APOLLO SOLAR ENERGY, INC.
Form 10-K/A
September 15, 2010

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

FORM 10-K
Amendment No. 2

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

For the fiscal year ended: December 31, 2009

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: 0-12122

Apollo Solar Energy, Inc.

(Exact name of registrant as specified in its charter)

Nevada	84-0601802
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

No. 485 Tengfei Third,
Shuangliu Southwest Airport
Economic Development Zone,
Shuangliu, Chengdu
People's Republic of China, 610207
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: +86 28 8574 5561

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	OTCBB

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No 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 o No 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 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 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. o

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

Large accelerated filer	o	Accelerated filerý
Non-accelerated filer	o	Smaller reporting companyo
(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 Act). Yes o No ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter), was $144,201,466 based on the closing price of the registrant's common stock on the Over-the-Counter Bulletin Board, or the OTCBB, of $5.35 per share.

There were 50,133,461 shares of common stock issued and outstanding as of August 15, 2010.

EXPLANATORY NOTE

This Amendment No. 2 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, or this Amendment, is being filed in response to certain comments made by the staff of the Securities and Exchange Commission, or the SEC. In response to such comments, we have amended and restated the following items:

• Item 1 (Business) has been revised to explain that we are currently in the exploration stage in accordance with the guidance of SEC Industry Guide 7, and to incorporate certain information with respect to the safety performance of our operations;

• Item 1A (Risk Factors) has been amended to clarify certain inconsistencies between the risk factor concerning the amortization policy of our exploration rights and the information reflected in our financial statements;

• Item 2 (Properties) has been revised to incorporate information responsive to SEC Industry Guide 7;

• Item 5 (Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities) has been amended to include the range of high and low sales prices for our common stock for each of the fiscal quarters of 2008;

• Item 6 (Selected Consolidated Financial Data) has been amended to reflect our consolidated statements of income data for each of the four years ended December 31, 2009, 2008 and 2007, and 2006, and the year ended March 31, 2006, and our consolidated balance sheet data as of December 31, 2009, 2008 and 2007 and 2006, and March 31, 2006;

• Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) has been amended to include a discussion of operations during fiscal 2007, and to provide additional information regarding our corporate structure and our future capital expenditures;

• Item 8 (Financial Statements and Supplementary Data) has been revised to include information with respect to our fiscal year ended December 31, 2007;

• Item 9A (Controls and Procedures) has been amended to incorporate a description of the changes we made to our internal controls over financial reporting during the fiscal quarter ended December 31, 2009; and

• Item 15 (Exhibits and Financial Statement Schedules) has been amended to update the information disclosed in Schedule II, Valuation and Qualifying Accounts.

Except as stated herein, this Amendment does not reflect events occurring after the filing of the Form 10-K on March 31, 2010, or the Original Filing, and no attempt has been made in this Amendment to modify or update other disclosures as presented in the Original Filing. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Filing.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Amendment.

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APOLLO SOLAR ENERGY, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this Form 10-K, including in the documents incorporated by reference into this Form 10-K, includes some statements that are not purely historical and that are "forward-looking statements." Such forward-looking statements include, but are not limited to, statements regarding the Company and its management's expectations, hopes, beliefs, intentions or strategies regarding the future, including its financial condition, and results of operations. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "might," "plans," "possible," "potential," "predicts," "should," "will," "would" and similar expressions, or the negatives of such terms, may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements contained in this Form 10-K are based on current expectations and beliefs concerning future developments and the potential effects on our Company's business. There can be no assurance that future developments actually affecting us will be those anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements, including the following:

- Vulnerability of our Company's business to general economic downturns;
- Fluctuation and unpredictability of costs related to the precious metals and other commodities used to make our products;
- Changes in the laws of the People's Republic of China, or the PRC, that affect our operations;
- Competition from our competitors;
- Any recurrence of earthquakes in the areas where we operate;
- Our ability to obtain all necessary government certifications and/or licenses to conduct our business;
- Development of a public trading market for our securities;
- The cost of complying with current and future governmental regulations and the impact of any changes in the regulations on our operations;
- Fluctuation of the foreign currency exchange rate between U.S. Dollars and Renminbi, or RMB, the lawful currency of China; and
- The other factors referenced in this Form 10-K, including, without limitation, under the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business."

These risks and uncertainties, along with others, are also described below under Item 1A, "Risk Factors." Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to

update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Unless the context otherwise requires, the terms “we,” the “Company,” “us,” or “Apollo” refers to Apollo Solar Energy, Inc. and our wholly-owned subsidiaries and variable interest entities.

PART I

ITEM 1. BUSINESS

Overview

We are a China-based vertically integrated refiner of tellurium, or Te, and high-purity tellurium-based metals for specific segments of the electronic materials market. Our main expertise is in the production of Te-based compounds used to produce thin-film solar cells, cell modules and solar electronic products. The tellurium used in our products will be primarily sourced from our Dashuigou property located in Sichuan Province, PRC. In addition, we source tellurium from another property in Shimian, Majiagou, PRC, through variable interest entity agreements, or VIE Agreements, executed in April 2009, with Sichuan Xinju Mineral Resources Development Corporation and certain of its shareholders holding 51.6619% of its voting stock, which shareholders are our direct or indirect employees. Under the terms of the VIE Agreements, we have been granted the exclusive exploration and mining rights to the Majiagou property in accordance with a license granted by the Chinese government, which extends through January 2013, subject to potential renewal thereafter. We sometimes refer to this arrangement as the VIE Arrangement in this annual report. We are currently engaged in exploration of the Dashuigou and Majiagou properties. While no reserves can currently be delineated at the Dashuigou and Majiagou properties, we intend to continue to explore these properties with the objective of identifying and developing mineral reserves as set forth under the SEC's Industry Guide 7. In order to maintain the exclusive exploration and mining rights to the Dashuigou and Majiagou properties, we are required to make a minimum annual investment of 1.5 million RMB on exploration and mining activities, obtain and maintain all required health and safety certifications from Chinese government, and engage qualified technical experts to identify and develop mineral reserves.

Our wholly-owned subsidiary, Sichuan Apollo Solar Science & Technology Co. Ltd., or Sichuan Apollo, is a Chinese limited company that manages our Chinese operations. Sichuan Xinlong Tellurium Industry & Technique Co. Ltd., or Xinlong, is a Chinese limited company that is wholly-owned by Sichuan Apollo, and is engaged in high-purity material processing. Sichuan Xinlong Shimian Dadu River Mining & Metallurgy Co. Ltd. is a Chinese limited company that is wholly owned by Xinlong, and is engaged in exploration and extracting tellurium-related ores.

We hold a license, through our variable interest entity arrangement with Sichuan Xinju Mineral Resources Development Corporation, that permits us to explore and engage in mining activities for each of the Dashuigou and Majiagou properties. Sichuan Xinju Mineral Resources Development Corporation, in turn, is the holder of a license issued by the Chinese government. The Dashuigou mining license is valid through January 2013, and the Dashuigou exploration license is valid through April 2011. The Majiagou mining license is valid through May 2013.

Currently, tellurium is produced as a product in the process of processing copper and other metals. As a result, costs are high. We believe that the Dashuigou and Majiagou properties are the only two known deposits in the world in which tellurium, one of the rarest metallic elements on earth, is expected to be the primary commodity of economic interest. By the end of 2010, we plan to obtain approximately 60% to 70% of the tellurium necessary for our products from the Dashuigou and Majiagou properties and believe this ability to be a significant competitive advantage because the cost of tellurium sourced from our own properties will be substantially lower than that purchased from an outside third party. We will source the remaining 30% to 40% of our tellurium needs from third-party suppliers with whom we have established good business relationships with over the past few years. By vertically integrating our processes, we believe we are able to achieve significant operating efficiencies and produce high-quality products that offer cost and quality benefits to our customers. Currently, we are able to procure raw materials from the Dashuigou and Majiagou properties at a significant discount to prevailing market price.

Our refining operations are currently based in a 330,000 square foot facility in Chengdu, Sichuan Province, PRC. We expect this facility eventually to have the capacity to produce more than 300 tons of high-purity photovoltaic cell materials and 42 other types of electronic materials. We anticipate that future expansion of this facility in vacant land leased to us could increase capacity to produce up to an additional 350 tons of high-purity photovoltaic cell materials.

We believe we are unique in that we expect both to mine and refine our tellurium-based products, with primary refining capabilities as provided by Sichuan Xinju Mineral Resources Development Corporation pursuant to the VIE Agreements, and secondary refining capabilities directly through our Company. Our primary refining capabilities are such that we can treat metal concentrates (containing, for example, as little as 50% of the metals of interest), and extract and refine the metals of interest so that they can be fed to our secondary refining operations, where we attain a higher level of purity. Because we expect to mine the raw material, and perform both refining functions, directly and through our VIE Arrangement, we consider ourselves a supplier that we believe will in the future have uniquely integrated capabilities. The principal commodity we produce is tellurium, and our end-products also include cadmium, zinc and related compounds of 99.999% (five nines, or 5N) purity or above. Our products are critical precursors in a number of electronic applications, including the rapidly-expanding thin-film photovoltaic, or PV, market.

Thin film technologies, because of their relatively low usage of raw materials when compared with traditional silicon-based photovoltaic technologies, offer a potential cost advantage in the marketplace. Accordingly, we believe these technologies are beginning to gain an ever increasing foothold in the market.

Our Variable Interest Entity Agreements

As illustrated in the diagram below, Sichuan Xinlong Tellurium Industry & Technique Co. Ltd., our indirectly wholly-owned subsidiary, entered into various exclusive contractual arrangements on April 10, 2009 with Sichuan Xinju Mineral Resources Development Corporation, or the VIE, and certain of its shareholders who are our direct or indirect employees and who collectively own 51.6619% of the VIE. Among other things, these VIE Agreements granted to our wholly-owned subsidiary a first option to purchase the exploration rights related to the Dashuigou area property and the mining rights related to that certain tellurium and bismuth property in Shimian Majiagou, which rights we collectively referred to as the Exploration Business. Additionally, the VIE and certain of its shareholders who collectively own 51.6619% of the VIE granted to our wholly-owned subsidiary an exclusive right to purchase all of the products produced from the Exploration Business for a specified period of time. As a result, we consolidate the financial results of the VIE related to the Exploration Business pursuant to FASB ASC 810-10, “Consolidation.”
(1) Agreements that provide us with effective control over Sichuan Xinju Mineral Resources Development Co. Ltd., or the VIE, include a purchase option agreement, a business operations agreement and an exclusive technical and consulting agreement.

The agreements between the VIE and our other affiliated entities or persons are summarized below:

- First Option Exclusive Acquiring Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd., Sichuan Xinju Mineral Resources Development Co., Ltd., Renyi Hou and Ling Yong, which grants to our wholly-owned subsidiary a first option to purchase the Exploration Business at such time as the purchase becomes advisable, permissible and in our best interest.

- Exclusive Sales Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd. and Sichuan Xinju Mineral Resources Development Co., Ltd., which grant to our wholly-owned subsidiary the exclusive right to buy all of the output of the Exploration Business.

- Business Operation Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd., Sichuan Xinju Mineral Resources Development Co., Ltd., Renyi Hou and Ling Yong, which imposes certain restrictions and obligations on the VIE and certain of its shareholders to support the VIE arrangement, including refraining from competing with our business and modifying the business operations of the VIE without the prior consent of our wholly-owned subsidiary.

- Exclusive Technical and Consulting Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd. and Sichuan Xinju Mineral Resources Development Co., Ltd., which requires the VIE to provide certain technical and consulting services exclusively to our wholly-owned subsidiary in connection with the Exploration Business. Our wholly-owned subsidiary agrees to provide up to $6.0 million in investing funding to the VIE in connection with its operation of the Exploration Business, on such terms as the parties shall agree from time to time.

Renewable Energy Industry

The demand for electricity is steadily increasing as the worldwide economy continues to grow. Global electric power generation is expected to reach 25,000 terawatt hours, or TWh, annually by 2020, according to the Energy Information Administration, or the EIA, of the United States government, up from 17,000 TWh in 2005. According to a study by the European Commission, the market volume is expected to increase to approximately $53 billion by the end of 2010.

To meet this increasing demand, significant investments are required to ensure that the availability of fossil fuels, which account for approximately 65% of the world's supply of electricity, is maintained. However, fossil fuels face a number of challenges that limit their availability and result in significant price pressures. The limited availability and rising cost of fossil fuels have stimulated the development of renewable energy technologies and created, in our view, a significant business opportunity.

The challenges facing fossil fuels are creating a growth opportunity for renewable energy. Renewable energy sources for electric power generation include hydroelectric, biomass, geothermal, wind and solar. Among renewable sources of electricity, we believe solar energy has the most potential to meet the world's growing electricity needs. According to the U.S. Department of Energy, the sun is the only source of renewable energy that has a large enough resource base to meet a significant portion of the world's electricity needs. A study commissioned in 2002 by the U.S. Department of Energy estimated that, on average, 120,000 trillion Watts, or TW, of solar energy strike the Earth per year, far exceeding the global electricity consumption rate of 14.3TW. At a typical latitude for the United States, a net 10% efficient solar energy "farm" covering 1.6% of the U.S. land area could theoretically meet the country's entire

domestic electricity needs.

Photovoltaic Systems

Solar electricity is generated using either photovoltaic or solar thermal technology to extract energy from the sun. Photovoltaic, or PV, electricity generating systems directly convert the sun's energy into electricity, whereas solar thermal systems heat water or other fluids that are then used as sources of energy. PV systems are either grid-connected systems or off-grid systems. Grid-connected systems are connected to the electricity transmission and distribution grid and feed solar electricity into the end-user's electrical system and/or the grid. Such systems are commonly mounted on the rooftops of buildings, integrated into building facades or installed on the ground using support structures, and range in size from 2-3 kilowatts to multiple MWs. Off-grid PV systems are typically much smaller and are frequently used in remote areas where they may be the only source of electricity for the end-user. PV systems are currently the most widely used method of transforming sunlight into electricity.

In an overview of PV market potential, ECN Solar Energy reported in 2008 that the PV sector has grown at a rate of 25% per annum over the preceding two decades and at a rate of 45% per annum over the preceding five years. According to Photon Consulting, a global solar energy research firm, the PV market is expected to grow at approximately this rate for the next several years. The current installed worldwide PV-power generation capacity (that is, the number of installed modules multiplied by their average power rating), is still relatively marginal, representing slightly more than 8 gigawatts in 2006. Although this corresponds to only 0.06% of global electricity consumption, a 2007 report by Photon Consulting suggests that mass substitution by PV modules has begun. In particular, the report predicts that by 2011, PV will represent 10% to 15% of the annual additions of electricity generating capacity and that in selected countries the annual solar capacity additions will exceed those of coal and nuclear energy.

Thin Film Photovoltaic Technologies

Approximately 80% of PV-generated electricity is currently produced using traditional crystalline silicon. This technology requires a significant amount of high-purity silicon. The increase in PV production has resulted in a shortage of this type of silicon, adversely affecting PV growth and costs. Recently, because of over-capacity in silicon wafer, cost of traditional PV has come down significantly. However, thin-film technologies based on either amorphous silicon or Cadmium telluride (CdTe) are rapidly being phased into production because of their potential for further lowering the cost of PV modules. This is largely due to the fact that thin-film-based modules, as their name implies, consume much smaller amounts of the foregoing starting materials, typically only 1% compared to crystalline silicon, and also because they are produced using a continuous manufacturing process which is mass production proven. Additionally, thin film technologies are inherently free from the supply constraints associated with traditional silicon-based photovoltaic technologies, thus offering additional cost advantage in the marketplace. Accordingly, we believe these technologies are beginning to gain a foothold in the market.

Strategy

We seek to become the leading global provider of both high-purity metals and PV products by taking advantage of our high degree of vertical integration, which we believe yields economies of scale and cost savings. We consider ourselves uniquely positioned in China among suppliers of high-purity materials because of our exclusive access to the Dashuigou and Majiagou projects. A key element of our strategy is to increase our shipments globally and, in the longer term, become a leading producer of CdTe thin-film solar modules.

Our strategy includes the following key elements:

· ·Leverage our cost base. We believe the technical improvements resulting from our research and development efforts have been instrumental in significantly reducing our production costs and increasing our operational efficiency. As we source more tellurium internally, we believe we will be able to achieve significantly higher profit margins than our competitors. We intend to utilize this cost advantage to attract both new customers and larger orders from existing customers.

· ·Increase production capacity. The main constraint limiting our sales has been production capacity as customer demand has exceeded the amount of materials we are able to produce. In May 2008, we relocated our operations to a new 650,000 square foot facility in Chengdu, PRC and launched an aggressive expansion project to increase our annual production capacity of high-purity materials to 1,000 tons. Of these 1,000 tons, we plan to increase our capacity to produce tellurium and cadmium telluride. We will continue to closely monitor the progress of this expansion project to avoid risks of over-expansion, while evaluating other available expansion opportunities. We believe expansion of our production capacity is likely to result in greater economies of scale for our operations.

· Penetrate new market segments. Our current key markets are the United States and China, which represented our two largest markets based on revenues in 2009. We are seeking to increase sales in the United States and Japan and to expand into selected countries in Europe, where we believe the PV market is likely to grow significantly in the near term. For example, we entered into 6N sulfur supply contracts with several German companies, including Sulfurcell Solartechnit GmbH, during the last several years. We believe the visibility of our brand name in Germany will help us expand into our new targeted markets in Europe. We also seek to strengthen our relationships with existing customers, particularly with First Solar, CERAC and Honeywell. We also plan to hire additional sales agents to be based in Europe and the Middle East to provide services to our customers in those markets.

· ·Expand market share in China. Although the PV market in China is currently smaller than other major PV markets, we believe that the adoption of a series of new laws, regulations and initiatives by the PRC government, including the PRC's Renewable Energy Law, the Supervision Regulations on the Purchase of All Renewable Energy by Power Grid Enterprises, the National Medium- and Long-Term Programs for Renewable Energy and the recent amendments to the PRC Energy-Saving Law demonstrates the PRC government's commitment to develop renewable energy sources and may lead to rapid growth in the PV market in China. As a leading supplier of high-purity materials in China, we believe we are well-positioned to capitalize on this growth and capture a significant portion of China's thin-film PV market.

Products

We produce and sell a range of metals and compounds to address the requirements of our customers in the various electronic materials market segments. Our range of products and their typical end-uses are as follows:

· Ultra-High Purity Tellurium. These include tellurium in purity levels of 99.999% (5N) to 99.99999% (7N) or more. High purity tellurium is used to manufacture radiation and infrared detectors;

· CdTe Thin Film Compounds. These are tellurium-based compounds in purity levels ranging from 99.999% (5N) to 99.9999% (6N). These products are primarily used in the production of thin-film solar electric power modules; and

- Other Commercial-Purity Metals. These include tellurium, selenium, antimony, bismuth, cadmium and zinc in purities ranging from 99.99% (4N) to 99.9999% (6N). These metals find applications in numerous electronic material market segments, including PV, radiation detector, and infrared detection.

Customers and Main Markets

Our principal customers are manufacturers of thin-film solar cells, cell modules, and solar electronic products. We also serve additional customers involved in various segments of other electronic materials markets. In 2009, approximately 90% of our sales were to two customers, First Solar and Shaoshan Metals in China. Although our sales will not be as heavily concentrated as in 2010, we still expect our sales to continue to be concentrated among a small number of customers. However, we also expect that our significant customers may change from time to time.

In 2009, 87% of our sales were made to customers in Asia and 13% of our sales were made to customers in North America. In 2008, 61% of our sales were made to customers in Asia, 38% of our sales were made to customers in North America and 1% of our sales were made to customers in the rest of the world. Our contracts with major customers are non-cancelable and provide for minimum levels of product sales for the duration of the contract (typically 6 to 12 months) with the potential for higher sales levels depending on such factors as rising market prices, customer's needs, our available capacity and/or our ability to reach agreement on key terms. Our standard arrangement with First Solar is for 30-day payment terms.

As we expand our manufacturing capacity to include thin-film PV modules, we anticipate developing additional customer relationships with providers of solar systems to end-users that include individual owners of agricultural buildings, owners of commercial warehouses, offices and industrial buildings, public agencies and municipal government authorities that own buildings suitable for solar system deployment, owners of land designated as former agricultural land, waste land or conversion land, such as former military bases or industrial areas, and financial investors that desire to own large scale solar projects.

Our Customer Supply Agreements

In January 2009, we received purchase orders from First Solar to purchase nine tons of high purity Te. We negotiated with First Solar for additional orders in the second quarter in 2009. On January 8, 2009, we signed an agreement to appoint CERAC, Inc. as the exclusive distributor to sell our products in North America, excluding sales to First Solar. According to CERAC, there are delays in the development of CdTe based thin film PV panels by certain potential customers, which may not be remedied until mid 2010. We believe that once these new players are ready to produce, we will be able to sell our products to them through the distribution network established by CERAC. We have also entered into monthly or semi-annual contracts with other customers including Pioneer Materials, Inc., Relden Crystals Inc., along with additional domestic companies.

Competition

We face competition from producers of raw materials such as Vital Chemicals Co., Xiandao (Qingyuan) Rare Metal and Chemical Co., and Emei Semiconductor Material Co. in China. Overseas we face competition from 5N Plus, Inc. in Canada, Honeywell Electronic Materials in the United States, PPM Pure Metals in Germany and Nikko Materials in Japan. As solar opportunities grow, new entrants are likely to enter the market and our existing customers may begin to backwards integrate. It is also likely that our current suppliers, who are large non-ferrous mining, refining and metal processing companies, will begin to vertically integrate as well. We believe that our anticipated complete vertical integration as both a miner and refiner in the future will uniquely positions us to compete effectively.

Competitive Advantages

We believe that we possess significant competitive advantages. These advantages include:

- Well-Established Market Position and Significant Barriers to Entry. We believe that we are one of the main suppliers of cadmium, selenium, and tellurium metal and compounds in the markets that we serve. We believe we have a limited number of competitors due to the highly specialized nature of our business. The niche markets we serve require extensive expertise and know-how. Our products must be qualified by customers after long periods of testing. Most of the materials that we produce must also be handled with care because of their environmental and occupational impact, and must be recycled, all of which constitute significant entry barriers for potential competitors.

