sets of one million KW nuclear power generating units typically requires approximately 30,000 units of valves. Based on an increase of 2.5 million KW of nuclear power generating units per year, we estimate that the average annual demand for valves used in the nuclear power industry will reach 38,000 units. According to target power generation increases set forth in the eleventh five-year plan of the Chinese government (2006-2010), we believe the demand for valves in the nuclear power industry will reach RMB 3 billion by 2010, with an average annual amount of RMB 0.6 billion from 2006 to 2010. In addition, we believe that the market for repairs of valves is approximately RMB 150 million per year.

2. Petrochemical and oil industries

During the period of the eleventh five-year plan (2006-2010), the focus of the large-scale ethane and fertilizer industry is on developing 80-100 mil-mt/year sizable projects, including build-out and transformation of existing 40-45 mil-mt/year equipment and building new large-scale ethane equipment. During this period, the large-scale ethane equipment of 40-45 mil-mt/year in Daqing, Jilin and Maoming will be transformed into equipment of 80 mil-mt/year. Additionally, large-scale ethane equipment projects of 80 mil-mt/year in Tianjin and 100 mil-mt/year in Zhenhai are expected to be implemented. It is anticipated that several sets of new large-scale 80 mil-mt/year ethane equipment projects will be built by joint investment and joint venture. We believe that the market for large-scale ethane key equipments, such as special valves and high-temperature valves for ethane fission gas, which are currently still imported into the PRC, will increase within the PRC. It is anticipated that prior to 2010, the newly established large-scale gas pipeline would reach a capacity of above 20,000 km and the demand for large caliber high-pressure gas pipeline ball valves will be approximately 20,000 units. The segment of the Sino-Russian oil pipeline that is located in China requires 300 units of electromotion DN caliber pipeline valves. During the eleventh five-year plan period, crude high-pressure oil pipelines of 5,000 km are planned to be built, which we believe will require approximately 3,000 units of high-pressure DN caliber pipeline valves. Additionally, the PRC is expected to develop the LNG station, which should generate large demand for various types of low-temperature valves. The majority of high-standard special valves involved in large-scale gas projects are from imports. It is necessary for us to strengthen research and development of high-temperature, high-pressure and grind-resist valves in order to meet demands for development of the coal-liquefied industry.

3. Water supply industry

American Watts Water Technologies Group, a leading manufacturer of equipment for water treatment internationally, anticipates that the total demand for valves in China to be used in the water supply industry will be RMB 10 billion. We believe that the budgeted amount for valves for the 70 km segment of the north-south water transfer project in Beijing from suburban Beijing to downtown Beijing alone is more than ten million RMB. In addition, the scalable hydroelectric power supply project is not only an immediate project but also a long-term task. Major projects such as gas transportation between western and eastern regions of the PRC, the transformation of the old industry base, construction of downtown pipe network in major cities, residential building, and wastewater treatment and water conservancy should also generate tremendous demand for valves.

We believe that the total demand for valves will reach $12 billion by 2010. The Chinese government is expected to put an emphasis on construction of basic infrastructure for water, electricity, gas and heat in order to ensure continuous economic development and meet the requirement of improving people’s living standard. This construction should generate huge demand for valves. China’s valve market us expected to keep developing. We expect to keep working on how to utilize all the tangible and intangible resources to expand and strengthen our products and increase market share.

Our Strategy

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

Pursue Strategic Acquisitions. China's valve market is very fragmented. According to the China Valve Industry Association's statistics, there are more than 4,000 valve manufactures in the market, none with a market shares of above 1%. The top 10 valve manufactures in China only have an aggregate Chinese market share of 8%. We anticipate that the fragmented nature of the Chinese valve market will continue to provide opportunities for growth through strategic acquisitions. Our acquisition strategy will continue to focus on entities with products that provide opportunities for us to expand and products that can be marketed through our existing distribution channels or provide us with new distribution channels for our existing products, thereby increasing marketing and distribution efficiency. Furthermore, we seek acquisition candidates that demonstrate a combination of good profit margins, strong cash flow, leading positions in the local markets and products that generate recurring revenue. We will use our brand advantage to consolidate the China valve market and to increase the market shares.

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

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

Enter New Market segments. To drive organic growth from our existing businesses, we intend to continue to leverage our customer relationships to develop or acquire new products and product extensions to enter into new market segments. For example in 2007, we successfully entered into the nuclear power station valve markets by signing a deals with two large nuclear power stations. In addition, we intend to increase our market share in the nuclear power market by increasing our investment in research and development, obtaining production licenses and establishing a sales team specifically focused on the nuclear power industry. In the oil and chemical industry, there has been increased construction of long-range pipelines for the transmission of oil and gas. This increase should result in increased demand for ball valves and flat valves. We have completed the design of these valves and plan to add equipment to our existing facilities to enhance production.

High End Product Focus. We will keep focusing on high end, more sophisticated valve products, including high-parameter and special usage valves. The majority of valve companies in China focus only on low end products at lower prices. Because of our technology and R&D strength, we will continue focusing on high end valve products and pursing higher margins than the industry average. Additionally, we intend to cooperate with the electricity power design colleges and solicit support from industry associations.

Increase in International Sales. We plan to increase our focus on sales into international markets. In the short term, we plan to focus on neighboring developing countries and in the long term, we expect to focus on the United States and Europe.

Our Products

China Valve produces valves for many different industries. The main product lines consist of:

- High pressure and high temperature valves for power station units;

- Valves for long distance petroleum pipelines;

- Special valves for chemical lines;
- Large valves for water supply pipe networks;
- Valves for sewage; and
- Valves for long distance gas pipelines.

China Valve produces over 700 models of valves and more than 10,000 standards of valves in categories such as low, medium and high-pressure valves. The valves are produced with varying diameters from 3mm to 1300mm and with pressure caps that range from 150lbs to 4500lbs. In addition, different valve products can be used in temperatures ranging from -196 degrees Celsius to 610 degrees Celsius.

The major materials that are used in the production of these valves include carbon steel, stainless steel, low temperature steel and heat resistant steel extra.

The Company also produces the following types of valves:

- Gate valves;
- Globe valves;
- Check valves;
- Throttle valves;
- Butterfly valves;
- Ball valves;
- Safety valves;
- Water pressure test valves;
- Vacuum valves; and
- Extraction check valves extra.

Our Manufacturing Process

Our manufacturing process consists of the following steps:

Ø purchasing and depositing of raw materials,

Ø processing,

Ø production of inventory of semi-finished products (or transporting to the next step directly),

Ø completing the part processing and assembling products,

Ø product inspection and testing, and

Ø production of inventory of finished products.

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

Our company has set up a comprehensive and reliable quality management system with strict and material manufacturing procedures and standard inspection. In addition, our company acquired an API quality certificate in January of 1994, a Norway DNV ISO9001 in May of 1996, a European Union CE in 2004 and a China special equipment manufacturing certificate in 2005.

Warranties

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

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

Suppliers of Our Raw Material

Our raw materials are primarily varieties of steel and casting blank parts and driven devices. The price for such material fluctuates depending upon market conditions. However, since we have long-term suppliers and clients, the influence of material price fluctuation is not currently material to the Company.

We have established long-term relationships with key suppliers. However, we do not exclusively rely on our key suppliers. We have adopted a dual supplier system for raw materials. Therefore, if our primary suppliers cannot supply us with our raw material for any reason, we are able to acquire raw material from another su