- Key Supplier in the Fast-Growing CdTe PV Industry. We are one of the key suppliers of CdTe to the PV industry, as evidenced by our relationship with First Solar, a leading CdTe PV module supplier. A significant increase in CdTe-based PV production capacity is expected over the next few years and we believe that we are well positioned to be an active participant in the growth of the industry.

- Stable Stream of Future Revenue. As we have exclusive access to tellurium, the issue of constant stable supplies to our customers does not exist. Therefore, we anticipate that we will be able to negotiate with all of our customers in the future for long-term supply agreements which will lead to stable stream of revenue in future years.

- Stable Supply of Critical Raw Materials at Competitive Pricing. We have the access to our own tellurium projects and to other sources of feedstock materials that we require. We consider ourselves uniquely positioned in China among suppliers of high-purity materials because of our exclusive access to the Dashuigou and Majiagou projects. We believe we can yield economies of scale and cost savings and thus offer highly competitive pricing to our customers.

Sales and Marketing

We market and sell our products through our direct sales force to customers in North America, Japan, the rest of Asia, and Europe. Our sales team consists of eight in-house sales managers and one sales director that we hired in December 2009. Our direct sales force includes experienced and technically sophisticated sales professionals and engineers who are knowledgeable in photovoltaics and the various applications in which our products are used. Our sales staff works with customers during all stages of the manufacturing process, from developing the precise composition of the compound through manufacturing and processing to the customer's exact specifications. On January 8, 2009, we appointed CERAC, Inc. to be our exclusive distributor for the North American market, excluding sales to First Solar. We believe we can leverage on CERAC's established distribution channel to sell products to customers that may begin production of their thin film PV modules in 2010.

A key component of our marketing strategy is developing and maintaining strong relationships with our customers, especially at the senior management level. We seek to achieve this through working closely with our customers to optimize our products for their production processes. In addition, we believe we are able to develop long-term relationships with key customers by offering competitive pricing, delivering high quality products and providing superior customer service. We believe that maintaining close relationships with senior management and providing necessary customer support improves customer satisfaction and provides us with a competitive advantage when selling our products.

In order to increase brand recognition of our products and of Apollo in general, we publish technical articles, advertise in trade journals, distribute promotional materials and participate in industry trade shows and conferences.

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Research and Development

We plan to continue to devote a substantial amount of our resources to research and development with the objective of improving our exploration output efficiency, and optimizing our extraction and refining steps. We will primarily focus our research and development in the following areas:

- Exploration output efficiency. Mining exploration is becoming increasingly sophisticated, with some projects now using smart sensors to identify areas to prospect, guide sophisticated equipment used in extracting minerals, and monitor air quality in projects. We are consistently seeking new technologies and techniques to raise efficiency at the Dashuigou and Majiagou projects while concurrently seeking to improve environmental and safety conditions.

- Mineral processing and refining. We are focusing our efforts on the optimization of both our front-end and back-end processes, namely our primary hydrometallurgical extraction and refining steps (leaching, solid liquid separation and electrowinning), as well as our secondary high-purity refining steps (vacuum distillation and zone refining).

As of December 31, 2009, our research and development team consists of 39 full-time employees which are broken down into four groups:

- Mineral resources prospecting and development, 20 engineers;

- Mineral processing, metallurgy, new materials, 6 engineers;

- New energy development, 8 engineers; and

- Geologists, 5.

Additionally, we have strategic research and development collaborations with various universities including Sichuan University, Chengdu Electronic Engineering University, Chengdu Polytechnic University, Shanghai Technical Physics Institute, China Nonferrous Metal Research Institute and the New Jersey Institute of Technology.

Intellectual Property

Our success depends, in part, on our ability to maintain and protect our proprietary technology and to conduct our business without infringing on the proprietary rights of others. As of December 31, 2009, we held eight Chinese patents with respect to our proprietary refining techniques and had an additional three patent applications pertaining to elements of our unique thin-film solar module manufacturing process pending.

With respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on, among other things, trade secret protection and confidentiality agreements to safeguard our interests. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our associates to assign to us all of the inventions, designs and technologies they develop during the course of employment with us. We also require our customers and business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our refining techniques, solar modules, technology or business plans.

Safety Performance

We have received no reports of occupational injuries or other safety accidents with respect to our operations since we received our Safe Production License from the Chinese government one April 11, 2006. We have a production staff of persons in Dashuigou that are supervised by our Safety Production Committee which reports directly to our management team. We have also adopted safety production guidelines and procedures that require every member of the production staff to participate in specific safety training programs and to obtain a safety working permit issued by the local governmental authorities prior to commencing such work. Additionally, we provide an annual internal training program to all of our employees that details our safety measures and emergency recovery programs currently in place. Each employee is covered by a special occupational and health insurance program, and every employee undergoes a regular physical examination.

Environmental Regulations

Our Dashuigou and Majiagou mines and high purity material manufacturing facilities are subject to various pollution control regulations with respect to noise, water and air pollution and the disposal of waste and hazardous materials. The basic laws in China governing environmental protection in the mineral industry sector of the economy are the Environmental Protection Law, the Environment Impact Assessment Law and the Mineral Resources Law. The State Administration of Environmental Protection and its provincial counterparts are responsible for the supervision, implementation and enforcement of environment protection laws and regulations. Provincial governments also have the power to implement rules and policies in relation to environmental protection in their respective jurisdictions.

Our material purification process generates gaseous wastes, liquid wastes, waste water, noise and other industrial wastes in various stages of the manufacturing process. We have installed various types of anti-pollution equipment in our production facilities to reduce and treat the wastes generated in our manufacturing process. Our operations are subject to regulation and periodic monitoring by the State Environmental Protection Bureau of the PRC, as well as local environmental protection authorities. The PRC national and local environmental laws and regulations impose fees for the discharge of certain waste substances. If discharges exceed the prescribed levels, excess discharge fees are charged. The PRC national and local governments may at their own discretion assess fines, close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy activities causing environmental damage. No such penalties have been imposed on us, and we believe that we have been in material compliance with applicable environmental regulations and standards.

We have obtained the land use permit and the water and soil preservation permit for the Dashuigou and Majiagou projects. We also received ISO 9001:2000 and GB/T19001-2000 certificates which are valid from January 9, 2008 until December 20, 2010. This Quality Management System applies in the areas of design, development and production of certain metals and high purity compounds.

Government Regulations

The following is a summary of the principal governmental laws and regulations that are or may be applicable to our operations in the PRC. The scope and enforcement of many of the laws and regulations described below are uncertain. We cannot predict the effect of further developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of laws.

Renewable Energy Law and Other Government Directives

In February 2005, the PRC enacted its Renewable Energy Law, which became effective on January 1, 2006. The Renewable Energy Law sets forth policies to encourage the development and use of solar energy and other non-fossil energy. The renewable energy law sets forth the national policy to encourage and support the use of solar and other renewable energy and the use of on-grid generation. It also authorizes the relevant pricing authorities to set favorable prices for the purchase of electricity generated by solar and other renewable power generation systems.

The law also sets forth the national policy to encourage the installation and use of solar energy water-heating systems, solar energy heating and cooling systems, solar photovoltaic systems and other solar energy utilization systems. It also provides financial incentives, such as national funding, preferential loans and tax preferences for the development of renewable energy projects. In January 2006, China's National Development and Reform Commission promulgated two implementation directives of the Renewable Energy Law. These directives set forth specific measures in setting prices for electricity generated by solar and other renewable power generation systems and in sharing additional expenses incurred. The directives further allocate the administrative and supervisory authorities among different government agencies at the national and provincial levels and stipulate responsibilities of electricity grid companies and power generation companies with respect to the implementation of the renewable energy law.

In November 2005, the PRC's National Development and Reform Commission promulgated the Renewable Energy Industry Development Guidance Catalogue, where solar power figured prominently. In January 2006, the PRC's National Development and Reform Commission promulgated an implementation directive for the renewable energy power generation industry. This directive sets forth specific measures for setting the price of electricity generated by solar and other renewable power generation systems and in sharing the costs incurred. The directive also allocates administrative and supervisory authority among different government agencies at the national and provincial levels and stipulates the responsibilities of electricity grid companies and power generation companies with respect to the implementation of the renewable energy law.

On August 31, 2007, the PRC's National Development and Reform Commission promulgated the Medium and Long-Term Development Plan for the Renewable Energy Industry. This plan sets forth national policy to provide financial allowance and preferential tax regulations for the renewable energy industry. A similar demonstration of PRC government commitment to renewable energy is also stipulated in the Eleventh Five-Year Plan for Renewable Energy Development, which was promulgated by the PRC's National Development and Reform Commission in March 2008.

The principal regulations governing our business in the PRC include:

- China Mineral Resources Law, which requires an exploration business to have exploration and mining licenses from provincial or local land and resources agencies;

- China Environmental Law, which requires an exploration project to obtain an environmental feasibility study of the project; and

- China Mine Safety Law, which requires an exploration business to have a safe production license and provides for random safety inspections of exploration facilities.

Chinese regulations also require that an exploration company have a safety certification from the PRC Administration of Work Safety before it can engage in exploration and extracting activities. All of our operating subsidiaries have obtained the necessary licenses and certifications.

Insurance

We have personal injury insurance for our employees and management under a group insurance policy with Ping An Life Insurance Company of China, Ltd. The insurance coverage for our employees includes accidental injury, medical cost for accidental injury, and hospital allowance for accidental injury. In addition to coverage for our employees, insurance for management covers extra car and airplane-related accidents.

Income Tax

On March 16, 2007, the National People's Congress of China approved the Corporate Income Tax Law of the People's Republic of China, or the New CIT Law, which is effective from January 1, 2008. Under the new CIT law, the corporate income tax rate applicable to all Companies, including both domestic companies and foreign-invested companies, is 25%, replacing the old applicable tax rate of 33%.

On July 16, 2009, we received PRC government approval on the High-Tech Enterprise Certificate which allows us to enjoy a favorable tax rate of 15% effective January 1, 2009 and through December 31, 2011.

Employees

We employ 220 people. Of our employees, 68 hold university degrees in engineering or physical sciences. A breakdown of our current personnel by category is as follows:

Production	114
Research and Development	39
Administration	52
Sales and Marketing	9
Senior Management	6
Total	220

ITEM 1A: RISK FACTORS

Any investment in our common stock involves a high degree of risk. Potential investors should carefully consider the material risks described below and all of the information contained in this Form 10-K before deciding whether to purchase any of our securities. Our business, financial condition or results of operations could be materially adversely affected by these risks if any of them actually occur. Some of these factors have affected our financial condition and operating results in the past or are currently affecting our company. This filing also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced described below and elsewhere in this Form 10-K.

Risks Related To Our Operations

We have accumulated significant losses and we may not be able to generate significant revenue or any net income in the future, which would negatively impact our ability to run our business.

We have accumulated significant net losses from our inception through December 31, 2009. We have continued to accumulate losses after December 31, 2009, to date, and we may be unable to generate significant revenue or any net income in the future. We cannot predict when, or if, we will become profitable in the future. Even if we achieve profitability, we may not be able to sustain it. We have funded our operations primarily through the issuance of equity and debt securities to investors and may not be able to generate a positive cash flow in the future. If we are unable to generate sufficient cash flow from operations, we will need to seek additional funds through the issuance of additional equity or debt securities or other sources of financing. We may not be able to secure such additional financing on favorable terms, or at all. Any additional financings will likely cause substantial dilution to existing stockholders. If we are unable to obtain necessary additional financing, we may be required to reduce the scope of, or cease, our operations.

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations.

We commenced our current line of business operations in 2006. Our limited operating history may not provide a meaningful basis on which to evaluate our business. Although our revenues have grown rapidly since inception, we cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

- raise adequate capital for expansion and operations;
- implement our business model and strategy and adapt and modify them as needed;
- increase awareness of our brands, protect our reputation and develop customer loyalty;
- manage our expanding operations and service offerings, including the integration of any future acquisitions;
- maintain adequate control of our expenses;
- anticipate and adapt to changing conditions in the renewable energy market in which we operate as well as the impact of any changes in government regulations, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

Uncertainty in the results of exploration for resources.

Resources and reserves are non-renewable and the exploration of new potential resources is crucial to an exploration enterprise. Exploration of mineral resources is speculative in nature, so substantial expenses may be incurred from initial drilling to production. As tellurium is the ninth rarest elements on earth and we believe the Dashuigou and Majiagou tellurium projects are the only two known tellurium projects found to date, there is also no assurance that exploration can lead to the discovery of new mines or economically feasible reserves. Although the exploration is not our main business of the Company, we expect to continue to search for new tellurium resources. If we fail to replenish our mineral resource levels in existing or new exploration areas, we may not be able to maintain the current production level after the remaining usable life of the existing exploration areas.

Fluctuation in the market price of base metals may significantly affect the results of our operations.

The results of our operations are significantly affected by the market price of base metals, which are subject to substantial price fluctuations. Our earnings are particularly sensitive to changes in the market price of tellurium, cadmium, and other metals that we sell. Market prices can be affected by numerous factors beyond our control, including supply and demand for a broad range of industrial reasons, substitution of new or different products in critical applications for our existing products, expectation with respect to the level of fossil fuel price, and speculative activities. If prices should decline below our cash costs of production and remain at such levels for any substantial period, we could determine that it is not economically feasible to continue commercial production at any or all of our projects.

As tellurium is rare and its applications highly specific, there is no known hedging tools for us to utilize to protect us against price fluctuation. As such, our ability to protect our operations performance due to base metal price fluctuation is minimal.

We may face restricted access to markets in the future.

Access to our markets may be subject to ongoing interruptions and trade barriers due to political and tariffs of individual countries, and the actions of certain interest groups to restrict the import of our commodities. Although there are currently no significant trade barriers existing or impending of which we are aware that do, or could, materially affect our access to certain markets, there can be no assurance that our access to these markets will not be restricted in the future.

We may not be able to renew the current license period of mining rights.

Under the PRC's Mineral Resources Law, all mineral resources of the PRC are owned by the State. We may obtain mining rights for conducting mining activities in a specific mining area during the license period. We have, under the relevant laws and regulations, and through the VIE Arrangement, obtained valid mining rights to the Dashuigou and Majiagou projects with a validity period of six years and may apply to the relevant authorities for extension. There can be no assurance that we will be able to exploit the entire mineral resources of the projects during the license period. If we fail to renew our mining rights upon expiration of the initial license, or we cannot effectively utilize the resources within a license period specified in the mining right, our operation and performance may be adversely affected.

Our Performance relies on the operations of two existing projects.

Our principal operating assets are the Dashuigou and Majiagou tellurium projects. A substantial portion of our revenues will be generated from these two projects. There is no assurance that our other developing mineral projects will perform satisfactorily. If other developing mineral projects fail to perform satisfactorily, this may lead to a decrease in the overall profit margin, operating performance and investment return, and may adversely affect our operating results.

The change of amortization policy on mining rights may affect our performance.

Our exploration rights are amortized using the units-of-production method. We will periodically review our production plans and the reserve level, if any, of the respective project. Accordingly, any material change in the production plan of our properties or modification of reserve levels may alter our amortization policy of mining rights and negatively impact us.

Production safety.

We employ the open pit exploration method for our two projects. Due to the geographic setting and relatively high elevation difference, there is a possibility of localized mud-rock flow during the rainy season, and a risk of instability of the slopes and subsidence of the working area. As the exploration process requires the use of explosives and sodium cyanide, any improper storage or use of these materials could lead to injury or death.

Another earthquake in the region may have negative impact on the operations of our projects and therefore our performance.

A major earthquake measuring 8.1 on the Richter scale took place in the Sichuan province on May 21, 2008. If such an earthquake were to take place again, the facilities in our projects could be damaged, lead to injury and death of employees, and the complete halt to our exploration activities.

Government regulation of the mining industry.

Our exploration operation are subject to various government policies and regulations in China relating to exploration, development, production, taxation, labor standards, vocational health and safety, waste treatment, environmental monitoring, protection and control, operations management and other problems. Any changes to these policies and regulations may increase our operating costs and may adversely affect our operating results.

The loss of, or a decrease in the amount of business from, our major customers or any default payment on their part could significantly reduce our net sales and harm our operating results.

In 2009, our top two customers, First Solar and Shaoshan Metals accounted for 90% of our revenue. In 2008, approximately 50% of sales were to two customers, First Solar and Shaoshan Metals. The loss of, or a decrease in the amount of business from, these customers, or any default in payment on their part, could significantly reduce our net sales and harm our operating results. We understand that First Solar intends to increase its number of suppliers of CdTe. We have no assurance of securing additional business from our major customers beyond our long-term supply agreements. Although we believe that the volumes of CdTe required by First Solar are beyond the requirements of the other companies, they may limit our ability to diversify our sales of CdTe until 2011 and to reduce our reliance on our major customers. We therefore expect that our dependence on our major customers will continue during most of 2010, at which point we intend to gradually reduce our reliance on our major customers by expanding our production capacity to meet the needs of currently merging manufacturers of CdTe-based PV modules, as well supply the needs of companies active in the medical imaging market.

We may not be able to effectively control and manage our growth.

If our business and markets grow and develop, it will be necessary for us to finance and manage expansion in an orderly fashion. In addition, we may face challenges in managing and expanding facilities and in integrating acquired businesses with our own. Such eventualities will increase demands on our existing management, workforce and facilities. Failure to satisfy such increased demands could interrupt or adversely affect our operations and cause longer operation location completion cycle, and administrative inefficiencies.

We depend on market acceptance of our customers' products and the technology associated therewith.

We depend on market acceptance of our customers' products and the technology associated therewith. Any delay or failure by our customers to successfully penetrate their respective markets could lead to a reduction in our sales and operating margins. Most of our products are sold either into emerging markets or alternatively in existing markets, for which they are used to manufacture replacement products intended to represent new and improved technologies. If our customers are unable to meet the performance and cost targets required for commercial viability, their products are subject to regulations which limit their use, or the new or improved technology associated with their products proves unsuitable for widespread adoption, it may have an adverse effect on our sales and operating margins.

More specifically, a significant part of our sales are made in the solar energy market using thin-film technology. First Solar is currently the sole volume manufacturer of thin-film CdTe-based PV modules and its oldest active production line has been in operation only since November 2004. As a result, thin-film technology does not have a sufficient operating history to confirm how PV modules will perform over their estimated useful life of 25 years. Long-term viability of CdTe-based thin film technology will also depend on the manufacturers' ability to reduce the cost of PV modules to a level at which the technology is competitive with other energy sources without government subsidies. If thin-film technology performs below expectations or if it does not achieve cost competitiveness with conventional or other solar or non-solar renewable energy sources without government subsidies, it could result in the failure of the technology to be widely adopted in the market.

This could significantly affect demand for our products and reduce our sales and profit margins. Many other factors may affect the widespread adoption of PV technology and demand for our customers' products, including the following:

- ·cost-effectiveness of thin film PV modules compared to conventional and other non-solar renewable energy sources and products;
- ·performance and reliability of thin film PV modules and thin-film technology compared to conventional and other non-solar renewable energy sources and products;
- ·availability of government subsidies and incentives to support the development of the solar energy industry;
- ·success of other renewable energy generation technologies, such as hydroelectric, wind, geothermal, solar thermal, concentrated PV and biomass;
- ·fluctuations in economic and market conditions that affect the viability of conventional and non-solar renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels;
- ·fluctuations in capital expenditures by end-users of PV modules, which tend to decrease when the economy slows and interest rates increase; and
- ·deregulation of the electric power industry and the broader energy industry.

A change in environmental regulations could cause serious disruption to operations and negatively impact our results.

Our operations involve the use, handling, generation, processing, storage, transportation, recycling and disposal of hazardous materials and are subject to extensive environmental laws and regulations at the national, provincial, local and international level. These environmental laws and regulations include those governing the discharge of pollutants into the air and water, the use, management and disposal of hazardous materials and wastes, the clean-up of contaminated sites and occupational health and safety. We have incurred and will continue to incur capital expenditures in order to seek to comply with these laws and regulations. In addition, violations of, or liabilities under, environmental laws or permits may result in restrictions being imposed on our operating activities or in our being subject to substantial fines, penalties, criminal proceedings, third party property damage or personal injury claims, clean-up costs or other costs. While we believe that we are currently in compliance with applicable environmental requirements, future developments such as more aggressive enforcement policies, the implementation of new, more stringent laws and regulations, or the discovery of currently unknown environmental conditions may require expenditures, or changes in our operations, that could have a material adverse effect on our business, results of operations and financial condition.

Although China has enacted environmental protection legislation to regulate the mining industry, due to the very short history of this legislation, national and local environmental protection standards are still in the process of being formulated and implemented.

Chinese legislation provides for penalties and other liabilities for the violation of environmental protection standards and establishes, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are being or have been conducted.

We believe that there are no outstanding notices, orders or directives from central or local environmental protection agencies or local government authorities alleging any breach of national or local environmental quality standards by us or any other party in respect of our property. Although we intend to fully comply with all environmental regulations, there is a risk that permission to conduct exploration, development and manufacture activities could be withdrawn temporarily or permanently where there is evidence of serious breaches of such standards. In addition, given the relative lack of precedents in enforcing the new environmental protection laws, there are no guarantees that the laws or the interpretation of the laws or regulations, will not materially change, which could require us to substantially change, or entirely cease, our operations in China.

Because of growing demand for high-purity metals, we may be subject to more competition in the near future.

The forecasted growth in demand for high-purity metals, especially those used by the solar power industry, is expected to attract more metal refiners into that industry and increase competition. Competition could arise from new low-cost metal refiners or from certain of our customers who could decide to backwards integrate.

Our future success will be dependent upon the efforts of our key personnel.

Our future success depends on our ability to retain our key employees and attract, train, retain and successfully integrate new talent into our management team. We are dependent on the services of our senior management team. The loss of any of these could have a material adverse effect on us. Renyi Hou, our Chief Executive Officer and Chairman of our Board of Directors, who has been with us since the inception of Sichuan Apollo in 2006, play active roles in our operation and growth initiatives. Our future success also depends, to a significant extent, on our ability to attract, train and retain talented personnel. Recruiting and retaining talented personnel, particularly those with expertise in the electronic materials industry, refining technology and cadmium, tellurium and selenium-based compounds is vital to our success and may prove difficult.

We may incur losses resulting from business interruptions.

We may incur losses resulting from business interruptions. In many instances, especially those related to our long-term contracts, we have contractual obligations to deliver product in a timely manner. Any disruption in our activities which leads to a business interruption could harm our customers' confidence level and lead to the cancellation of our contracts and legal recourse against us. Although we believe that we have taken reasonable precautions to avoid business interruptions, we could still experience interruptions which would adversely impact our financial results.

Protection of our proprietary processes, methods and other technologies is critical to our business and therefore any failure to protect the use of our existing intellectual property rights could result in the loss of valuable technologies and processes.

Protection of our proprietary processes, methods and other technologies is critical to our business. We rely almost exclusively on a combination of Chinese patents, trade secrets and employee confidentiality agreements to safeguard our intellectual property. Failure to protect and monitor the use of our existing intellectual property rights could result in the loss of valuable technologies and processes and materially adversely affect our business.

If our insurance coverage is unavailable or insufficient to cover future claims against us, our financial resources and results of operations could be adversely affected.

We have limited insurance coverage for a number of risks, including environmental situations and personal injury. Although we believe that the events and amounts of liability covered by our insurance policies are reasonable taking into account the risks relevant to our business as carried out to date, there can be no assurance that such coverage will be available or sufficient to cover all claims to which we may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, our financial resources and results of operations could be adversely affected.

We have limited business insurance coverage, and accordingly any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not generally, to our knowledge, presently offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we have not obtained such insurance at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

We are responsible for the indemnification of our officers and directors.

Our Bylaws provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against costs and expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of us. This indemnification policy could result in substantial expenditures, which we may be unable to recoup.

Risks Related to Doing Business in the PRC

Government regulations may hinder our ability to function efficiently.

The national, provincial and local governments in the PRC are highly bureaucratized. The day-to-day operations of our business requires frequent interaction with representatives of the Chinese government institutions. The effort to obtain the registrations, licenses and permits necessary to carry out our business activities can be daunting. Significant delays can result from the need to obtain governmental approval of our activities. These delays can have an adverse effect on the profitability of our operations.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC laws and regulations or their interpretation and application may have a material and adverse effect on our business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. We and any future subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws, and as a result, we are required to comply with PRC laws and regulations applicable to such persons or enterprises. These laws and regulations are sometimes vague and may be subject to future changes, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation or application of existing or new PRC laws or regulations may have on our businesses.

A slowdown or other adverse developments in the PRC economy may materially and adversely affect our customers, demand for our services and our business.

We are a holding company and all of our operations are conducted in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that such growth will continue. The solar energy industry in the PRC is encouraged by Chinese government, relatively new and growing, but we do not know how sensitive we are to a slowdown in economic growth or other adverse changes in the PRC economy which may affect demand for our products. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in the PRC may materially reduce the demand for our products and materially and adversely affect our business.

Inflation in the PRC could negatively affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. Although the People’s Bank of China, the PRC’s central bank, currently keeps the interest rate low, it has indicated an interest rate increase is possible and necessary for the inflationary concerns in the Chinese economy. Repeated rises in interest rates by the central bank would likely slow economic activity in China, which could, in turn, materially increase our costs and also reduce demand for our products.

Capital outflow policies in China may hamper our ability to pay dividends to shareholders in the United States.

The PRC has adopted currency and capital transfer regulations. These regulations require that we comply with complex regulations for the movement of capital. Although Chinese governmental policies were introduced in 1996 to allow the convertibility of RMB into foreign currency for current account items, conversion of RMB into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange. We may be unable to obtain all of the required conversion approvals for our operations, and Chinese regulatory authorities may impose greater restrictions on the convertibility of the RMB in the future. Because most of our future revenues will be in RMB, any inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to pay dividends to our shareholders.

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Sichuan Apollo is subject to restrictions on paying dividends and making other payments to us.

We are a holding company incorporated in the State of Nevada and do not have any assets or conduct any business operations other than our investments in our subsidiaries. As a result of our holding company structure, we rely primarily on dividend payments from our indirect wholly owned subsidiaries in China. However, PRC regulations currently permit payment of dividends only out of accumulated profits, as determined in accordance with PRC accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See “Government control of currency conversion may affect the value of your investment.” Furthermore, if our subsidiary or affiliated entity in China incurs debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If we, or our subsidiary, are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to pay dividends on our common stock.

Governmental control of currency conversion may affect the value of an investment in the Company.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive a significant portion of our revenues in RMB, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

The fluctuation of the Renminbi may materially and adversely affect an investment in the Company.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. As a significant portion of our revenues are earned in the PRC, any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities or other financing into RMB for use in our operations, appreciation of the RMB against the U.S. dollar could have a material adverse effect on our business, financial condition and results of operations. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the RMB, the U.S. dollar equivalent of the RMB we convert would be reduced. In addition, the depreciation of significant U.S. dollar denominated assets could result in a charge to our income statement and a reduction in the value of these assets.

On July 21, 2005, the PRC government changed its decade-old policy pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 2.0% appreciation of the RMB against the U.S. dollar. While the international reaction to the RMB revaluation has generally been positive, there

remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar.

Because the ownership and exploitation of mineral resources is subject to extensive government regulation we cannot assure that required approvals, licenses and permits will be granted, or if granted, will be granted in a timely manner.

Ownership of all land in China remains with the State and the State, at the national, regional and local levels, is extensively involved in the regulation of exploration and mining activities. Transfers of exploration rights are also subject to governmental approval. Failure or delays in obtaining necessary approvals could have a materially adverse affect on our financial condition and results of operations. Nearly all mining projects in the PRC require government approval. There can be no certainty that any such approvals will be granted (directly or indirectly) to us or any of our direct or indirect subsidiaries, or at all. There is no assurance that our mineral exploration and development activities will result in any discoveries of commercial bodies of tellurium. The long−term profitability of our operations will in part be directly related to the costs and success of our exploration programs, which may be affected by a number of factors. Failure to obtain such licenses and permits as are required would cause us to materially change or cease operations in China.

Our targeted industries are heavily regulated and we may not be able to remain in compliance with all such regulations, and may be required to incur substantial costs in complying with such regulation.

Our exploration projects, properties and companies in China are subject to extensive regulation by China's Mining Ministry, and by other provincial, county and local authorities in jurisdictions in which products are processed or sold, regarding the processing, storage, and distribution of mineral products. In addition, processing facilities are subject to periodic inspections by government agencies. We believe that we are currently in substantial compliance with all laws and governmental regulations and that we have all material permits and licenses required for our operations. Nevertheless, we cannot assure investors that we will continue to be in substantial compliance with current laws and regulations, or that we will be able to comply with any future laws and regulations. To the extent that new regulations are adopted, we will be required to conform our activities in order to comply with such regulations. We may be required to incur substantial costs in order to comply. Our failure to comply with applicable laws and regulations could subject us to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions which could have a material and adverse effect on our business operations and finances. Changes in applicable laws and regulations may also have a negative impact on our operations and revenues.

Risks Related to Our Common Stock

Our officers, directors and affiliates will control us through their positions and stock ownership and contractual provisions, and their interests may differ from other stockholders.

Pursuant to the Entrusted Management Agreement, effective shortly after the completion of the Merger, the Apollo Managers, including certain persons that are our officers, directors and affiliates, are entitled to receive shares of our Common Stock of the Company, with the result that such officers, directors and affiliates beneficially own approximately 60.15% of our Common Stock, after giving effect to such issuance. As a result, the Apollo Managers are able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. The Apollo Managers' interests may differ from other stockholders. Furthermore, the current ratios of ownership of our Common Stock reduce the public float and liquidity of our Common Stock, which can in turn affect the market price of our Common Stock.

We are not likely to pay cash dividends in the foreseeable future.

We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate. Should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our subsidiaries. In addition, our operating subsidiary, from time to time, may be subject to restrictions on its ability to make distributions to us, including as a result of restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions.

There is currently a limited trading market for our Common Stock.

Our Common Stock is quoted on the Over-The-Counter Bulletin Board, or the OTCBB. However, our bid and asked quotations have not regularly appeared on the OTCBB for any consistent period of time. There is no established trading market for our Common Stock and our Common Stock may never be included for trading on any stock exchange or through any other quotation system (including, without limitation, the NASDQ Stock Market). Investors may not be able to sell their shares due to the absence of a trading market. Furthermore, the current ratios of ownership of our Common Stock reduce the public float and liquidity of our Common Stock which can in turn affect the market price of our Common Stock.

Our Common Stock may be also subject to the "penny stock" rules to the extent that the price drops below $5.00, which require delivery of a schedule explaining the penny stock market and the associated risks before any sale. These requirements may further limit investors' ability to sell their shares.

Our Common Stock is illiquid and subject to price volatility unrelated to our operations.

The market price of our Common Stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of other companies in the same industry, trading volume in our Common Stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our Common Stock.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

As our ultimate holding company is a Nevada corporation, we are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with our company, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Because our business is located in the PRC, we may have difficulty establishing adequate management, legal and financial controls, which we are required to do in order to comply with U.S. securities laws.

PRC companies have historically not adopted a Western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and, computer, financial and other control systems. Most of our middle and top management staff are not educated and trained in the Western system, and we may have difficulty hiring new employees in the PRC with such training. In addition, we may need to rely on a new and developing communication infrastructure to efficiently transfer our information from our centers of operations to our headquarters. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002. This may result in significant deficiencies or material weaknesses in our internal controls, which could impact the reliability of our financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act of 2002. Any such deficiencies, weaknesses or lack of compliance could have a materially adverse effect on our business.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based upon U.S. laws, including the federal securities laws, or other foreign laws against us or our management.

All of our current operations are conducted in China. Moreover, most of our directors and officers are nationals and residents of China. All or substantially all of the assets of these persons are located outside the United States and in the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these persons. In addition, uncertainty exists as to whether the courts of China would recognize or enforce judgments of U.S. courts obtained against us or such officers and/or directors predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in China against us or such persons predicated upon the securities laws of the United States or any state thereof.

Risks Related To Our Capital Structure

Our stock price is volatile and you might not be able to resell your securities at or above the price you have paid.

Since the completion of the reverse merger in October 2008 through March 26, 2010, our share price has been volatile, with a high and low sales price of $7.50 and $3.85, respectively, at volume that is extremely thin. You might not be able to sell the shares of our common stock at or above the price you have paid. The stock market has experienced extreme volatility that often has been unrelated to the performance of its listed companies. Moreover, only a limited number of our shares are traded each day, which could increase the volatility of the price of our stock. These market fluctuations might cause our stock price to fall regardless of our performance. The market price of our common stock might fluctuate significantly in response to many factors, some of which are beyond our control, including the following:

- actual or anticipated fluctuations in our annual and quarterly results of operations;
- changes in securities analysts' expectations;
- variations in our operating results, which could cause us to fail to meet analysts' or investors' expectations;

·announcements by our competitors or us of significant new products, contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

·conditions and trends in our industry;

·general market, economic, industry and political conditions;

·changes in market values of comparable companies;

·additions or departures of key personnel;

·stock market price and volume fluctuations attributable to inconsistent trading volume levels; and

·future sales of equity or debt securities, including sales which dilute existing investors.

The sale or availability for sale of substantial amounts of our common stock could adversely affect its market price.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

As of March 31, 2010, we had 44,555,131 shares of Common Stock outstanding, and approximately 524,956 were freely tradable without further restriction under the Securities Act of 1933, as amended, by persons other than our affiliates (within the meaning of Rule 144 under the Securities Act). In addition, our certificate of incorporation permits the issuance of up to approximately 55,444,869 additional shares of common stock. Thus, we have the ability to issue substantial amounts of common stock in the future, which would dilute the percentage ownership held by the existing investors.

Further, effective February 15, 2008, the SEC revised Rule 144, which provides a safe harbor for the resale of restricted securities, shortening applicable holding periods and easing other restrictions and requirements for resales by our non-affiliates, thereby enabling an increased number of our outstanding restricted securities to be resold sooner in the public market. Sales of substantial amounts of our stock at any one time or from time to time by the investors to whom we have issued them, or even the availability of these shares for sale, could cause the market price of our common stock to decline.

If we fail to maintain effective internal controls over financial reporting, the price of our common stock may be adversely affected.

We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Any failure of these controls could also prevent us from maintaining accurate accounting records and discovering accounting errors and financial frauds. Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of this assessment by our company’s independent registered public accountants for the year ended December 31, 2010. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process by our independent registered public accountants is new to us and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

In addition, management’s assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management’s assessment of our internal controls over financial reporting, or disclosure of our public accounting firm’s attestation to or report on management’s assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

Restrictions on the convertibility of RMB into foreign currency may limit our ability to make dividends or other payments in U.S. dollars or fund possible business activities outside China.

A significant portion of our net revenues are currently generated in RMB. Any future restrictions on currency exchanges may limit our ability to use net revenues generated in RMB to make dividends or other payments in U.S. dollars or fund possible business activities outside China. Although the PRC government introduced regulations in 1996 to allow greater convertibility of RMB for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents. In addition, remittance of foreign currencies abroad and conversion of RMB for capital account items, including direct investment and loans is subject to government approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot assure you the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

Because our revenues are generated in RMB and our results are reported in U.S. dollars, devaluation of the RMB could negatively impact our results of operations.

The value of RMB is subject to changes in China's governmental policies and to international economic and political developments. In January, 1994, the PRC government implemented a unitary managed floating rate system. Under this system, the People's Bank of China, or PBOC, began publishing a daily base exchange rate with reference primarily to the supply and demand of RMB against the U.S. dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for RMB within a specified band around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. dollar to RMB from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. This modification has resulted in an approximate 9.93% appreciation of the RMB against the U.S. dollar from July 21, 2005 to December 31, 2007. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further fluctuations of the exchange rate of RMB against the U.S. dollar, including possible devaluations. As all of our net revenues are recorded in RMB, any future devaluation of RMB against the U.S. dollar could negatively impact our results of operations.

We do not foresee paying cash dividends in the foreseeable future and, as a result, our investor's sole source of gain, if any, will depend on capital appreciation, if any.

We do not plan to declare or pay any further cash dividends on our shares of common stock in the foreseeable future and we currently intend to retain any future earnings for funding growth. As a result, you should not rely on an investment in our securities if you require the investment to produce dividend income. Capital appreciation, if any, of our shares may be your sole source of gain for the foreseeable future. Moreover, you may not be able to resell your shares in our company at or above the price you paid for them.

Risks Related to the PRC Laws and Industry Regulations

Law and regulations related to mineral resources

Under the PRC's Mineral Resources Law, all mineral resources of the PRC are owned by the State. The Ministry of Land and Natural Resources is responsible for the supervision and administration of the mining and exploration of mineral resources nationwide. The geology and mineral resources departments of the People's Government of the respective provinces, autonomous regions and municipals are responsible for the supervision and administration of the exploration, development and mining of mineral resources within their own jurisdictions. Enterprises engaged in the mining or exploration of mineral resources must obtain mining and exploration rights, as the case may be, which are transferable.

Laws and regulations related to environmental protection.

The State Environmental Protection Bureau is responsible for supervision of environmental protection in, implementation of national standard for environmental management system of the PRC. Environmental protection bureaus at the county level or above are responsible for environmental protection within their jurisdictions.

The laws and regulations on environmental protection require each company to lodge environmental impact statements for a construction project to the environmental protection bureaus at the county level. It must be done before the construction, expansion or modification of a project commences. The environmental protection bureau inspects new production facilities and determines compliance with required environmental standards, before commencement of operation.

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The PRC's Environmental Protection Law requires production facilities that may cause pollution or produce other toxic materials to take steps to protect the environment and establish an environmental protection and management system. This system includes the adoption of effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials. Entities discharging pollutants must register with the relevant environmental protection authorities.

Penalties for breaching the PRC's Environmental Protection Law include a warning, payment of a penalty calculated on the damage incurred, or payment of a fine. When an entity has failed to adopt preventing measure or control facilities that meet the requirements of environmental protection standards, it may be liable to suspension of its production or operations and for the payment of a fine. Material violation of environmental laws and regulations causing property damage or casualties may subject to criminal liabilities.

We believe that all of our current production and operating activities are in compliance with the environmental protection requirements of the PRC. We have never been penalized as a result of any breach of the laws and regulations on environmental protection.

Laws and regulations related to taxation.

The PRC encourages the development of the mining industry by implementing preferential tax treatment on taxation. We are subject to corporate income tax of 25% and various sales taxes and fees which are listed below:

Tax Categories	Tax rate
VAT	17%
City construction tax	5% of VAT
Resources tax	0.5 Yuan per Tone
Education surcharge	4% of VAT

ITEM 2. PROPERTIES

General

Our corporate headquarters are located in Shuangliu Chengdu, Sichuan, China, where we own the land use rights and occupy 89,412 square meters of space. Our Shuangliu facility currently consists of an office building, testing center, laboratory, production department, dormitory, and dining hall.

Dashuigou and Majiagou Projects

Property Mineral Rights

Under the "Mineral Resource Law of the China," all mineral resources in the PRC are owned by the state. A mining or exploration enterprise may obtain a permit for the mining or exploration rights for conducting mining or exploration activities in a specific area during a specified period of validity. These permits are generally extendable at the expiration of their period of validity. To renew an exploration permit, all exploration permit fees must be paid and the minimum exploration expenditure should have been made for the area designated under the exploration permit. To renew a mining permit, all mining permit fees and resource compensation fees must be paid to the state for the area designated under the mining permit. A mining permit has both horizontal limits and elevation limits, but an exploration permit has only horizontal limits.

Effective August 22, 2008, we acquired 100% of the equity of Sichuan Xinju Shimian Dadu River Mining & Metallurgy Co., Ltd. from Renyi Hou, our Chairman and Chief Executive Officer, Wei Li and Yong Ling. With this acquisition, we obtained the exclusive mining rights to the Dashuigou tellurium project until January 2013, subject to potential renewal thereafter. Relatedly, on April 10, 2009, we entered into a VIE with Sichuan Xinju Mineral Resources Development Corporation, or Xinju, and certain of its shareholders holding a majority of its voting equity stock. Under the terms of the VIE, we were granted the exclusive exploration and mining rights to the Dashuigou and Majiagou projects, in accordance with a license granted by the Chinese government which extends through January, 2013, subject to potential renewal thereafter. Details of the effective dates and geographic areas of the permits for mining and exploration rights relating to Dashuigou and Majiagou properties are listed in the table below:

Mineral Rights Controlled by Sichuan Apollo						
Project	Permit Name	Permit Type	Number	Area (km2)	Elevation Range (m)	Term
Dashuigou	Dashuigou Te-Bi-S-Fe Mine	Mining	5100000730004	0.08	1,440 – 1,705	Jan. 2007 – Jan. 2013
	Dashuigou Te-Bi-Pb-Zn-Mable Exploration	Exploration	T51120080403005938	6.29	n/a	April 2009 – April 2011
Majiagou	Majiagou Te-Bi Mine	Mining	5100000510226	0.0568	1,540 – 1,640	May 2005 – May 2103

Each of the Dashuigou and Majiagou projects are open-pit mines, located in Shimian County of Sichuan Province, PRC. The following map details the exact location of each of the exploration projects within Shimian County:

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Similarly, the following map reflects the specific areas for which we have obtained the mining and exploration rights with respect to the Dashuigou project, and the mining rights with respect to the Majiagou project:

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In late 2008, the Company engaged Behre Dolbear Asia, Inc., or BDASIA, a wholly-owned subsidiary of Behre Dolbear & Company, Inc., to conduct an independent technical review of the Dashuigou and Majiagou projects. Senior-level professionals from BDASIA physically examined the Dashuigou and Majiagou projects, and a copy of the BDASIA report was included as Exhibit 99.2 to the Company's Current Report of Form 8-K filed with the SEC on May 12, 2009. Because no reserves under SEC Industry Guide 7 were delineated at either of the Dashuigou or Majiagou projects at the time the BDASIA report was prepared, BDASIA employed the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, or the JORC Code, to review the mineral resource estimates.

The Dashuigou and Majiagou Projects are currently at the exploration stage, with only limited production. Significant amounts of exploration work, mostly through underground drifting and surface trenching, have been conducted since the discovery of the tellurium deposits in 1991 and mineral resources have been estimated a number of times for the properties. Xinju purchased a flotation mill with a production capacity of approximately 25-30 tonnes per day, or tpd, in 2000 and located approximately 30 linear kilometers, or approximately 80 km by road, from the Dashuigou and Majiagou projects. The mill is now owned by Sichuan Apollo and has been used to treat mineralized material produced from the two exploration properties to produce tellurium concentrates for further processing by Sichuan Apollo's hydrometallurgical-smelting, refining and production facilities in Chengdu, Sichuan. Metallurgical testing and limited actual production on the tellurium mineralized material produced from the Dashuigou and Majiagou Projects have been conducted with positive results. The projects have had only limited mine production to date. With the recent sharp increase in tellurium price, Sichuan Apollo is currently in the process of preparing to fully develop the properties in order to start formal exploration operations. Sichuan Apollo also purchases tellurium from other sources in China for its high-purity tellurium production in addition to the tellurium mineralized material produced from the Dashuigou and Majiagou Projects.

Location, Infrastructure, and Access

The Dashuigou and Majiagou projects are located approximately 23 linear kilometers southwest of the town of Shimian, the county seat of Shimian County in southwestern Sichuan Province. Access from Shimian to the project site is by sinuous two-lane paved highways and unpaved gravel roads along the southwestern bank of the Dadu River, then along the southeastern bank of the Songlin River, a tributary of the Dadu River. The road distance is approximately 38 kilometers and it takes about one hour to drive from Shimian to the project site. The last approximately five kilometers of the access road is currently unpaved, but the county has plans to upgrade the section of the gravel road to paved highways in the near future.

The Dashuigou and Majiagou projects consist of numerous small tellurium-bearing massive-sulfide and/or dolomite-ankerite veins in a very-steep mountainous area. Currently, there is a small exploration camp operated by Sichuan Apollo to support exploration and mine development efforts. The Dashuigou and Majiagou Projects are located approximately 1 km north of the camp. The Dashuigou project can be accessed via a very steep walking trail; the Majiagou project is located due west of the Dashuigou project and can also be accessed by steep walking trails. An underground level at the elevation of 1,464 meters has been developed for the Dashuigou project but additional development work is needed before normal exploration activity can be initialized.

Electricity is not currently connected to the Dashuigou and Majiagou projects but is instead currently generated by diesel motors; however, Shimian County has abundant hydroelectric power and there is a 35kV electricity transmission line crossing the project area and we believe power supply for mineral exploration can be established at a reasonable cost. Exploration and mine development work are currently carried out by mining contractors using labor-intensive manual methods, and mineralized material produced from the projects is hauled to the company's flotation mill for processing, which is located approximately 30 kilometers (80 kilometers by road) north of the projects by contractor using 20- to 30-tonne haul trucks. The hauling cost is currently a significant portion of the

operation’s cost because of the long hauling distance. The current flotation mill, which has a designed production capacity of 50 tonnes per day for processing copper mineralized material, is not fully functional because it was not completely refurbished for processing the Dashuigou and Majiagou tellurium mineralized material after its purchase in 2000. While the current flotation mill has a production capacity of 25 to 30 tonnes per day, we believe that the mill satisfies our current needs for processing and produces acceptable tellurium concentrates at acceptable concentrating recoveries.

The current mill site is located within the planned flooding area for a major hydroelectric power station that is currently under construction. Sichuan Apollo will be compensated to relocate the mill to a new location. Sichuan Apollo is currently considering several locations for the site of the new mill. Although the location is not finalized yet, we believe it will be located considerably closer to the Dashuigou and Majiagou projects than the current mill, resulting in significant savings in hauling cost.

Regional Geological Setting

The Dashuigou and Majiagou projects are located in the transitional zone between the Yangtze craton to the east and the Songpan-Ganzi orogenic belt to the west. Strata outcropping in the region include Upper Sinian System (the upper most stratigraphic unit of Proterozoic strata in China) carbonate rocks, Ordovician to Silurian System metamorphosed clastic rocks and carbonate rocks with mafic volcanic rock interbeds, Devonian System marbles and slates, Permian System carbonate rocks and metabasalts, and Lower to Middle Tertiary System lightly-metamorphosed clastic rocks with carbonate rock interbeds. These strata were separated into a number of structural blocks by lateral shear-structural zones in the north-northwestern, north-south, and northeastern directions, and were over-thrust easterly on to the pre-Sinian metamorphosed basement.

The primary structural feature in the project area is the north-northeastern-trending dome-shaped Dashuigou anticline. The core of the anticline consists of Ordovician Dahebian Formation marbles, which are overlain by Silurian Tonghua Group metamorphosed mafic volcanic rocks, marbles, and clastic rocks. Tellurium mineralization in the project area is generally hosted by the metamorphosed mafic volcanic rocks at the lower portion of the Tonghua Group. The anticline axis has generally been eroded into a deep canyon and the Songlin River runs roughly parallel to the axis of the Dashuigou anticline.

Deposit Geology

The Ordovician Dahebian formation marbles outcropping as the core of the Dashuigou anticline represents the upper portion of the formation with a minimum thickness of 457 meters. The marble is generally white to light-gray in color with some dark gray bands; it is thickly to massively bedded and consists of mostly coarse-grained calcite. The Silurian Tonghua Group above the Ordovician Dahebian Formation marbles was subdivided into seven formations, but only the lower three formations, No.1 to No.3, are present in the project area. The lowest No.1 formation is a dark-gray to dark-greenish-gray actinolite, amphibole, and/or muscovite schist, which is interpreted to have been metamorphosed from a submarine mafic volcanic unit. This schist unit is 105 meters to 345 meters thick in the project area. Above the schist is the No.2 gray to white marble formation with a thickness of approximately 174 meters. This marble formation is generally massive but it contains some schist bands in the lower portion. The No.3 formation of the Tonghua Group is a greenish-gray to light-gray schist and phyllite unit, interpreted to have been formed from clastic and volcanic rocks. The No.3 schist formation is more than 765 meters thick and it mostly occurs in the northern portion of the project area.

The contacts between the three formations of the Tonghua Group are generally conformable but the contact between the Ordovician and Silurian strata was interpreted as a parallel unconformity because of the sharp change of lithology. The No.1 formation schist of the Silurian Tonghua Group is the primary host for tellurium mineralization in the project area, and the upper portion of the Ordovician Dahebian marbles may also host small amounts of mineralization locally.

The Dashuigou and Majiagou deposits occur at the northern portion of the Dashuigou anticline, where stratagenerally strike northwesterly and dip to the northeast at 10º to 30º. Some north-south-trending secondary folds and north-south, east-west, northeastern, and northwestern-trending minor faults have been developed in the project area. Many of these minor faults in the No.1 schist formation of the Silurian Tonghua Group were filled with massive

sulfide and /or dolomite veins and some of the veins have significant tellurium and bismuth grades.

Mineralization

Tellurium mineralization at the Dashuigou and Majiagou projects occurs generally as steep-dipping, small massive sulfide and/or dolomite veins within the No.1 formation schist of the Silurian Tonghua Group.

The Dashuigou Deposit

A total of 25 mineralized veins have been found at the Dashuigou deposit. These veins are generally striking north-south, north-northeast, to northeast, sub-parallel to the axis of the Dashuigou anticline, and dip steeply to the west at angles of mostly from 60º to 75º. They occur in an area 400 meters long in the east-west direction and over 140 meters wide in the north-south direction. The mineralized veins are generally small in size, ranging from less than 20 meters to over 100 meters in length and around 1meter or less in width. They generally exhibit swelling and pinching, splitting and merging in both strike and dip directions. Thicker and higher-grade mineralized pods are commonly developed at the intersections of veins of different orientations.

Based on the mineral assemblage, the vein material is divided into several types, including massive sulfides, massive tellurides, carbonates (mostly dolomite-ankerite), and gold-bearing quartz. The massive sulfide is the most common mineral assemblage, which was the target for historical artisanal mining activities in the area. Tetradymite (Bi2TeS2) is the primary tellurium-bearing mineral in the deposits and contains over 80% of the tellurium. The mineral is steel-gray to pale-yellow in color, soft (with a hardness of 1.5), and heavy (with a specific gravity of 7.1 to 7.4). It occurs as coarse-gained and well-foliated masses in the massive telluride assemblage, or as small veinlets or dissemination in massive sulfide and carbonate assemblages. Electronic microprobe analysis data shows that the average chemical composition of tetradymite from the Dashuigou deposit consists of 33.60% Te, 60.88% Bi, 4.65% S, 0.35% Se, 0.13% Ag, 0.05% Cu and 0.04% Fe, which is quite close to its theoretic composition of 36.19% Te, 59.17% Bi, and 4.55% S. Other tellurium-bearing minerals include tsumoite (BiTe), joseite (BiTeS) and tellurobismuthite (BiTe) and native tellurium.

Pyrrhotite is the primary (over 90%) sulfide mineral, with small amounts of pyrite, chalcopyrite, bismuthinite, and sphalerite. Native gold, along with quartz and small amounts of sulfide minerals, occurs in minor late-stage gold-bearing quartz veins. Gauge minerals include dolomite, ankerite, calcite, quartz, muscovite, albite, chlorite, and tourmaline.

Tellurium grade distribution is very irregular, ranging from less than 0.01% to more than 8% in the deposits. Available underground sampling data indicates that of the 25 veins identified, only 3 have significant tellurium grades.

The Majiagou Deposit

The Majiagou deposit is located due west of the Dashuigou deposit. Tellurium mineralization in the deposit is very similar to that in the Dashuigou deposit and is also hosted mostly by the No.1 formation schist of the Silurian Tonghua Group. The deposit was explored by surface trenching and limited underground workings, and a total of 26 mineralized veins have been found within an area of 600 meters long in the east-west direction and 300 meters wide in the north-south direction, but only 20 of the veins are located within the current Majiagou mining license. Many of the veins strike northeast and dip to the northwest at a steep angle; some of the veins strike northwest, north-south, or east-west.

Similar to the Dashuigou deposit, the mineralized veins at Majiagou are also small in size, ranging from a few meters to over 60 meters in length and less than 1 meter in width. They generally exhibit swelling and pinching, splitting and merging along both strike and dip directions. Mineral assemblages and alterations for the Majiagou deposit are generally also the same as that in the Dashuigou deposit.

Tellurium grade distribution is very irregular, it ranges from less than 0.01% to more than 5% in the deposit. Available surface trench and underground sampling data indicates that of the 26 veins identified, only 4 have significant tellurium grade.

In aggregate, both projects have an average reported tellurium grade of 1.17%. The majority of the licensed area remains unexplored and the Company believes that the unexplored areas have excellent potential for the discovery of additional tellurium-bearing veins.

Market Prices for Tellurium

The average price for industry grade tellurium with a purity of at least 99.95% increased dramatically from US$13 per kilogram in 2004 to US$215 per kilogram in 2008. Although there is insufficient public information, prices for high-purity tellurium of 99.999% to 99.99999% (or 5N to 7N) Te are considerably higher than the price of industrial grade tellurium. For example, the price for industry grade tellurium with a purity of 5N was US$274 per kilogram in 2010, 6N was US$485 per kilogram in 2010 and US$512 per kilogram in 2010.

ITEM 3. LEGAL PROCEEDINGS

We are not involved in any material legal proceedings, nor are we aware of any potential or threatened material litigation, or any asserted claims that may result in material litigation or other legal proceedings.

PART II

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

Market Information

On October 21, 2008, we completed our reverse merger and our common stock began trading on the OTCBB under the symbol "ASOE.OB". The following table sets forth the range of high and low sale prices for our common stock for each of the periods indicated as reported by the OTCBB. As of March 31, 2010, we had approximately 44,555,131 issued and outstanding shares of common stock. As at March 31, 2010, there were 510 common stock holders.

	Common Stock Price (Over-the-Counter Bulletin Board)	
	High	Low
Fiscal Year Ending December 31, 2009		
Fourth Quarter	$5.15	$4.50
Third Quarter	$6.05	$5.35
Second Quarter	$6.50	$5.25
First Quarter	$7.50	$5.75
Fiscal Year Ending December 31, 2008		
Fourth Quarter	$7.50	$2.50
Third Quarter	$7.10	$2.50
Second Quarter	$4.00	$4.00
First Quarter	$7.50	$0.60

The stock market in general has experienced extreme stock price fluctuations in the past few years. In some cases, these fluctuations have been unrelated to the operating performance of the affected companies. Many companies have experienced dramatic volatility in the market prices of their common stock. We believe that a number of factors, both within and outside its control, could cause the price of our common stock to fluctuate, perhaps substantially. Factors such as the following could have a significant adverse impact on the market price of its common stock:

·Our ability to obtain additional financing and, if available, the terms and conditions of the financing;
·Our financial position and results of operations;

??/FONT>Concern as to, or other evidence of, the reliability and efficiency of our proposed products and services or our competitors' products and services;
·Announcements of innovations or new products or services by we or our competitors;

·Federal and state governmental regulatory actions and the impact of such requirements on our business;
·The development of litigation against us;

·Period-to-period fluctuations in our operating results;
·Changes in estimates of our performance by any securities analysts;

·The issuance of new equity securities pursuant to a future offering or acquisition;
·Changes in interest rates;

·Competitive developments, including announcements by competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
·Investor perceptions of our company; and

·General economic and other national conditions.

Recent Sales of Unregistered Securities

On November 20, 2009, Sichuan Apollo entered into common stock pursuant agreement, or Purchase Agreement, with Bengbu Design & Research Institute for Glass Industry, or Bengbu, pursuant to which we agreed to issue 9,000,000 shares of our common stock for an aggregate purchase price of US$9,000,000. The Purchase Agreement contains customary representations, warranties and covenants. The closing of the private placement is expected to take place in the near future, although there can be no assurance that the transaction will be completed on the proposed terms or at all. Each party's obligation to complete the transaction remains subject to the satisfaction or waiver of various conditions. In connection with the financing, the Company has committed to file a registration statement under the Securities Act to cover the resale of the shares purchased in the private placement to the extent such shares are not otherwise available for resale within 180 days following the closing. The Company and Bengbu may terminate the Agreement prior to closing in certain circumstances.

On March 28, 2010, six existing Company stockholders entered into a Cancellation of Debt and Conversion Agreement with the Company pursuant to which each such stockholder agreed to convert aggregate loans to the Company in the amount of $6,925,329 held by such stockholders into shares of the Company's common stock at a price per share of $1.60.

Dividends

We have not paid and do not expect to declare or pay any cash dividends on our common stock in the foreseeable future, and we currently intend to retain future earnings, if any, to finance the expansion of our business. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in its discretion, and will depend on its financial condition, operating results, capital requirements and other factors that the board of directors considers significant.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Empire Stock Transfer, Inc.

Equity Compensation Plan Information

Our equity compensation plan information is provided as set forth in Part III, Item 11 herein.

Performance Graph

The following graph compares our cumulative total return to shareholders from December 31, 2006 with those of the NASDAQ Composite Index and the Dow Jones U.S. Exploration and Production Index and assumes that all dividends were reinvested. The graph also assumes that U.S. $100 was invested on December 31, 2006 in (i) our common stock, (ii) the NASDAQ Composite Index and (iii) the Dow Jones U.S. Exploration and Production Index. The measurement points utilized in the graph consist of the last trading day in each calendar year, which closely approximates the last day of our fiscal year. The historical stock performance presented below in not intended to and any not be indicative of future stock performance.

	Year Ending			
Index	12/31/06	12/31/07	12/31/08	12/31/09
Apollo Solar Energy, Inc.	100.00	300.00	5,833.00	3,750.00
NASDAQ Composite Index	100.00	109.81	95.59	93.95
Dow Jones U.S. Exploration and Production Index	100.00	142.61	84.67	117.70

In accordance with the rules of the SEC, this section captioned “Performance Graph” shall not be incorporated by reference into any of our future filings made under the Securities Exchange Act of 1934 or the Securities Act of 1933. The Performance Graph and its accompanying table are not deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following consolidated statements of income data for each of the four years ended December 31, 2009, 2008, 2007 and 2006, and the year ended March 31, 2006, and the consolidated balance sheet data as of December 31, 2009, 2008, 2007 and 2006, and the year ended March 31, 2006, are derived from our audited consolidated financial statements. Historical results are not necessarily indicative of the results of operations for future years. The following data is qualified in its entirety by and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K

	Apollo Solar Energy, Inc. Year Ended December 31,				Wincroft, Inc. Year Ended March 31,
	2009	2008	2007	2006	2006
Consolidated Statement of Operations Data:					
Net revenue	$7,813,605	$6,968,430	$2,003,788	$297,295	$0
Cost of sales	(6,012,500)	(5,150,943)	(1,315,002)	(280,390)	0
Gross profit	1,801,105	1,817,487	688,786	16,905	0
Expenses					
General & administrative expenses	3,742,274	1,143,327	117,190	209,171	2,504
Stock based compensation	1,844,233	-	-	7,851	
Selling expenses	204,701	302,577	59,069	-	-
Research and development expenses	48,623	83,166	18,605	-	-
Total operating expenses	5,839,832	1,529,070	194,864	217,022	2,504
(Loss) Income from continuing operations	(4,038,727)	288,417	493,922	(200,117)	(2,504)
Gain on investment in JV	3,977,511	-	-	-	-
Interest expense	(476,638)	(57,774)			
Other Income	207,136	-	-	-	-
(Loss) Income before income taxes	(303,717)	230,643	493,922		
Provision for income taxes	584,854	212,051			
Net (loss) income	$(915,571)	$18,592	$493,922	$(200,117)	$(2,504)
Basic income (loss) per share	(0.02)	0.00	0.01	0.00	0.00
Diluted income (loss) per share	(0.02)	0.00	0.01	0.00	0.00

	Apollo Solar Energy, Inc. Year Ended December 31,				Wincroft, Inc. Year Ended March 31,
	2009	2008	2007	2006	2006
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$507,776	$4,874,044	$2,619,176	$86,144	$150
Total assets	34,134,540	36,119,796	14,679,715	4,947,054	150
Long term debt	-	4,397,215	4,101,723	-	-

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

The following discussion contains forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements regarding future events, our plans and expectations and financial projections. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Form 10-K. See "Risk Factors" beginning on page 8. Unless the context otherwise requires, the terms "we," the "Company," "us," or "Apollo" refers to Apollo Solar Energy, Inc. and our wholly-owned subsidiaries.

Overview

We are a China-based vertically integrated refiner of tellurium (Te) and high-purity tellurium based metals for specific segments of the electronic materials market. Our main expertise is in the production of Te-based compounds used to produce thin-film solar cells, cell modules and solar electronic products. While no reserves under the SEC's Industry Guide 7 can currently be delineated at our properties, we believe that the tellurium to be used in our products in the future will be primarily sourced from our Dashuigou project located in Sichuan Province, PRC. In addition, we expect to source tellurium from another property in Shimian, Majiagou, through our VIE Arrangement with Sichuan Xinju Mineral Resources Development Corporation and certain of its shareholders holding 51.6619% of its voting stock, which shareholders are our direct or indirect employees. Under the terms of the VIE Agreements, we have been granted the exclusive exploration and mining rights to these two projects in accordance with a license granted by the Chinese government, which extends through January 2013 for mining activities at our Dashuigou property, through May 2013 for mining activities at our Majiagou property, and through April 2011 for exploration activities at our Dashuigou property, subject to potential renewal thereafter.

Currently, tellurium is produced as a product in the process of processing copper and other metals. As a result, costs are high. We believe that the Dashuigou and Majiagou projects are the only two known deposits in the world in which tellurium, one of the rarest metallic elements on earth, is the primary commodity of economic interest. By the end of 2010, we plan to obtain approximately 60% to 70% of the tellurium necessary for our products from the projects and believe this ability to be a significant competitive advantage because the cost of tellurium sourced from our own properties will be substantially lower than that purchased from an outside third party. We will source the rest of the tellurium from third-party suppliers that we have established good business relationships with over the past few years. By vertically integrating our processes, we believe we will be able to achieve significant operating efficiencies and produce high-quality products that offer cost and quality benefits to our customers. Currently, we are able to procure raw materials from the Dashuigou and Majiagou projects at a significant discount to prevailing market price.

Our refining operations are currently based in a 330,000 square foot facility in Chengdu, Sichuan Province, PRC. We expect this facility to eventually have the capacity to produce more than 300 tons of high-purity photovoltaic cell materials and 42 other types of electronic materials. Future expansion of this facility in vacant land leased to the Company will have a capacity to produce up to an additional 350 tons of high-purity photovoltaic cell materials.

We are currently in the exploration stage of operations in accordance with the requirements of SEC Industry Guide 7. However, we believe we are unique in that we expect to both mine and refine our tellurium-based products with primary refining capabilities as provided by Sichuan Xinju Mineral Resources Development Corporation pursuant to the VIE Agreements, and secondary refining capabilities directly through the Company. Our primary refining capabilities are such that we can treat metal concentrates (containing, for example, as little as 50% of the metals of interest), and extract and refine the metals of interest so that they can be fed to our secondary refining operations, where we attain a higher level of purity. Because we expect to mine the raw material in the future, and perform both refining functions, both directly and through our VIE Arrangement, we consider ourselves a supplier that will in the future have uniquely integrated capabilities. Our end-products are tellurium, cadmium, zinc and related compounds of

99.999% (five nines, or 5N) purity or above. Our products are critical precursors in a number of electronic applications, including the rapidly-expanding thin-film photovoltaic (PV) market.

Recent Events

We entered into various exclusive contractual arrangements on April 10, 2009 with the VIE, and certain of its shareholders who are our direct or indirect employees and who collectively own 51.6619% of the VIE. Among other things, the VIE Agreements granted to our wholly-owned subsidiary a first option to purchase the exploration rights related to the Dashuigou area mine and the mining rights related to that certain tellurium and bismuth mine in Shimian Majiagou, or the Exploration Business. Additionally, the VIE and certain of its shareholders who collectively own 51.6619% of the VIE granted to our wholly-owned subsidiary an exclusive right to purchase all of the products produced from the Exploration Business for a specified period of time. As a result, we consolidate the financial results of the VIE related to the Exploration Business.

The VIE Agreements are summarized below:

- First Option Exclusive Acquiring Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd., Sichuan Xinju Mineral Resources Development Co., Ltd., Renyi Hou and Ling Yong, which grants to our wholly-owned subsidiary a first option to purchase the Exploration Business at such time as the purchase becomes advisable, permissible and in our best interest.

- Exclusive Sales Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd. And Sichuan Xinju Mineral Resources Development Co., Ltd., which grant to our wholly-owned subsidiary the exclusive right to buy all of the output of the Exploration Business.

- Business Operation Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd., Sichuan Xinju Mineral Resources Development Co., Ltd., Renyi Hou and Ling Yong, which imposes certain restrictions and obligations on the VIE and certain of its shareholders to support the VIE arrangement, including refraining from competing with our business and modifying the business operations of the VIE without the prior consent of our wholly-owned subsidiary.

- Exclusive Technical and Consulting Agreement, between Sichuan Xinlong Tellurium Industry & Technique Co., Ltd. And Sichuan Xinju Mineral Resources Development Co., Ltd., which requires the VIE to provide certain technical and consulting services exclusively to our wholly-owned subsidiary in connection with the Exploration Business. Our wholly-owned subsidiary agrees to provide up to $6.0 million in investing funding to the VIE in connection with its operation of the Exploration Business, on such terms as the parties shall agree from time to time.

On November 9, 2009, Sichuan Apollo entered into a joint venture agreement, or the Bengbu Agreement, with Bengbu Design & Research Institute for Glass Industry, or Bengbu, and a local Chinese government agency, or the Agency. Under the terms of the Bengbu Agreement, Sichuan Apollo will contribute land, a manufacturing plant and other equipment with a net book value of approximately $3.8 million to the newly formed joint venture entity, and will also transfer a long-term loan under which Sichuan Apollo is the borrower of approximately $6.06 million (RMB 41.3 million) to the joint venture entity, or the Long-Term Loan. The Long-Term Loan will become due and payable in two separate installments: (i) the first installment of approximately $4.6 million (RMB 31.3 million), comprised of two different loans, one of RMB 11.3 million which will be due on August 31, 2010 and accrues interest at a rate of 5.31% per annum and the other of RMB 20 million that will be due on June 5, 2010 and will accrue interest at a rate of 5.4% per annum, will be repaid on June 5, 2010; and (ii) the final installment of approximately $1.46 million (RMB 10 million) that will be due on July 16, 2010 and will accrue interest at a rate of 5.4% per annum. Bengbu will contribute approximately $11.31 million (RMB 77 million) in cash to the joint venture entity. The Agency will contribute approximately $2.06 million (RMB 14 million) in cash to the joint venture entity. Sichuan Apollo, Bengbu and the Agency will own 35%, 55% and 10% of the joint venture entity, respectively. The joint venture entity is

being formed for the purpose of conducting research and development related to glass used in the production of thin film solar cells.

On November 20, 2009, we entered into common stock pursuant agreement, or the Purchase Agreement, with Bengbu pursuant to which we agreed to issue 9,000,000 shares of our common stock for an aggregate purchase price of US$9,000,000. The Purchase Agreement contains customary representations, warranties and covenants. The closing of the private placement is expected to take place in the near future, although there can be no assurance that the transaction will be completed on the proposed terms or at all. Each party's obligation to complete the transaction remains subject to the satisfaction or waiver of various conditions. In connection with the financing, we have committed to file a registration statement under the Securities Act to cover the resale of the shares purchased in the private placement to the extent such shares are not otherwise available for resale within 180 days following the closing. Either we or Bengbu may terminate the Agreement prior to closing in certain circumstances.

On March 28, 2010, six existing Company stockholders entered into a Cancellation of Debt and Conversion Agreement with the Company pursuant to which each such stockholder agreed to convert aggregate loans to the Company in the amount of $6,925,329 held by such stockholders into shares of the Company's common stock at a price per share of $1.60.

Our Corporate Structure

Our current corporate structure is set forth in diagram 1 below:

The Company is a Nevada corporation currently listed on the OTCBB. Sichuan Apollo Solar Science & Technology Co. Ltd., or Sichuan Apollo, is a Chinese limited company that is wholly-owned by the Company. Sichuan Xinlong Tellurium Industry & Technique Co. Ltd., or Xinlong, is a Chinese limited company that is wholly-owned by Sichuan Apollo, and is engaged in high-purity material processing. Sichuan Xinlong Shimian Dadu River Mining & Metallurgy Co. Ltd. Is a Chinese limited company that is wholly owned by Xinlong, and is engaged in exploration and extracting tellurium-related ores.

Business Acquisition

Prior to October 14, 2008, we operated as a shell company under the name of Wincroft Inc., or Wincroft. On August 18, 2008, we entered into a merger agreement, as amended and restated on October 14, 2008, or the Merger Agreement, with Apollo Solar Energy, Inc., a Delaware corporation, or ASE, and Apollo Solar Energy, Inc., a Nevada corporation and a wholly-owned subsidiary of the Company, or the Merger Sub, pursuant to which, on October 14, 2008, Merger Sub was merged with and into ASE, or the Merger. Under the terms of the Merger Agreement, each share of ASE common stock outstanding immediately prior to the closing of the Merger was converted into the right to receive Four Thousand (4,000) shares of Wincroft common stock.

Shortly after the completion of the Merger, the Company entered into an Entrusted Management Agreement with the former managers of ASE's Chinese operating companies, or the Apollo Managers, certain of whom are directors and/or officers of the Company. Pursuant to the Entrusted Management Agreement, the Company issued to the Apollo Managers an aggregate of 26.8 million newly issued shares of common stock of the Company, with the result that the Apollo Managers own approximately 60.15% of the common stock of the Company, after giving effect to such issuance.

Upon the consummation of the Merger, the Company ceased being a shell company as such term is defined in Rule 12b-2 under the Exchange Act, ASE became a wholly-owned operating subsidiary of the Company and ASE's wholly-owned subsidiary Sichuan Apollo Solar Science and Technology Co., Ltd., or Sichuan Apollo, a wholly foreign-owned enterprise, or WFOE, organized under the laws of the PRC, became the indirect wholly-owned subsidiary of the Company.

The acquisition of Sichuan Apollo by ASE was accounted for as an "as-if-pooling" in accordance with SFAS141 since the shareholders of Sichuan Apollo ultimately owned approximately 60.15% of ASE and controlled the Board of Directors and daily operations of ASE.

Organizational History of Wincroft

Wincroft was organized in Colorado in May 1980 as part of a reorganization of Colspan Environmental Systems, and previously made several acquisitions and divestments of businesses unrelated to its present activities.

In April 2000, Wincroft disposed of its only operating business and became a shell company. From April 2000 to immediately before the completion of the Merger, Wincroft did not engage in any operations and was dormant. As such, Wincroft was defined as a "shell" company prior to the Merger, whose sole purpose was to seek to locate and consummate a merger or acquisition with a private entity.

On February 1, 2008, Wincroft reincorporated in the State of Nevada and completed a 1-for-8 reverse split of our shares of common stock by merging with and into Wincroft, Inc., a Nevada corporation, with the Nevada corporation surviving the merger. In addition, the following changes resulted from the February 2008 reincorporation merger:

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The Articles of Incorporation and Bylaws of Wincroft became the Articles of Incorporation and Bylaws of the surviving corporation;

The Articles of Incorporation and Bylaws of Wincroft became the Articles of Incorporation and Bylaws of the surviving corporation;

The authorized common stock was increased from 75,000,000 shares to 100,000,000 shares; and

The preferred stock was changed from no par value stock to stock have a par value of $0.001 per share.

As a result of the consummation of the Merger, we are now a vertically integrated miner, refiner and producer of tellurium (Te) and high-purity tellurium based metals for specific segments of the electronic materials market. Our main expertise is in the production of Te-based compounds used to produce thin-film solar modules, panels, and solar electronic products. On October 23, 2008, we changed our legal name from Wincroft to Apollo Solar Energy, Inc.

Organizational History of ASE and Sichuan Apollo

ASE was incorporated on October 17, 2007 in the State of Delaware with Xiaojin Wang, a resident of the United States, as its sole stockholder. ASE became the holding company of Sichuan Apollo.

Sichuan Apollo was organized on June 20, 2006, under the laws of the PRC. In June of 2006, Sichuan Apollo commenced revenue-producing activities, initially selling cadium and telluride-based compounds, ultra-high purity metals, and commercial-purity metals to its domestic and international customers. In 2007, Sichuan Apollo was wholly-owned by Sichuan Xinju Mining Resources Development Co. and three individuals.

Pursuant to an agreement dated December 26, 2007 between ASE and Sichuan Apollo, and effective on August 4, 2008, ASE acquired 100% of the ownership of Sichuan Apollo for 106,000,000 RMB (approximately $15,000,000), which amount was paid by ASE investing 80,000,000 RMB into Sichuan Apollo and paying the existing shareholders of Sichuan Apollo 26,000,000 RMB in exchange for their original investment of 20,000,000 RMB.

Effective August 22, 2008, Sichuan Apollo’s wholly-owned subsidiary Sichuan Xinlong Tellurium Industry & Technique Co., Ltd., or Sichuan Xinlong, acquired 100% of the equity of Sichuan Xinju, which owns the exclusive rights to the Dashuigou mine through at least January 2013, and subject to potential renewal thereafter.

Critical Accounting Policies, Estimates and Assumptions

Management's discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require management to make certain estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. The most significant estimates and assumptions include valuation of inventories, provisions for income taxes, allowance for doubtful accounts, and the recoverability of the long-lived assets. Actual results could differ from these estimates. Periodically, we review all significant estimates and assumptions affecting the financial statements and record the effect of any necessary adjustments.

The following critical accounting policies rely upon assumptions and estimates and were used in the preparation of our consolidated financial statements:

Revenue recognition

Revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, and no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied and recorded as advances from customers.

Currency Reporting

Amounts reported are stated in U.S. Dollars, unless stated otherwise. Our functional currency is the Renminbi, or RMB, the currency of the PRC. Foreign currency transactions (outside the PRC) are translated into RMB according to the prevailing exchange rate at the transaction dates. Assets and liabilities denominated in foreign currencies at the balance sheet dates are translated into RMB at period-end exchange rates. For the purpose of preparing the consolidated financial statements, our consolidated balance sheets have been translated into U.S. dollars at the current exchange rates as of the end of the respective periods and the consolidated statements of income have been translated into U.S. dollars at the weighted average exchange rates during the periods the transactions were recognized. The resulting translation gain adjustments are recorded as other comprehensive income in the statements of income and comprehensive income and as a separate component of statements of stockholders' equity.

Accounts Receivable

Accounts receivable consist of trade receivables resulting from sales of products during the normal course of business. As of December 31, 2009, two customers accounted for 54% and 36% respectively of the total accounts receivable outstanding. For the years ended December 31, 2009 and 2008, allowance for uncollectible amounts were $404,678 and $15,000 for the years ended December 31, 2009 and 2008, respectively.

Inventories

Inventories are composed of raw materials and packing materials for manufacturing, work in process, and finished goods. Inventories are valued at the lower of cost or market with cost determined on the weighted average method.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable vesting period of the stock award using the straight-line method.

Property, machinery and exploration assets

Expenditures for new facilities or equipment and expenditures that extend the useful lives of existing facilities or equipment are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs over the estimated productive lives.

Mineral exploration costs are expensed according to the term of the license granted to us by the PRC. Extraction rights are stated at the lower of cost and recoverable amount. When extraction rights are obtained from the government according to the mining industry practice in the PRC, extraction rights and other costs incurred prospectively to develop the property are capitalized as incurred and are amortized using the units-of-production, or UOP, method over the estimated life of the mineralized body based on estimated recoverable volume through to the end of the period over which we have extraction rights. Our underground projects, these costs include the cost of building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

Major development costs incurred after the commencement of production are amortized using the UOP method based on estimated recoverable volume in mineralized material. To the extent that these costs benefit the entire mineralized body, they are amortized over the estimated life of the mineralized body. Costs incurred to access specific mineralized blocks or areas that only provide benefit over the life of that area are amortized over the estimated life of that specific mineralized block or area. Interest cost allocable to the cost of developing exploration properties and to constructing new facilities, if any, is capitalized until assets are ready for their intended use.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

Deferred income taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, recognition of future tax benefits, such as carryforwards, to the extent that realization of such benefits is more likely than not and that a valuation allowance be provided when it is more likely than not that some portion of the deferred tax assets will not be realized.

Fair value of financial instruments

Our financial instruments primarily consist of cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses, taxes payable, and other related party advances and borrowings, and short-term loans.

As of the balance sheet date, the estimated fair values of financial instruments were not materially different from their carrying values as presented on the balance sheet. This is attributed to the short maturities of the instruments and that interest rates on the borrowings approximate those that would have been available from loans of similar remaining maturity and risk profile at the respective balance sheet dates.

Segment reporting

We use the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organized segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

Results of Operations

Years Ended December 31, 2009 and 2008

Net sales

Net sales for the year ended December 31, 2009 was $7,813,605, compared to the net sales of $6,968,430 for the year ended December 31, 2008. This increase of 12.12% was primarily attributable to our successful sales and marketing campaigns, improved product quality, and stable orders from major customers. In 2007, we began shipment of tellurium to First Solar, the biggest CdTe-based thin film PV producer in the world. In 2008, First Solar became our largest customer, and remained our largest customer during the year of 2009. However, our sales during the year of 2009 were below our planned target due to the global financial crisis. A significant number of our customers did not place orders as planned.

Cost of sales

Cost of sales for the year ended December 31, 2009 was $6,012,500 compared to the cost of sales of $5,150,943 for the year ended December 31, 2008. This increase of 16.73% was primarily due to the increase in revenue for the six months ended June 30, 2009. Additionally, the costs of materials used in our products during the first quarter of 2009 were higher than those in the same period of 2008.

Gross profit

Gross profit for the year ended December 31, 2009 was $1,801,105, compared to the gross profit of $1,817,487 for the year ended December 31, 2008. This represented a decrease of $16,382, or 0.9%, below that of 2008. The gross profit margin for the year ended December 31, 2009 was 23.1%, compared to that of 25.7% for the year ended December 31, 2008. Three primary factors contributed to the decrease in gross profit margin. First, we experienced an increase in the price of most of the feedstock we purchased from third party suppliers worldwide, especially that of tellurium. The price of tellurium feedstock increased more than 100% in 2008 over the price in 2007, and remained at this higher level for the first half of the year, before coming back down in the third quarter of 2009. We were not able to pass through the increase in cost to our customers. As a significant amount of our revenue was generated from the sale of high purity tellurium, our margin was impacted adversely. The situation began to improve towards the end of the first quarter of 2009 and continued to improve into the rest time of 2009 as we increased our internal tellurium production and decreased our purchases of tellurium from third parties. Second, labor costs began to increase significantly in the PRC in 2008 and continuing through the year of 2009, and thus increased our cost. Labor cost began to stabilize in the third quarter of 2009. Third, the product mix we sold during 2009 changed as compared to the product mix we sold during 2008. Specifically, we sold fewer other high purity metals (which ordinarily command very high margins) during 2009 due to the global financial crisis. Consequently, the reduction in sales in these types of products impacted our gross margin adversely.

Selling and marketing expenses

For the year ended December 31, 2009, selling and marketing expenses were $204,701, compared to $302,577 for the year ended December 31, 2008. This presented a decrease of 32.35%. During the year ended December 31, 2008, we employed an in-house sales team of eight people targeting the Chinese and North American markets. Most of the sales and marketing expenses from 2008 were related to advertising campaigns, and travel, lodging and entertainment expenses. In contrast, we did not run any advertisement campaigns in 2009, and instead only maintained an in-house sales team of eight people. In February 2009, we signed an agreement to appoint CERAC as our exclusive agent to distribute our products in North America, excluding First Solar. This outsourcing of services saved us a significant amount of marketing cost for the fiscal year of 2009 when we target the North American market. The exclusive agreement was reduced to a non-exclusive general distributor agreement in September 2009 as guaranteed sales volume fell short of the requirements in the exclusive agreement.

General and administrative expenses

We incurred general and administrative expenses of $3,742,274 for the year ended December 31, 2009, as compared to expenses of $1,143,327 for the year ended December 31, 2008, representing an increase of 227.31%. This increase was primarily due to the growth in size and revenue of our Company, and the expenses we incurred as a public company. After in the completion of the Merger in October 2008, we incurred significant amounts of audit fees, legal fees and financial advisory fees. We also expanded our accounting/finance department. Additional administrative staff was also added to support our listing functions. In August 2008, our new factory was completed and significant depreciation began to be incurred.

Stock based compensation expenses

Stock based compensation expenses in the amount of $1,844,233 were incurred in the year ended December 31, 2009; this expense did not exist during the same period of 2008. We granted a total of 830,000 stock options to our former Chief Financial Officer and our four independent directors between December 2008 and March 2009. Stock based compensation expenses was a non-cash item.

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Research and development expenses

For the year ended December 31, 2009, we incurred research and development expenses of $48,623, representing a decrease of 41.54% from the research and development expenses of $83,166 that we incurred for the year ended December 31, 2008. We are committed to the improvement of product quality and the development of new products. We will continue to invest in research and development to ensure our products are of high quality and remain competitive.

Provision for income tax

Provision for income tax for the year ended December 31, 2009 was $584,854, compared to that of $212,051 for the year ended December 31, 2008.

The provision of income taxes is computed at the PRC statutory rate of 25% for 2009 and 2008, as decreased by our net operating loss carry forwards by which a valuation allowance had been provided in previous years, additional amortization permitted by PRC tax law, and increased by a valuation allowance against the deferred tax asset generated from net operating losses of subsidiaries , which currently cannot be used to offset taxable income.

Net income/loss

For the year ended December 31, 2009 we had net loss of $915,571, compared to net income $18,592 for the year ended December 31, 2008. The primary reason for the decrease in net income in 2009 was our gain on our investment in the joint venture contemplated by the Bengbu Agreement, which amount was partially offset by a decrease in gross margin and an increase in costs, primarily in administrative costs representing increased depreciation expenses and professional fees. Included in the net loss for the year ended December 31, 2009 was non-cash stock based compensation of $1,844,233 for the stock options granted to the our former Chief Financial Officer and the independent directors.

Results of Operations

Years Ended December 31, 2008 and 2007

Net sales

Net sales for the year ended December 31, 2008 was $6,968,430, compared to the net sales of $2,003,788 in 2007. This increase of 248% was primarily attributable to our increase in production capacity, successful sales and marketing campaigns, improved product quality, and expansion of product categories. In 2007, we began shipment of tellurium to First Solar, the biggest CdTe based thin film PV producer in the world. In 2008, First Solar became our biggest customer. The successful development of this business relationship proved the superior quality of our products. We were also able to develop new customers in China, supplied to them with high purity metal products at competitive pricing.

Gross profit

Gross profit for the year ended December 31, 2008 was $1,817,487, compared to the gross profit of $688,786. This represented an increase of $1,128,701, or 164%, over that of 2007. The gross profit margin for the year ended December 31, 2008 was 26.1%, compared to that of 34.4% in 2007. Three primary factors attributed to the decrease in gross profit margin. The increase of price in most of the feedstock we purchased from third party suppliers worldwide, especially that of tellurium. Price of tellurium feedstock increased more than 100% in 2008 over the price of 2007; and we were not able to pass through the increase in cost to our customers. As a significant amount of our revenue was generated from the sale of high purity tellurium, our margin was impacted adversely. Secondly, labor costs in 2008 increased significantly in China, and thus increased our costs. Thirdly, during 2008, we were building a new factory campus and we moved from the old factory site to the new site from May to August. During this period we moved and tested our production equipment and therefore normal production was affected. As continuous production runs were frequently interrupted, production costs, mainly electricity, increased significantly.

Selling and marketing expenses

For the year ended December 31, 2008, selling and marketing expenses were $302,577, compared to $59,069 for the year ended December 31, 2007. This presented an increase of 412% and was in line with our increase in revenue. We employed an in-house sales team of six people targeting the Chinese and North American markets. Most of the sales and marketing expenses were traveling, lodging and entertainment related. We did not run any advertising campaigns in 2008.

General and administrative expenses

We incurred general and administrative expenses of $1,143,327 for the year ended December 31, 2008, when compared to that of $117,190 in 2007, representing an increase of 875%. The increase was primarily due to the growth in size and revenue of the Company, and the expenses we incurred as a public company. After the reverse merger in October 2008, we incurred significant amount of audit fees, legal fees and financial advisory fees. We also expanded our accounting/finance department. Additional administrative staff was also added to support listing function and the reverse merger process.

Write down of inventory

For the year ended December 31, 2008, we made a provision to write down inventory in the amount of $150,165, versus a write down of $0 for the year ended December 31, 2007. In early 2008, we received a verbal order from a long-term customer for indium, at the time indium price increased dramatically. We were told that the likelihood of the order was high. After we purchased indium, we were informed that the order would not be materialized. At the end of 2008, indium price decreased and we had to make a provision to mark the inventory to market. The write down was included in general and administrative expenses.

Research and Development expenses

For the year ended December 31, 2008, we incurred research and development expenses of $83,166, compared to $18,605 for the year ended December 31, 2007. The increase was 347% and was due to the increase of our research and development team headcount.

Provision for income tax

Provision for income tax for the year ended December 31, 2008 was $212,051, compared to that of $0 for the year ended December 31, 2007.

The provision of income taxes is computed at the statutory rate of 25% and 33% for 2008 and 2007, respectively, in the Peoples Republic of China decreased by net operating loss carry forwards by which a valuation allowance had been provided in previous years, additional amortization permitted by Chinese tax law, and increased by a valuation allowance against the deferred tax asset generated from net operating losses of subsidiaries.

Net income/loss

For the year ended December 31, 2008 we had a net income of 18,592, compared to net income $493,922 for the year ended December 31, 2007. The main reason for the decrease in net income in 2008 was the decrease in gross margin and increase in costs, especially in administrative costs and a write down of inventory.

Liquidity and Capital Resources

On April 10, 2009, we signed the VIE Agreements to acquire the exploration rights of the Dashuigou area and the mining rights of the Majiagou property. We expect to invest in exploration, equipment, and refinery facilities in the future so that we can source tellurium internally. Additional capital for this objective may be required that is in excess of our current resources, requiring us to raise additional capital through future equity offerings or secured or unsecured debt financing. The availability of additional capital resources will depend on prevailing market conditions, interest rates, and our existing material financial position and results of operations.

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flow from sales of high-purity materials and borrowings under a bank loan (expected to be approximately US$1.47 million during 2010). Our primary cash needs include capital expenditures to invest in exploration, mining equipment and refinery facilities and funding working capital requirements.

In order to obtain 40 tonnes of 4N tellurium, the Company anticipates that it would need to invest approximately $6.41 million on exploration, selection and refining operations in the Dashuigou and Majiagou projects. In order to obtain 80 tonnes of 4N tellurium, the Company anticipates that it would need to invest approximately $10.56 million on exploration, selection and refining operations in the Dashuigou and Majiagou projects.

We currently believe we have sufficient funds to continue current operations at current levels and our expected capital expenditures for at least the next 12 months. Other than the bank loan described above, we do not have a credit line or other borrowing facility to fund our operations. To continue our current operations beyond March, 2011, we expect we will need to seek additional financing through the issuance of additional equity or debt securities or other sources of funding. We may not be able to secure additional funding on favorable terms, or at all. If we were unable to obtain the necessary additional funding, we would be required to reduce the scope of our operations or discontinue our operations.

	Years Ended December 31,		
	2009	2008	2007
Net cash (used in) provided by operating activities	$ (915,385)	$ (2,014,285)	$ (1,408,975)
Net cash (used in) provided by investing activities	(2,136,975)	(8,945,111)	(6,548,423)
Net cash provided by financing activities	(1,318,927)	13,125,140	10,440,859
Effect of exchange rate changes on cash	5,019	89,123	49,571
Net increase (decrease) in cash	$ (4,366,268)	$ 2,254,867	$ 2,533,032
Cash at beginning of year	4,874,043	2,619,176	86,144
Cash at end of year	$ 507,776	$ 4,874,043	$ 2,619,176

Net cash (used in) provided by operating activities.

Net cash used in operating activities for the year ended December 31, 2009 was $915,385, compared to $2,014,285 used in the year ended December 31, 2008. Cash used in operating activities was accounted for by a decrease in accounts receivable of $796,395, an increase in inventory of $604,205, an increase in prepaid expenses and other sundry current assets of $331,537, a decrease in accounts payable of $372,479, and a decrease in accrued expenses and other sundry current liabilities of $312,851.

Net cash (used in) investing activities.

Net cash used in investing activities for the years ended December 31, 2009 and 2008 was $2,136,975 and $8,945,111, respectively, primarily consisting of the purchase of our land use rights, plant and equipment. During the year ended December 31, 2009, we received $2,020,172 in government subsidies from the PRC local government. These subsidies are treated as offsets to their relevant asset classes and will reduce depreciation in future periods.

Net cash provided by financing activities.

Net cash used by financing activities for the year ended December 31, 2009 was $1,318,927, constituting the repayment of shareholder loans of $3,195,712 and payments to a related party of $2,508,612, notes payable converted to the joint venture contemplated under the Bengbu Agreement, and net of the proceeds from a short-term loan of $4,385,397.

Net cash provided by financing activities for the year ended December 31, 2008 was $13,125,140, constituting capital contributions of $7,650,636 and loans from stockholders and a related party of $5,474,505.

Contractual obligations

The following table describes our contractual commitments and obligations as of December 31, 2009:

	Payments due by Period (in $)				
Contractual Obligations	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Loans from shareholders	$ 5,839,869	$ 5,839,869	$ —	$ —	$ —
Short-term loan	$ 5,438,274	$ 5,438,274	$ —	$ —	$ —
	$ 11,278,143	$ 11,278,143	$ —	$ —	$ —

PRC Labor Contract Law

Effective January 1, 2008, PRC introduced a labor contract law that enhances rights for the nation's workers, including open-ended work contracts and severance pay. The legislation requires employers to provide written contracts to their workers, restricts the use of temporary laborers and makes it harder to lay off employees. It also requires that employees with short-term contracts become full-time employees with lifetime benefits after a short-term contract is renewed twice. Although the new labor contract law would increase our labor costs, we do not anticipate there will be significantly affect on our overall profitability in the near future since such amount was historically not material to our operating cost. Management anticipates this may be a step toward improving candidate retention for skilled workers.

Seasonality

Our business is not cyclical and does not have a clear pattern of seasonality.

Off-Balance Sheet Transactions

We have no material off-balance sheet transactions.

Impact of Recent Currency Exchange Rate Increases

We use the U.S. dollar as the reporting currency for our financial statements. Our operations are conducted through our PRC operating subsidiary, Sichuan Apollo, and our functional currency is the RMB. On July 21, 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar and, as a result, the RMB has appreciated against the U.S. dollar by approximately 8.26% from 1:8.27 on July 21, 2005 to 1:6.8225 on December 31, 2008 and 1:6.8270 on December 31, 2009. In converting our RMB income statement amounts into U.S. dollars we used the following RMB/$ exchange rates: 6.8311 for 2009 and 6.8225 for 2008. There is no guarantee that we will benefit from the exchange rate in the future and our operations may suffer if a less favorable exchange rate develops.

New Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance related to subsequent events under ASC 855-10, Subsequent Events. This guidance sets forth the period after the balance sheet date during which management or a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. This guidance is effective for interim and annual periods ending after June 15, 2009. We have included the required disclosures in our consolidated condensed financial statements.

In June 2009, the FASB issued an amendment to ASC 810-10, Consolidation. This guidance amends ASC 810-10-15 to replace the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a VIE with a primarily qualitative approach focused on identifying which enterprise has the power to direct the activities of a VIE that most significantly impact the entity’s economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE and requires additional disclosures about an enterprise’s involvement in VIEs. This guidance is effective as of the beginning of the reporting entity’s first annual reporting period that begins after November 15, 2009 and earlier adoption is not permitted. We are currently evaluating the potential impact, if any, of the adoption of this guidance will have on our consolidated condensed financial statements.

In June 2009, the FASB issued Accounting Standards Update No. 2009-01 which amends ASC 105, Generally Accepted Accounting Principles. This guidance states that the ASC will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Once effective, the Codification’s content will carry the same level of authority. Thus, the U.S. GAAP hierarchy will be modified to include only two levels of U.S. GAAP: authoritative and non-authoritative. This is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted ASC 105 as of September 30, 2009 and thus have incorporated the new Codification citations in place of the corresponding references to legacy accounting pronouncements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, Measuring Liabilities at Fair Value, which amends ASC 820, Fair Value Measurements and Disclosures. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure the fair value using one or more of the following techniques: a valuation technique that uses the quoted price of the identical liability or similar liabilities when traded as an asset, which would be considered a Level 1 input, or another valuation technique that is consistent with ASC 820. This Update is effective for the first reporting period (including interim periods) beginning after issuance. Thus, we adopted this guidance as of September 30, 2009, which did not have a material impact on our consolidated condensed financial statements.

In September 2009, the FASB amended existing authoritative guidance to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amended guidance is effective for fiscal annual reporting periods beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently assessing the impact, if any, adoption may have on its financial statements or disclosures.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

We use the U.S. dollar as the reporting and functional currency for our financial statements. As we conduct our operations through our PRC subsidiary, the functional currency of our PRC subsidiary is RMB. Substantially all our revenue and related expenses, including cost of revenues and advertising expenses, are denominated and paid in RMB. Transactions in other currencies are recorded in RMB at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are remeasured into RMB at rates of exchange in effect at the balance sheet dates. Exchange gains and losses are recorded in our statements of operations as other comprehensive income.

The value of RMB is subject to changes in China's governmental policies and to international economic and political developments. In January, 1994, the PRC government implemented a unitary managed floating rate system. Under this system, the People's Bank of China, or PBOC, began publishing a daily base exchange rate with reference primarily to the supply and demand of RMB against the U.S. dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for RMB within a specified band around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. dollar to RMB from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. This modification has resulted in an approximate 21% appreciation of the RMB against the U.S. dollar from July 21, 2005 to December 31, 2009. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further fluctuation of the exchange rate of RMB against the U.S. dollar. As all of our net revenues are recorded in RMB, any future devaluation of RMB against the dollar could negatively impact our results of operations.

Commodity Price Sensitivity

We are exposed to market risk in connection with our inventory balances, which are comprised primarily tellurium, cadmium, selenium, indium and metal powder made from rare base metals. Our inventories are stated at the lower of cost or market using the weighted average method. If there is a downward change in the market price of base metals, we are required to mark-down the value of our inventory and record a loss in our statement of income. We cannot predict the extent to which high raw material price levels will continue in the future. We do not have any long-term raw material purchase contracts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is incorporated by reference to information begins on Page F-1 at the end of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As required by Rule 13a-15(e) and 15d-15(e) under the Exchange Act, our management carried out an evaluation, with the participation and under the supervision of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2009.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and is effected by our board of directors, management and other personnel, 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, or GAAP, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations 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.

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 polices or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2009. The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Paritz & Company, P.A., our independent auditors who have expressed their report on Page F-2 of this Form 10-K.

Changes in Internal Controls Over Financial Reporting

Our management began implementing a number of measures to strengthen our internal controls over financial reporting and these changes have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management implemented the following measures during the fourth fiscal quarter of 2009:

- We continued to increase the level of interaction among our management, audit committee, independent auditors and other external advisors;

- We evaluated the sufficiency of local financial and accounting staff, and, based on that evaluation, we hired and continue to hire additional accounting staff;

- We enhanced our training programs on accounting principles and procedures for our existing staffs;

- We standardized the monthly and quarterly data collection timetable and procedures, and assigning data collection responsibilities to designated personnel;

Management has identified additional steps necessary to strengthen our internal control over financial reporting. We continue to take the following steps:

- We are in the process of recruiting additional members for our internal audit staff to assist us in improving our internal audit function; and

- We are in the process of recruiting a qualified and experienced internal auditor to implement the internal audit function, and we plan to provide additional training to this internal auditor on appropriate controls and procedures necessary to document and evaluate our internal control procedures.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Directors

The following sets forth our current directors and information concerning their age and background as of April 28, 2010:

Name	Age	Position with the Company	Director Since
Renyi Hou	53	Chairman and Chief Executive Officer	2008
Hongwei Ke	49	Director and Managing Director	2008
Kang Sun	54	Director	2008
Zhimin Cao	52	Director	2008
Elliot Maza	53	Director	2009
James M. Lee	63	Director	2009
Jingong Pan	45	Director and Vice President	2010

All directors hold office until the next annual meeting of our shareholders and until their successors have been elected and qualified. Officers serve at the pleasure of the Board of Directors.

Renyi Hou has been our President, Chief Executive Officer, and Chairman of the Board since October, 2008. From June, 2006 to the present date, Mr. Hou served as Chairman and Chief Executive Officer of our wholly-owned subsidiary, Sichuan Apollo Solar Science & Technology Co., Ltd. In 1986, Mr. Hou created the first privately-run iron enterprise in Chengdu, Sichuan. He then entered the mineral and natural resources business in 1998 by establishing the Sichuan Mineral Resources Development Co. Ltd, of which he was Chairman and General Manager. Mr. Hou received a medical degree from the Chengdu University of Traditional Chinese Medicine, and a Masters of Business from Chengdu Southwest Jiaotong University.

Hongwei Ke has been a director since October, 2008, and has served as the Managing Director of our wholly-owned subsidiary, Sichuan Apollo Solar Science & Technology Co., Ltd. Since 2006. From 1999 through 2006, he served as Chairman of Beijing Joinkey Electronics Technology Development Co. Ltd. And as the Chairman and Chief Engineer of Beijing Jiegao Software Co. Ltd. From 1982 to 1999, he held positions with the Bohai Oil Company, Research Institute, Engineer and China National Offshore Oil Corp. (CNOOC) where he was a Senior Engineer and the Deputy Director of the Communication and Computer Center. Mr. Ke holds a Bachelor's degree in Oil Field Chemistry from Southwest Petroleum University, Department of Petroleum Engineering.

Kang Sun has been a director since October 2008. Since July 2008, Dr. Sun has served as chief executive officer and director of Amprius Inc. From September 2007 to July 2008, Dr. Sun served as the president and chief operating officer of JA Solar Holdings Co., Ltd., and as their director from January 2007 to July 2008. Dr. Sun has also served as a director and partner at Index Capital Group, an investment company in the U.S., since 2002. From 2005 through 2007 Dr. Sun served as a managing director of new business development and chief strategy officer of new business and new product group at Applied Materials Inc., the world's largest manufacturer of semiconductor capital equipment. From 2002 to 2005, Dr. Sun served as vice president of business development of Microfabrica Inc., a U.S. manufacturer of micro devices. Dr. Sun also currently serves as a director of Comtec Solar Systems Limited, DayStar Technologies Inc., and RayTracker. Dr. Sun holds a Ph. D. in Material Science from Brown University, a Master's degree in Chemistry from the University of Georgia and a Bachelor's degree in Chemistry from Nanjing University, China.

Zhimin Cao has been a director since 2008. From 2000 through the present date, Dr. Cao has been a professor at the College of Marine Geosciences, Ocean University of China. Dr. Cao's research is focused on Economic Geology, Geochemistry, Marine Geology and Submarine Resources Exploring Sensor Technology. From May 2000 to July 2000, Dr. Cao served as a visiting scientist at Colorado State University. Dr. Cao earned his Ph.D. , Master's and Bachelor's degrees from Chengdu University of Technology, China University of Geosciences and Wuhan University of Geosciences (predecessor of China University of Geosciences), respectively.

Elliot M. Maza has been a director since 2009. From 2006 through the present date, Mr. Maza has served as the President and Chief Financial Officer and director of Intellect Neurosciences, Inc., a development stage biopharmaceutical company. Mr. Maza also currently serves as a director of AXM Pharma, Inc. From 2003 to 2006, Mr. Maza was Chief Financial Officer of Emisphere Technologies, Inc., a company specializing in oral drug delivery. From March 1999 to December 2003 Mr. Maza was a partner at Ernst and Young LLP and a Vice President at Goldman Sachs, Inc. and JP Morgan Securities, Inc. From 2004 to 2008, Mr. Maza served on the board of Tapestry Pharmaceuticals, Inc., a listed development stage company focused on developing proprietary therapies for the treatment of cancer. From 1985 to April 1989, Mr. Maza practiced law at Sullivan and Cromwell LLP in New York. Mr. Maza received a Bachelor's degree in accounting from Touro College and a J.D. from the University of Pennsylvania Law School. Mr. Maza is a licensed CPA in the State of New Jersey and the State of New York.

James M. Lee has been a director since 2009. From 1988 through 2008 Mr. Lee served in a number of different roles with Intel Corporation, including General Manager of Intel's manufacturing subsidiary in Shanghai and Lab Director of Intel's California Technology. During his tenure at Intel, Mr. Lee successfully led a professional team developing leading edge DRAMs and the world's first commercial flash memories. Mr. Lee received a Bachelor's degree in Electronic Engineering from the University of Illinois and a Master's Degree in Electronic Engineering from Syracuse University.

Dr. Jingong Pan, has been a director and Vice President of the Company since 2010. Dr. Pan is currently an Adjunct Professor at the New Jersey Institute of Technology. From 2000 to 2002, Dr. Pan served as a General Manager of Flaming Sun (USA) Corp., and from 1997 to 2000, he served as Vice President of the Bank of China Group. Dr. Pan received a Bachelor's degree from the Harbin Institute of Technology, Masters degrees from the Harbin Institute of Technology and the New Jersey Institute of Technology, and a Ph.D. from the New Jersey Institute of Technology.

Director Independence

The board of directors has determined that Kang Sun, Zhimin Cao, Elliot Maza and James Lee are each an independent director as defined by the applicable rules of the Securities and Exchange Commission, or the SEC.

Board Committees

Our board of directors has established the following committees: the Audit Committee, the Compensation Committee, and the Nomination and Corporate Governance Committee, each of which operates under a written charter adopted by the board of directors. Our board of directors and its committees set schedules to meet throughout the year and also can hold special meetings and act by written consent from time to time, as appropriate. The committees report on their activities and actions to the board of directors.

Audit Committee

The current members of our Audit Committee are Messrs. Cao, Lee and Maza (Chairman). Our board of directors has determined that each member of the Audit Committee meets the independence criteria set forth in the SEC rules for audit committee membership. The board of directors has also determined that at least one member of the audit committee, Mr. Maza qualifies as an "audit committee financial expert" as defined by the applicable rules of the SEC.

Executive Officers

The following table sets forth the name and age of each of our current executive officers, the positions and offices held by each executive officer with us, and the period during which the executive officers has served as one of our executive officers. All officers serve at the pleasure of the board of directors.

Name	Age	Position with the Company	Officer Since
Renyi Hou	53	Chairman and Chief Executive Officer	2008
Xuefeng Li	37	Interim Chief Financial Officer	2010
Hongwei Ke	49	Managing Director, Sichuan Apollo Solar Science & Technology Co., Ltd. (a wholly-owned subsidiary of the Company)	2008
Jingong Pan	45	Vice President and Director	2010
Haukang Zhou	57	Corporate Secretary	2010

Renyi Hou's biographical summary is included under "—Directors" above.

Hongwei Ke's biographical summary is included under "—Directors" above.

Xuefeng Li was appointed to serve as our interim Chief Financial in March of 2010. Ms. Li has served as the Chief Financial Officer of the Company's wholly-owned subsidiary, Sichuan Apollo Solar Science & Technology Co., Ltd., since 2009. From 1998 through 2008, Ms. Li served as an Accounting Manager for Sichuan Xinju Mine Co., Ltd. Ms. Li received a Bachelor's degree in business management, and is a Certified Public Accountant

Jingong Pan's biographical summary is included under "—Directors" above.

Dr. Haukang Zhou currently serves as our Corporate Secretary. Dr. Zhou has served as the President of Warner Technology & Investment Corp. since 1993. From 1994 until 2001, Dr. Zhou worked as a software consultant for Schering-Plough, Inc. Dr. Zhou received a Bachelor's degree and a Master's degree from the Beijing Science and Technology University, and a Ph.D. from the Polytechnic University of New York.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who beneficially own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the SEC. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of such forms furnished to us and written representations from certain reporting persons, none of Mr. Hou, Mr. Heung Sang Fong (our former Chief Financial Officer and director), Mr. Ke, Mr. Sun, Mr. Cao, Mr. Maza, Mr. Lee or Mr. Zhou have filed such reports.

Communication with Directors

Shareholders may communicate with the company's directors by transmitting correspondence by mail addressed as follows:

Corporate Secretary
c/o Apollo Solar Energy, Inc.
No. 485 Tengfei Third,
Shuangliu Southwest Airport Economic Development Zone,
Shuangliu, Chengdu
People's Republic of China, 610207

The Corporate Secretary will, as appropriate, forward communication to the Board or to any individual director, directors or Board committee to whom the communication is directed.

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, and persons performing such similar functions. A copy of our code of ethics is attached as an exhibit to our annual report on Form 10-K for fiscal year 2008 filed on April 15, 2009. If we make any substantive amendments to the code or grant any waiver from a provision of the code to any executive officer or director, we will promptly disclose the nature of the amendment or waiver via any means required by applicable law.

Risk Oversight

In its governance role, and particularly in exercising its duty of car and diligence, the Board is responsible for ensuring that appropriate risk management policies and procedures are in place to protect the company's assets and business. While the Board has the ultimate oversight responsibility for the risk management process, the Board has designated the Audit Committee the initial responsibility for overseeing the company's risk assessment and risk management. In fulfilling its delegated responsibility, the Audit Committee has directed the management to ensure that an approach to risk management is implemented as a part of the day-to-day operations of the company, and to design internal control systems with a view to identifying and managing material risks.

Board Leadership Structure

In accordance with our bylaws, our Board elects our officers, including our Chief Executive Officer, Chief Financial Officer, and such other officers as the Board may appoint from time to time. This Board has not currently separated the positions of Chairman of the Board and Chief Executive Officer, and Mr. Renyi Hou currently serves as both our Chairman of the Board and our Chief Executive Officer.

ITEM 11. Executive Compensation

Compensation Discussion and Analysis

Our Compensation Committee assists our board of directors in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. With the responsibility of establishing, implementing and monitoring our executive compensation program philosophy and practices, our Compensation Committee seeks to ensure that total compensation paid to our directors and executive officers is fair and competitive.

Compensation Philosophy and Objectives

Our Compensation Committee's goals regarding executive compensation are primarily to recruit, hire, retain, motivate and reward. In determining what constitutes a fair and competitive compensation for each executive, our Compensation Committee evaluates individual executive performance with a goal of setting compensation at levels based on the executive's general business and industry knowledge and experience and comparable to executives in other companies of similar size and stage of development, while taking into account our relative performance and our strategic goals.

We conduct an annual review of the aggregate level of our executive compensation as part of the annual budget review and annual performance review processes. During our review of an individual executive's compensation, our Compensation Committee primarily considers individual performance of that executive and internal review of the executive's compensation, both individually and relative to other executive officers. Our Compensation Committee also considers factors of corporate performance including the stock prices, sales, revenue and the current overall economic situation. Adjustments to salary levels are typically made annually as part of the company's performance review process, as well as upon a change in job responsibility. Merit-based increases to salaries are based on our Compensation Committee's assessment of the individual's performance.

Summary Compensation Table

The following table sets forth summary information concerning compensation of our principal executive officer and principal financial officer during fiscal 2007, 2008 and 2009. We refer to these persons as our named executive officers. There was no other officer of the Company, or Sichuan Apollo Solar Science & Technology Co., Ltd., our wholly-owned subsidiary, whose total compensation during fiscal 2007, 2008 or 2009 exceeded $100,000.

Named and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
			—	—	—	
Renyi Hou, Chief Executive Officer(1)	2009	22,489				22,489
	2008	22,489	—	—	—	22,489
	2007	21,353	—	—	—	21,353
Heung Sang Fong	2009	75,500	—	—	—	75,500
Chief Financial Officer(2)	2008	—	—	—	—	—
	2007	—	—	—	—	—

(1) Mr. Hou served as the Chief Executive Officer of Sichuan Apollo Solar Science & Technology Co., Ltd., our wholly-owned subsidiary, prior to becoming the Chief Executive Officer of the Company.
(2) Mr. Fong's employment with the Company terminated on March 17, 2010.

2009 Grants of Plan-Based Awards

The following table sets forth each grant of an award made to a named executive officer in fiscal 2009.

Name	Grant Date(2)	Estimated Future Payouts Under Equity Incentive Plan Award Targets	Exercise or Base Price of Option Awards ($/Share)	Grant Date Fair Value of Stock and Option Awards(3)
Heung Sang Fong(1)	2/1/2009	0	$0.82	3.5

(1) Mr. Fong's employment with the Company terminated on March 17, 2010.
(2) Such option vested as to 1/24 per month from the grant date through Mr. Fong's termination of employment.
(3) This column reflects the grant date fair value of the option granted in accordance with FASB ASC Topic 718. See the notes to our financial statements contained in our annual report on Form 10-K for the fiscal year ended December 31, 2009 for a discussion of all assumptions made by us in determining the FASB ASC Topic 718 value of our equity awards.

2009 Outstanding Equity Awards at Fiscal Year End

The following table sets forth unexercised stock options, stock that has not yet vested and equity incentive plans awards for each named executive officer outstanding as of the fiscal year ended December 31, 2009.

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date
Heung Sang Fong(1)	02/01/09	375,000	375,000	$0.82	02/01/19

(1) Mr. Fong's employment with the Company terminated on March 17, 2010.

Employment Agreements with Named Executive Officers

On June 20, 2006, we entered into an employment agreement with Renyi Hou, our Chairman and Chief Executive Officer. Pursuant to the terms of this employment agreement, Mr. Hou will receive an annual base salary equal to RMB 95,760, and may also be entitled to receive a discretionary bonus of RMB 49,440 upon receipt of a satisfactory annual evaluation performed by the board of directors. Mr. Hou may also be entitled to receive an additional bonus at the discretion of our board of directors. This employment agreement will terminate on June 19, 2011.

On June 20, 2006, we entered into an employment agreement with Hongwei Ke, our Managing Director. Pursuant to the terms of this employment agreement, Mr. Ke will receive an annual base salary equal to RMB 63,900, and may also be entitled to receive a discretionary bonus of RMB 33,000 upon receipt of a satisfactory annual evaluation performed by the board of directors. Mr. Ke may also be entitled to receive an additional bonus at the discretion of our board of directors. This employment agreement will terminate on June 19, 2011.

Director Compensation

Our directors are reimbursed for reasonable out-of-pocket expenses incurred in attending meetings of the board of directors and committee meetings. In addition, each of our non-employee directors receives compensation for participating on our board of directors comprised of annual retainers and fees for each meeting attended based on the following schedule:

	Fiscal 2010	Fiscal 2009
Meeting Attendance – In-Person	$ 500	$ 500
Retainer Fees		
All directors	17,000	17,000
Audit Committee Chairman	10,000	10,000
Audit Committee Member (other than Chairman)	1,500	1,500
Compensation Committee Chairman	2,000	2,000
Compensation Committee (other than Chairman)	1,500	1,500
Nomination and Governance Committee Chairman	2,000	2,000
Nomination and Governance Committee (other than Chairman)	1,500	1,500

In addition to the amounts set forth in the table above, each non-employee director received a stock option grant exercisable for 20,000 shares of the Company’s common stock, which grants vest over a one-year period in four equal quarterly installments beginning on the date of grant. Additional annual stock option grants may be made to each non-employee director, in the sole discretion of the board of directors.

Fiscal 2009 Non-Employee Director Compensation

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)
Zhimin Cao	600	—	—	600
Kang Sun	10,000	—	—	10,000
Elliot Maza	15,000	—	—	15,000
James Lee	10,000	—	—	10,000

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee have served as one of our officers or employees. None of our executive officers currently serves, or in fiscal 2009 served, as a member of the board or compensation committee of any entity that has one or more executive officers who serve on our Board or Compensation Committee.

Risk Considerations in Determining Compensation

Our Compensation Committee reviewed the various design elements of our compensation program to determine whether any of its aspects encourage excessive or inappropriate risk-taking. Following the risk evaluation, the Compensation Committee concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company.

Compensation Committee Report

We, the Compensation Committee of the Board, have reviewed and discussed the Compensation Discussion and Analysis contained in this Amendment No. 1 to Annual Report on Form 10-K with management. Based on such review and discussion, we have recommended to the Board that the Compensation Discussion and Analysis be included in this Amendment No. 1 to Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

COMPENSATION COMMITTEE

James Lee (Chair)
Zhimin Cao
Kang Sun

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

Equity Compensation Plan Information

We currently maintain one equity compensation plan that provides for the issuance of our common stock to officers and other employees, directors and consultants. This is our 2009 Stock Incentive Plan (the “Incentive Plan”) which has not yet been approved by our stockholders. The following table sets forth information regarding outstanding options and shares reserved for issuance under the Incentive Plan as of December 31, 2009:

	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders	830,000	$0.95	5,845,000
Total	830,000	$0.95	5,845,000

Security Ownership and Certain Beneficial Owners and Managers

The following table sets forth as of April 28, 2010, certain information with respect to the beneficial ownership of our common stock by (i) any person or group which beneficially owns more than 5% of such common stock, (ii) each member of our board of directors, (iii) each of our named executive officers and (iv) all of our executive officers and directors as a group. In determining beneficial ownership of the Common Stock, the number of shares shown includes all shares of common stock underlying options or warrants exercisable by such person within 60 days of April 28, 2010. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of the shares.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned	Percentage of Class
Renyi Hou (2)	13,260,000	26.45%
Cede & Co.	2,547,441	5.08%
Haukang Zhou	2,050,000	4.09%
Yong Ling	1,920,000	3.83%
Xuefeng Li	1,451,586	2.90%
Hongwei Ke	890,000	1.78%
Kang Sun (3)	20,000	*
Zhimin Cao (4)	20,000	*
James Lee (5)	20,000	*
Eliot Maza (6)	20,000	*
New Greatwall Limited	6,595,800	13.16%
All executive officers and directors as a group (7 persons)	19,110,586	38.12%

* Less than 1%

(1) Except as otherwise noted, each shareholder's address is c/o Sichuan Apollo Solar Science & Technology Co., Ltd., No. 485 Tengfei Third, Shuangliu Southwest Airport Economic Development Zone, Shuangliu, Chengdu, People's Republic of China, 610207.

(2) Includes 4,208,000 shares owned by Mr. Hou's wife, Zhenyu Liu.

(3) Represents share of our common stock issuable upon exercise of options held by Mr. Sun that may be exercised within 60 days of April 28, 2010.

(4) Represents share of our common stock issuable upon exercise of options held by Mr. Cao that may be exercised within 60 days of April 28, 2010.

(5) Represents share of our common stock issuable upon exercise of options held by Mr. Lee that may be exercised within 60 days of April 28, 2010.

(6) Represents share of our common stock issuable upon exercise of options held by Mr. Maza that may be exercised within 60 days of April 28, 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Loan Transactions

As of December 31, 2009, we had an outstanding balance of $2,825,895 under a non-interest bearing loan from Xinju Mining Resources Development Co. This loan is payable upon demand by the holder. Mr. Hou, our Chief Executive Officer, is chief executive officer and major shareholder of Xinju Mining Resources Development Co.

As of December 31, 2009, we had an aggregate outstanding balance of $854,086 on non-interest bearing loans made to us by our Chief Executive Officer, Mr. Hou, our Managing Director, Mr. Ke and our former Chief Financial Officer, Mr. Ling. Such loans are due upon demand of the holder. We also owed $5,452,088 to our stockholder Feng Yuliang and Wang Xiaojin pursuant to the terms of a non-interest bearing loan.

Purchase of Dashuigou Mining Rights

Effective August 22, 2008, Sichuan Xinlong, a wholly-owned subsidiary of Sichuan Apollo, acquired 100% of the equity of the Sichuan Xinju from Renyi Hou, now our Chairman and Chief Executive Officer, Wei Li and Yong Ling. The share transfer agreements were executed on August 18, 2008. Sichuan Xinju owns the exclusive mining rights to the Dashuigou tellurium mine from January 2007 to January 2013. As of December 31, 2008, the tellurium used in our products was primarily purchased from suppliers on the open market. In 2009, 70% of the tellurium used in our products is expected to be sourced from the Dashuigou tellurium mine.

On April 10, 2009, our wholly-owned subsidiary, Sichuan Xinlong entered into the VIE Agreements with Sichuan Xinju Mineral Resources Development Corporation, or Xinju, a company partially owned by certain of our shareholders, including Mr. Hou, our Chairman and Chief Executive Officer, to obtain the mining and exploration rights to that certain land of 6.29 square kilometers in the Dashuigou area and the mining rights of that certain tellurium and bismuth mine of 0.0568 square kilometers in Shimian Majiagou.

Description of Securities

The Company is authorized to issue 100,000,000 shares of Common Stock, $.001 par value per share, of which 44,555,131 shares are outstanding as of March 31, 2010. Holders of the Common Stock are entitled to one vote for

each share in the election of directors and in all other matters to be voted on by the stockholders. There is no cumulative voting in the election of directors. Holders of Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors with respect to the Common Stock out of funds legally available therefor and, in the event of liquidation, dissolution or winding up of the Company, to share ratably in all assets remaining after payment of liabilities. The holders of Common Stock have no pre-emptive or conversion rights and are not subject to further calls or assessments. There are no redemption or sinking fund provisions applicable to the Common Stock.

ITEM 14. Principal Accounting Fees and Services

The following table sets forth the aggregate fees billed to us for the fiscal years ended December 31, 2009 and 2008, by Partiz & Company, P.A., our independent auditors:

	Fiscal 2009	Fiscal 2008
Audit Fees (1)	$89,500	$65,000
Audit-Related Fees (2)	$0	$0
Tax Fees (3)	$3,500	$0
Total	$93,000	$65,000

(1) Audit Fees consist of fees billed for professional services rendered for the audit of our consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Partiz & Company, P.A. in connection with statutory and regulatory filings or engagements.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." This category includes audit-related services related to acquisitions by the Company.

(3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning (domestic and international). These services include assistance regarding federal, state and international tax compliance and international tax planning.

Our audit committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular category of services. The independent auditor and management are required to periodically report to the audit committee regarding the extent of services provided by the independent auditor in accordance with this pre-approval. The chairman of the audit committee is also authorized, pursuant to delegated authority, to pre-approve additional services and such approvals are communicated to the full audit committee at its next meeting.

The audit committee has considered the role of Partiz & Company, P.A. in providing tax services to us and has concluded that such services are compatible with Partiz & Company, P.A. independence as our auditors.

For the fiscal years ended December 31, 2009, and 2008, the audit committee pre-approved all services described above in the captions Audit Fees, Tax Fees and Registration Statement Fees.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedule:

APOLLO SOLAR ENERGY, INC. AND SUBSIDIARIES

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of period	Change to Net Sales, Costs and Expenses		Deductions / Recoveries	Balance at End of Period
Year ended December 31, 2009:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	15,000	389,678	(1)	-	404,678
Deferred tax valuation allowance	245,008	1,247,584		-	1,492,592
Year ended December 31, 2008:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	15,000	-		-	15,000
Deferred tax valuation allowance	61,078	183,930	(2)	-	245,008

(1) An increase in the allowance for doubtful accounts is recorded as a component of selling, general and administrative expenses

(2) Part of net deferred tax liability

3. Exhibits: The exhibits listed in the accompanying "Index to Exhibits" are filed or incorporated by reference as part of this Form 10-K.

			Incorporated by Reference			
Exhibit No	Exhibit Title	Filed Herewith	Form	Exhibit No.	File No.	Filing Date
3.1	Articles of Incorporation		DEF 14-A	APP. B	000-12122	1/22/2008
3.2	Restated Articles of Incorporation		8-K	3.1	000-12122	10/23/2008
3.3	Bylaws		8-K	3.1	000-12122	2/6/2008
10.1*	Labor Contract, by and between Sichuan Apollo Solar Energy Technology Co. Ltd., and Renyi Hou, dated June 20, 2006		10-K/A	10.1	000-12122	3/30/2010
10.2*	Labor Contract, by and between Sichuan Apollo Solar Energy Technology Co. Ltd., and Hongwei Ke, dated June 20, 2006		10-K/A	10.1	000-12122	3/30/2010
10.3	Amended and Restated Merger Agreement dated on October 14, 2008, among Wincroft, Apollo Solar Energy, Inc., a Delaware corporation, and Apollo Solar Energy Inc., a Nevada corporation		10-K	10.1	000-12122	4/15/2009
10.4	First Option Exclusive Acquiring Agreement, executed on April 10, by and among Sichuan Xinlong Tellurium & Technique Co., Ltd., Sichuan Xinju Mineral Resources Development Corporation, and all the shareholder listed on Appendix A thereto		10-K	10.2	000-12122	4/15/2009
10.5	Business Operations Agreement, executed on April 10, by and among Sichuan Xinlong Tellurium & Technique Co., Ltd., Sichuan Xinju Mineral Resources Development Corporation, and all the shareholder listed on Appendix A thereto		10-K	10.3	000-12122	4/15/2009
10.6			10-K	10.4	000-12122	4/15/2009

	Exclusive Technical and Consulting Agreement, executed on April 10 , by and between Sichuan Xinlong Tellurium & Technique Co., Ltd . and Sichuan Xinju Mineral Resources Development Corporation				
10.7	Exclusive Sales Agreement, executed on April 10, 2009, by and between Sichuan Xinlong Tellurium & Technique Co., Ltd. And Sichuan Xinju Mineral Resources Development Corporation	10-K	10.5	000-12122	4/15/2009
10.8	Entrusted Management Agreement, dated as of October 20, 2008, by and among Renyi Hou, Liu Zhenyu, Hou Longchao, Hou Cijiu, Yang Yang, Ling Yong, Li Xuefeng, Ke Hongwei, Li Wei,He Yue, and Huakang Zhou	10-K	10.6	000-12122	4/15/2009
10.9	Employment Agreement by and between Fong Heung Sang dated February 2, 2009	10-K	10.8	000-12122	4/15/2009
10.10	Loan Contract dated January 19, 2009, by and between the Company and Chengdu Xihang Gang Construction & Investment Co., Ltd.	10-K	10.10	000-12122	4/15/2009
10.11	Loan Agreement dated February 2, 2009 by and between the Company and Communication Bank of China, Sichuan Branch	10-K	10.11	000-12122	4/15/2009
10.12	Common Stock Purchase Agreement, dated as of November 20, 2009, by and among Apollo Solar Energy, Inc. and Bengbu Glass Industry Design Institute	8-K	10.1	000-12122	11/24/2009
10.13	Amendment No. 1 to Common Stock Purchase Agreement, dated as of January 20, 2010, by and among Apollo Solar Energy, Inc. and Bengbu Glass Industry Design Institute	8-K	10.1	000-12122	1/26/2010
10.14		8-K	10.1	000-12122	3/19/2010

	Joint Research Agreement (Apollo Cd/Te Solar Energy Center), by and between Apollo Solar Energy, Inc. and New Jersey Institute of Technology, dated March 16, 2010.					
14.1	Code of Ethics		10-K	20.1	000-12122	4/15/2009
21.1	List of Subsidiaries	X				
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 31, 2010	X				
31.2	Certification of Principal Financial Officer required by Rules 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 31, 2010	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
99.1	Independent Technical Review of the Dashuigou and Majiagou Tellurium Projects in Sichuan Province, the People's Republic of China, Final Report, issued by Behre Dolbear Asia, Inc., dated May 8, 2009.		8-K	99.2	000-12122	5/12/2009

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* Denotes a compensatory plan, contract or arrangement, in which the registrant's directors or executive officers may participate.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Apollo Solar Energy, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on September 14, 2010.

Apollo Solar Energy, Inc.

By:	/s/Renyi Hou
Name:	Renyi Hou
Title:	Chief Executive Officer and President

APOLLO SOLAR ENERGY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009, 2008 AND 2007

(AUDITED)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors' of Apollo Solar Energy, Inc.

We have audited the accompanying consolidated balance sheets of Apollo Solar Energy and subsidiaries (the" Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2009, 2008 and 2007. Our audits also included the financial statement schedule listed in Item 15. We have also audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Intergrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for these consolidated financial statements, financial statement schedule, 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 Managements' Report on internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessment risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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 the 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apollo Solar Energy, Inc. and subsidiaries as of December 31, 2009 and 2008 and the results of

its operations and cash flows for the years ended December 31, 2009, 2008 and 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

/s/Paritz & Company, P.A.
Hackensack, New Jersey
March 31, 2010

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APOLLO SOLAR ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(In U.S. Dollars)

	December 31, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 507,776	$ 4,874,044
Accounts receivable net of allowance for doubtful accounts $404,678 and $15,000, respectively	164,093	961,600
Inventories	7,944,740	7,496,477
Due from related party	3,652,756	2,313,198
Deferred tax assets	-	25,414
Prepaid expenses and other sundry current assets	583,826	899,154
TOTAL CURRENT ASSETS	12,853,191	16,569,887
Property, machinery and exploration assets, net	21,048,231	19,549,909
Non-marketable investments	43,943	-
Investment in Joint Venture	189,175	-
	21,281,349	19,549,909
TOTAL ASSETS	$ 34,134,540	$ 36,119,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term loan	$ 4,388,033	$ -
Notes payable	-	-
Accounts payable – trade	283,689	876,221
– Construction vendors	2,764,464	2,546,890
Accrued expenses and other sundry current liabilities	1,239,674	959,186
Deferred tax liabilities	393,716	-
Due to stockholders	5,839,869	9,032,382
TOTAL CURRENT LIABILITIES	14,909,445	13,414,679
LONG-TERM DEBT	-	4,397,215
STOCKHOLDERS' EQUITY:		
Preferred stock, $.001 par value, 25,000,000 shares authorized, 0 shares issued and outstanding at December 31, 2009 and 2008	-	-
Common stock, $.001 par value, 100,000,000 shares authorized, 44,555,131 issued at outstanding at December 31, 2009 and 2008	44,555	44,555
Additional paid-in capital	19,192,138	17,347,905
Accumulated deficit	(1,298,792)	(383,221)

Accumulated other comprehensive income	1,287,194	1,298,663
TOTAL STOCKHOLDERS' EQUITY	19,225,095	18,307,902
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ $34,134,540	$ 36,119,796

The accompany notes are an integral part of these financial statements

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
(In US Dollars)

	Year Ended December 31,		
	2009	2008	2007
SALES	$7,813,605	$6,968,430	$2,003,788
COST OF SALES	6,012,500	5,150,943	1,315,002
GROSS PROFIT	1,801,105	1,817,487	688,786
OPERATING EXPENSES:			
General and administrative expenses	5,586,508	1,143,327	117,190
Selling expenses	204,701	302,577	59,069
Research and development expenses	48,623	83,166	18,605
TOTAL OPERATING EXPENSES	5,839,832	1,529,070	194,864
OPERATING INCOME (LOSS)	(4,038,727)	288,417	493,922
Gain on investment in JV	3,977,511	-	-
Interest expense	(476,638)	(57,773)	
Other income (expenses)	207,136	-	
INCOME BEFORE PROVISION FOR INCOME TAXES	(330,717)	230,643	493,922-
Income taxes	584,854	212,051	
NET INCOME (LOSS)	$(915,571)	$18,592	$493,922
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment	$(8,908)	$1,092,972	$112,887
COMPREHENSIVE INCOME (LOSS)	$(924,479)	$1,111,564	$606,809
Basic and Diluted Income per common share			
Basic	$(0.02)	$0.00	$0.01
Diluted	$(0.02)	$0.00	$0.01
Weighted average number of common shares outstanding			
Basic	44,555,131	44,555,131	44,555,131
Diluted	44,555,131	44,555,131	44,555,131

The accompany notes are an integral part of these financial statements

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(IN US DOLLARS)

	Common Stock, par value $.001		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income	Total
BALANCE – JANUARY 1, 2007	44,555,131	$44,555	$1,949,789	$ (895,735)	$ 92,804	$1,191,413
Capital contributions	-	-	4,882,340	-		4,882,340
Foreign currency translation adjustment	-	-	-	-	112,887	112,887
Net income	-	-	-	493,922	-	493,922
BALANCE AT DECEMBER 31, 2007	44,555,131	$44,555	$6,832,129	$ (401,813)	$ 205,691	$6,680,562
Capital contributions	-	-	10,515,776	-	-	10,515,776
Foreign currency translation adjustment	-	-	-	-	1,092,972	1,092,972
Net loss for the year	-	-	-	18,592	-	18,592
BALANCE AT DECEMBER 31, 2008	44,555,131	$44,555	$17,347,905	$ (383,221)	$ 1,298,663	$18,307,902
Issuance of option for service	-	-	1,844,232	-	-	1,844,232
Foreign currency translation adjustment	-	-	-	-	(11,469)	(11,457)
Net loss for the year	-	-	-	(915,571)	-	(915,571)
BALANCE AT DECEMBER 31, 2009	44,555,131	$44,555	$19,192,138	$ (1,298,792)	$ 1,287,194	$19,225,095

The accompany notes are an integral part of these financial statements

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$(915,571)	$18,592	$493,922
Adjustments to reconcile net income to net cash used in operating activities:			
Issuance of options for services	1,844,233	-	
Gain on investment in JV	(3,977,511)	-	
Depreciation	986,437	457,737	310,092
Deferred tax assets	502,194	(25,414)	-
Inventory mark-down	180,734	150,165	-
Changes in assets and liabilities:			
(Increase) decrease in -			
Accounts receivable – trade	796,395	(928,131)	(14,838)
Inventory	(604,205)	(5,114,886)	(1,166,712)
Prepaid expenses and other sundry current assets	331,537	(359,027)	-
Accounts payable – trade	(591,598)	851,208	(767,407)
-- construction	219,119	2,501,035	
Accrued expenses and other sundry current liabilities	312,851	434,436	14,714
NET CASH USED IN OPERATING ACTIVITIES	(915,385)	(2,014,285)	(1,408,975)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Non-marketable investment	(43,900)	-	
Purchase of property and equipment	(437,746)	(8,945,111)	
Government subsidy to purchase Fixed Assets	2,020,172	-	
Acquisition of land use rights	(3,675,501)	-	(6,548,423)
NET CASH USED IN INVESTING ACTIVITIES	(2,136,975)	(8,945,111)	(6,548,423)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term loans	4,385,394	-	6,836,205
Capital contribution	-	7,650,636	-
Advance from (payment to) shareholders	(3,195,712)	8,977,519	839,845
Advance from (payment to) related party	(2,508,612)	(3,503,014)	2,764,809
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,318,927)	13,125,140	10,440,859
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	5,019	89,123	49,571
NET DECREASE IN CASH AND CASH AND CASH EQUIVALENTS	(4,366,268)	2,254,867	2,533,032
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,874,044	2,619,176	86,144
CASH AND CASH EQUIVALENTS, END OF YEAR	$507,776	$4,874,043	$2,619,176

Supplemental disclosures of cash flow information:			
Interest paid	$94,790	$-	$
Income taxes paid	$35,321	$161,061	$-
Non-cash financing activities:			
Investment in JV	187,175	-	-
Conversion of debt to JV	5,441,291	-	-
Conversion of debt to additional paid-in capital	$-	$2,878,692	$-

The accompany notes are an integral part of these financial statements

APOLLO SOLAR ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

NOTE 1. BUSINESS DESCRIPTION

On October 14, 2008, the Company completed a reverse merger transaction with Apollo Solar Energy, Inc., ("ASE-Delaware") by issuing 4,000 shares of its common stock in exchange for each outstanding share of ASE-Delaware's common stock. Under the terms of the merger agreement, all of the outstanding shares of common stock of ASE-Delaware were exchanged for 44,000,000 shares of common stock of the Company, resulting in the former shareholders of ASE-Delaware owning 98.75% of the Company's issued and outstanding common stock.

For accounting purposes, ASE-Delaware became the surviving entity whereas the Company was recognized as the surviving entity for legal purposes. Accordingly, the financial statements include the assets, liabilities and operations of ASE-Delaware.

On August 4, 2008, ASE-Delaware, an inactive company, acquired 100% of the registered capital of Sichuan Apollo Solar Science & Technology Co., Ltd. ("Sichuan Apollo"), in a transaction accounted for as a reorganization.

Sichuan Apollo was formed in June, 2006 in the People's Republic of China and develops and manufactures high purity metals and compounds which are widely used in the field of national defense, navigation, spaceflight and the electronic industry. In addition, the Company is developing semiconductor, photoelectrical, photoconductive and photovoltaic basic materials for thin film solar cells through its 100% owned subsidiary, Sichuan Xinlong Diye Tellurium Industry & Technique Co., Ltd ("Diye").

Effective August 22, 2008 Diye acquired 100% of the equity of Sichuan Xinju Shimian Dadu River Mining & Metallurgy Co., Ltd. ("Dadu River") from significant shareholders of Apollo. Dadu River owns the exclusive rights to the Dashuigou tellurium mine through at least January 2013. Prior year financial statements have not been restated as the effects of this acquisition of the financial position and results of operations are immaterial.

The company entered into various exclusive contractual arrangements on April 10, 2009 with Sichuan Xinju Mineral Resources Development Corporation, or the VIE, and certain of its shareholders who are our direct or indirect employees and who collectively own 51.6619% of the VIE. Among other things, these agreements granted to our wholly-owned subsidiary a first option to purchase the exploration rights related to the Dashuigou area mine and the mining rights related to that certain tellurium and bismuth mine in Shimian Majiagou (which rights are collectively referred to in this report as the Exploration Business). Additionally, the VIE and certain of its shareholders who collectively own 51.6619% of the VIE granted to our wholly-owned subsidiary an exclusive right to purchase all of the products produced from the Exploration Business for a specified period of time. As a result, we consolidate the financial results of the VIE related to the Exploration Business.

Basis of presentation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries, Sichuan Apollo, Diye, Da Du River and Ma Jia Gou. All significant inter-company transactions and balances among the Company and its subsidiaries are eliminated upon consolidation.

The Company's functional currency is the Chinese Renminbi ("RMB"); however, the accompanying financial statements have been translated and presented in United States Dollars ("USD").

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amount of assets and liabilities and disclosure 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 the estimates.

Cash

The Company maintains cash with financial institutions in the People's Republic of China ("PRC") which are not insured or otherwise protected. Should any of these institutions holding the Company's cash become insolvent, or if the Company is unable to withdraw funds for any reason, the Company could lose the cash on deposit with that institution.

Cash include cash in hand and cash in time deposits, certificates of deposits and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company calculates a reserve based on the aging of receivables and either increases or decreases the estimate of doubtful accounts accordingly. Additional allowances may be required if one or more of the Company's customers' financial condition deteriorates, resulting in an impairment of their ability to make payments. Such allowances, if any, would be recorded in the period the impairment is identified. The Company recorded bad debt expense of approximately $405,000 and $15,000 in 2009 and 2008, respectively.

Inventories

Inventories are valued at the lower of cost or market with cost determined on the weighted-average method.

Advance for purchases

The Company made interest free advances to certain vendors for purchase of its raw materials and construction in progress equipment.

Property, machinery and exploration assets

Property and equipment are recorded at cost. Once placed in service, depreciation is provided in amounts sufficient to amortize the cost of the related assets over their useful lives using the straight line method. Land use right is amortized over the lease period.

Maintenance, repairs and minor renewals are charged to expense when incurred. Replacements and major renewals are capitalized.

Expenditures for new facilities or equipment and expenditures that extend the useful lives of existing facilities or equipment are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs over the estimated productive lives.

Mineral exploration costs are expensed according to the term of the license granted to the Company by the PRC. Extraction rights are stated at the lower of cost and recoverable amount. When extraction rights are obtained from the government according to the mining industry practice in the PRC, extraction rights and other costs incurred prospectively to develop the property are capitalized as incurred and are amortized using the units-of-production ("UOP") method over the estimated life of the mineralized body based on estimated recoverable volume through to the end of the period over which the Company has extraction rights. At the Company's underground projects, these costs include the cost of building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

Major development costs incurred after the commencement of production are amortized using the UOP method based on estimated recoverable volume in mineralized material. To the extent that these costs benefit the entire mineralized body, they are amortized over the estimated life of the mineralized body. Costs incurred to access specific mineralized blocks or areas that only provide benefit over the life of that area are amortized over the estimated life of that specific mineralized block or area. Interest cost allocable to the cost of developing exploration properties and to constructing new facilities, if any, is capitalized until assets are ready for their intended use.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

No impairment loss was recorded for the years ended December 31, 2009 and 2008 respectively.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable vesting period of the stock award using the straight-line method.

Deferred income taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, recognition of future tax benefits, such as carryforwards, to the extent that realization of such benefits is more likely than not and that a valuation allowance be provided when it is more likely than not that some portion of the deferred tax assets will not be realized.

Currency translation

Since the Company operates in the PRC, the Company’s functional currency is the RMB. Revenue and expense accounts are translated at the average rates during the period, and balance sheet items are translated at year-end rates. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of owners’ equity. Gains and losses from foreign currency transactions are recognized in current operations.

Fair value of financial instruments

The Company’s financial instruments primarily consist of cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses, taxes payable, and other related party advances and borrowings, and short-term loans.

As of the balance sheet date, the estimated fair values of financial instruments were not materially different from their carrying values as presented on the balance sheet. This is attributed to the short maturities of the instruments and that interest rates on the borrowings approximate those that would have been available from loans of similar remaining maturity and risk profile at the respective balance sheet dates.

Segment reporting

The Company is using “management approach” model for segment reporting. The management approach model is based on the way a Company’s management organized segments within the Company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

Revenue recognition

Revenue is recognized for the metal refining segment at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, and no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied and recorded as advances from customers. No revenues have been recognized in the exploration segment or manufacturing segment.

Shipping and handling costs

In accordance with “Accounting for Shipping and Handling Fees and Costs”, all amounts billed to customers in a sales transaction for shipping and handling are classified as revenue.

Research and development

Research and development expenditures are charged to operations as incurred and were not material for the years ended December 31, 2009, 2008 and 2007.

Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation gain, net of tax.

Earnings per share

Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

As a result of the net loss in 2009, the calculation of diluted loss per share does not include the dilutive effect of 423,750 stock options because they would have been anti-dilutive. There were no additional common shares that would have been outstanding as of December 31, 2008.

Recently issued accounting pronouncements

In May 2009, the Financial Accounting Standards Board ("the FASB") issued guidance related to subsequent events under ASC 855-10, Subsequent Events. This guidance sets forth the period after the balance sheet date during which management or a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. This guidance is effective for interim and annual periods ending after June 15, 2009. We have included the required disclosures in our consolidated condensed financial statements.

In June 2009, the FASB issued an amendment to ASC 810-10, Consolidation. This guidance amends ASC 810-10-15 to replace the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a VIE with a primarily qualitative approach focused on identifying which enterprise has the power to direct the activities of a VIE that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE and requires additional disclosures about an enterprise's involvement in VIEs. This guidance is effective as of the beginning of the reporting entity's first annual reporting period that begins after November 15, 2009 and earlier adoption is not permitted. We are currently evaluating the potential impact, if any, of the adoption of this guidance will have on our consolidated condensed financial statements.

In June 2009, the FASB issued Accounting Standards Update No. 2009-01 which amends ASC 105, Generally Accepted Accounting Principles. This guidance states that the ASC will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Once effective, the Codification's content will carry the same level of authority. Thus, the U.S. GAAP hierarchy will be modified to include only two levels of U.S. GAAP: authoritative and non-authoritative. This is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted ASC 105 as of September 30, 2009 and thus have incorporated the new Codification citations in place of the corresponding references to legacy accounting pronouncements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, Measuring Liabilities at Fair Value, which amends ASC 820, Fair Value Measurements and Disclosures. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure the fair value using one or more of the following techniques: a valuation technique that uses the quoted price of the identical liability or similar liabilities when traded as an asset, which would be considered a Level 1 input, or another valuation technique that is consistent with ASC 820. This Update is effective for the first reporting period (including interim periods) beginning after issuance. Thus, we adopted this guidance as of September 30, 2009, which did not have a material impact on our consolidated condensed financial statements.

In September 2009, the FASB amended existing authoritative guidance to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amended guidance is effective for fiscal annual reporting periods beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently assessing the impact, if any, adoption may have on its financial statements or disclosures.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables

based on management's best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products' essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's financial condition and results of operations because the Company doesn't have any multiple deliverable revenue arrangements.

NOTE 3. INVENTORIES

The inventories consist of the following:

	As of	
	December 31, 2009	December 31, 2008
Raw Materials	$ 3,232,860	4,351,326
Work-in-progress	1,230,281	1,080,390
Finished goods	3,481,599	2,064,761
Total	$ 7,944,740	7,496,477

NOTE 4: PROPERTY, MACHINERY AND EXPLORATION ASSETS, NET

A summary of property and equipment and the estimate lives used in the computation of depreciation and amortization is as follows:

	2009	2008	Life
Building	$14,400,190	13,349,541	40 years
Right to use land	3,995,890	324,809	Life of lease
Machinery and equipment	2,654,064	3,506,879	10 years
Office equipment	234,126	209,543	5 years
Vehicle	464,990	464,512	5 years
Mining rights	320,496	318,113	
Construction in progress	1,118,824	2,630,538	
	23,258,580	20,803,935	
Less accumulated depreciation	2,210,349	1,254,026	
	$21,048,231	19,549,909	

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was $986,437, $457,737 and $310,092 respectively.

Estimated costs to complete the construction in progress after December 31, 2009 are not anticipated to be material. Construction is expected to be completed in the second quarter of 2010.

Anticipated costs to complete the construction in progress will aggregate approximately 1,800,000 RMB ($300,000). Construction is expected to be completed in 2009.

NOTE 5. DUE FROM RELATED PARTIES

The breakdown of due from related parties is as follows:

	As of	
	December 31, 2009	December 31, 2008
Due from Xinju	$ 3,477,719	$ 2,313,198
Due from JV-Chenggu Zhong Guandian	175,037	-
Total	$ 3,652,756	$ 2,313,198

Xinju is a related party partially owned by a majority shareholder of Apollo who has personally guaranteed repayment of this obligation to the Company. JV-Chengdu Zhong Guandian is a newly formed JV in which Apollo holds a 35% of the equity interest (see note 7). All the above loans are non-interest bearing and due on demand.

NOTE 6. NON-MARKETABLE SECURITIES

On March 12, 2009, the Company entered into an agreement to invest RMB300,000 (equivalent to $43,900 at date of signing), for a 6% interest, with two non-affiliates to establish a new company engaged in the green energy industry. The Company accounted for this investment using the cost method of accounting.

NOTE 7. INVESTMENT IN JOINT VENTURE

On November 9, 2009, Sichuan Apollo Solar Science & Technology Co. Ltd. (“Sichuan Apollo”), a wholly-owned foreign enterprise of the Company entered into a joint venture agreement (the “Agreement”) with Bengbu Design & Research Institute for Glass Industry (“Bengbu”) and a local Chinese government agency (the “Agency”). The Joint Venture (“JV”) is being formed for the purpose of conducting research and development related to glass used in the production of thin film solar cells. As of December 31, 2009 the JV has not commenced operations. The Company will account for this investment on the equity method once the operations of the JV commence.

Under the terms of the Agreement, Sichuan Apollo will contribute land, a manufacturing plant and other equipment with a net book value of approximately $2.3 million to the newly formed JV for a 35% interest in the JV. In addition, under the terms of the agreement, debt of the Company aggregating RMB 37,170,000 (approximately $5,444,500) owed to the Agency was assigned to the JV. Bengbu and the Agency will contribute cash equal to their aggregated 65% interest in the JV of RMB 142,800,000.

In accordance with authoritative accounting guidance the Company has reported an extraordinary gain on the difference between the initial cost of the investment and the Company's proportionate share the JV's fair value of it's net equity, which, if treated as a consolidated subsidiary would have resulted in negative goodwill to be recorded as an extraordinary gain according to the guidance. As of December 31, 2009, the Company has contributed net assets of RMB 11,290,716 (equivalent to $1,653,832) and RMB 37,170,000 (equivalent to $5,444,500) loan payable to the Agency has been assigned to the Joint Venture. This resulted in an excess of the proportionate share of the JV's net assets at fair market value over the cost of the assets contributed of RMB 25,182,671 (equivalent to $3,977,512) which is reported as income on the accompanying statement of operations for the year ended December 31, 2009. As of December 31, 2009, not all of the capital contributions and assets to be contributed to the JV have been performed. The Company will report additional gains in subsequent periods when the additional contributions are made to the JV. The Company is treating the extraordinary gain as a non-taxable event.

Under the terms of the agreement, the JV is to be formed with a cash capital contribution of RMB 142,800,000 by Bengbu and the Agency and the assets of the Company with a fair market value of RMB 49,980,000. The value of the net assets contributed by the Company were equal to the proportionate value of the total capital contribution to be made to the JV taking into consideration the cash contribution by the other parties. The assets were valued by the Company's management giving consideration to the valuation services provided by an independent third party.

NOTE 8. LONG-TERM DEBT

As of December 31, 2008, the long term debt consisted of a note payable bearing interest at 6.57% per annum through May 31, 2009 and at Bank of China's rate for a three year loan thereafter. $2,931,476 is due June 5, 2010 and $1,465,739 is due July 16, 2010.

As of December 31, 2009, this debt was assigned to JV (See Note 7).

NOTE 9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities are listed as below:

	As of December 31,	
	2009	2008
Accrued Interest	$ 797,180	447,255
Government subsidy for research & development	87,886	80,615
Salaries and benefits	101,647	137,733
Taxes	87,419	84,828
Professional fees	103,333	153,000
Other accrued expenses	125,506	55,755
Total	$ 1,302,971	959,186

NOTE 10. SHORT-TERM LOAN

The short-term loans include the following:

		Balance at December 31, 2009
a) Loan payable to Chengdu Xihang Gang Construction & Investment Co., Ltd due on August 31, 2010, with interest at 5.31% per annum,collateralized by certain plant equipment of Sichuan Apollo	$	604,951
b) Loan payable to Bank of Communication, Chengdu branch due on February 5, 2010, with interest at 6.903% per annum, collateralized by the buildings and land use right of Diye		292,954
c) Loan payable to Bank of China, Xihanggang Branch, Chengdu due on August 19, 2010, with interest at 5.85% per annum, collateralized by the buildings of Sichuan Apollo		732,386
d) Loan payable to Bank of China, Xihanggang Branch, Chengdu due on September 7, 2010, with interest at 5.85% per annum, collateralized by the buildings of Sichuan Apollo		732,386
e) Loan payable to Merchant Bank, Wangjiang Road, Chengdu due on October 21, 2010, with interest at 6.57% per annum, collateralized by the buildings of Sichuan Apollo		1,025,341
f) Loan payable to an unrelated party due on September 22, 2010, with interest at 15% per annum		1,000,015
Total	$	4,388,033

NOTE 11. DUE TO STOCKHOLDERS

Due to stockholders consist of non-interest bearing notes due in July 2010. All notes were converted to common stock on March 29, 2010. See note 18.

NOTE 12. STOCK INCENTIVE PLAN

The Company adopted the Apollo Solar Energy, Inc. Stock Incentive Plan pursuant to which the Company may issue up to 6,675,000 shares of the Company's common stock. The plan administrator has the authority, in its sole discretion, to determine the type or types of award including, but not limited to, Incentive Stock Options, Non Qualified Stock Options, Performance Options, Performance Stock Awards, and Restricted Stock Awards.

The exercise price of Incentive Stock Options cannot be less than the fair market value of the Common Stock on the date of grant. The term of Options granted under the plan is established by the plan administrator, or if not established is 10 years.

During the year ended December 31, 2009, the Company issued 750,000 options to an employee and 80,000 options to directors.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options. The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award.

The key assumptions for the Black-Scholes valuation method include the expected life of the option, stock price volatility, a risk-free interest rate, and dividend yield. Many of these assumptions are judgmental and highly sensitive. Following is a table of the weighted-average Black-Scholes value of our stock option grants, and the key weighted-average assumptions used in the valuation calculations for the options granted.

Weighted-average Black-Scholes value	
Black-Scholes Assumptions:	$4.69
Expected lives	4.9 years
Expected volatility	40%
Risk-free interest rate	2%
Dividend yield	-

A summary of option activity under the Stock Incentive Plan as of December 31, 2008 and 2009, and changes during the years then ended is as following:

A summary of the status of nonvested shares as of December 3, 2009 and changes during the year ended December 31, 2009 is as following:

As of December 31, 2009, there was $2,153,590 of total unrecognized compensation cost related to nonvested stock option granted under the Stock Incentive Plan. That cost is expected to be recognized over a weighted-average period of 1.1 years.

NOTE 13. TAXES

Corporation income tax

The Company is governed by the Income Tax Law of the PRC concerning the privately run and foreign invested enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments.

On July 16, 2009, the Company got the government approval on the High-Tech Enterprise Certificate which allows the Company to enjoy favorable tax rate of 15% effective January 1, 2009 till December 31, 2011.

On March 16, 2007, the National People's Congress of China approved the Corporate Income Tax Law of the People's Republic of China, which is effective from January 1, 2008. Under the new law, the corporate income tax rate applicable to all Companies, including both domestic and foreign-invested companies, will be 25%, replacing the old tax rate of 33%.

The comparison of income tax expense at the U.S. statutory rate of 35% in 2009, 2008 and 2007, to the Company's effective tax rate is as follows:

	December 31		
	2009	2008	2007
U.S. statutory rate a +35%	$(115,750)	(80,725)	-
Tax rate difference between China and U.S.	(469,693)	(23,064)	-
GAAP and Chinese tax law difference on amortization of intangibles	1,245,584	244,340	-
Net loss carryforward from prior period	(77,293)	(85,950)	-
Valuation allowance			-
Effective tax rate	$584,853	212,051	-

The provisions for income taxes are summarized as follows:

	As of December 31,		
	2009	2008	2007
Current	$165,754	237,465	$-
Deferred	419,099	(25,414	-)
Total	$584,853	212,051	$-

The tax effects of temporary differences that give rise to the Company's net deferred tax asset as of December 31, 2009 and 2008 are as follows:

	2009	2008
Deferred tax assets		
Inventory markdown	$58,482	36,865
Bad debt expense	66,448	3,599
Depreciation	73,376	
Other	12,107	
Net loss carried forward	1,492,592	245,008
Gross deferred tax assets	1,703,005	285,472
Valuation allowance	(1,492,592)	(245,008
Net deferred tax assets	210,413	40,464
Deferred tax liabilities		
Depreciation & amortization	-	(12,581
Gain on investment in Joint Venture	596,627	-
Others	7,502	(2,469
Deferred tax liabilities	604,129	(15,050
Net deferred tax assets (liabilities)		

Value added tax ("VAT")

Enterprises or individuals who sell commodities, engage in repair and maintenance or import or export goods in the PRC are subject to a value added tax in accordance with the PRC laws. The value added tax standard rate is 17% of the gross sales price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on the sales of the finished products.

As of December 31, 2009, 2008 and 2007, the Company had VAT tax payable of $87,419, $494,387 and $0, respectively.

NOTE 14. PRC STATUTORY RESERVES

In accordance with the PRC Companies Law, the Company was required to transfer 10% of its profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve. The statutory surplus reserve is non-distributable. As of December 31, 2009, 2008 and 2007, the Company did not accumulate any statutory reserve due to the accumulated deficit.

NOTE 15. BUSINESS SEGMENTS

For the year ended December 31, 2009:

	Manufacturing	Refining	Exploration	Corporate & Others	Consolidated Total
Revenue	$ -	$ 7,813,605	$ -	$ -	$ 7,813,605
Operating profit (loss)	(1,459,164)	278,453	(140,458)	(1,530,125)	(2,851,294)
Depreciation and amortization	268,816	682,170	27,177		978,163
Capital expenditures	1,046,331	204,250	239,248		1,489,829
Assets	19,101,558	12,779,417	2,233,109	20,456	34,134,540

For the year ended December 31, 2008

	Manufacturing	Refining	Exploration	Corporate and Other	Consolidated Total
Revenue	$ -	$6,968,430	$94,485	$(94,485)	$ 6,968,430
Operating profit (loss)	(610,606)	1,209,850	(164,175)	(146,652)	288,417
Depreciation and amortization	323,471	123,694	10,572	-	457,737
Capital expenditures	7,963,456	839,319	142,335	-	8,945,110

For the year ended December 31, 2007

	Manufacturing	Refining	Consolidated Total
Revenue	$ -	$2,003,788	$ 2,003,788
Operating profit (loss)	(244,318)	738,240	493,922
Depreciation and amortization	225,186	84,906	310,092
Capital expenditures	5,938,762	609,661	6,548,423

NOTE 16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the consolidated results of operations from continuing operations for the fiscal years ended December 31, 2009, 2008 and 2007 (data in dollars, except per share data):

	Net Sales	Gross Profit	Net Income (loss)	Basic Earnings Per Share	Diluted Earnings Per Share
Fiscal Year Ended December 31, 2009					
First Quarter	$ 2,308,619	496,932	$ (655,331	$ (0.01)	$ (0.01)
Second Quarter	1,681,755	394,165	(463,058	(0.01)	(0.01)
Third Quarter	2,289,669	665,253	(485,945	(0.01)	(0.01)
Fourth Quarter	1,533,562	244,755	2,344,562	0.06	0.05
Fiscal Year	$ 7,813,605	1,801,105	$ 740,229	$ 0.03	$ 0.02
Fiscal Year Ended December 31, 2008					
First Quarter	$ 1,909,707	792,212	$ 475,369	$ 0.01	$ 0.01
Second Quarter	1,135,466	154,248	(242,341	(0.01)	(0.01)
Third Quarter	892,400	176,237	(214,458	(0.00)	(0.00)
Fourth Quarter	3,125,342	694,789	21	0.00	0.00
Fiscal Year	$ 7,062,915	1,817,487	$ 18,592	$ 0.00	$ 0.00
Fiscal Year Ended December 31, 2007					
First Quarter	$ 85,234	30,588	$ (55,082	$ 0.00	$ 0.00
Second Quarter	31,404	11,696	(94,463	0.00	0.00
Third Quarter	662,564	248,221	162,314	0.00	0.00
Fourth Quarter	1,224,586	398,281	481,153	0.01	0.01
Fiscal Year	$ 2,003,788	688,786	$ 493,922	$ 0.01	$ 0.01

NOTE 17. CONCENTRATIONS

For the years ended December 31, 2009, one major customer accounted for approximately 83% of total sales. At December 31, 2009, the two customers accounted for 39% and 35% of the total accounts receivable outstanding, respectively.

For the years ended December 31, 2008, three major customers accounted for 33%, 18% and 10% of total sales, respectively. At December 31, 2008, the two customers accounted for 58%, and 36% of the total accounts receivable outstanding, respectively.

For the year ended December 31, 2007, two major customers accounted for 54% and 23% of total sales, respectively.

For the years ended December 31, 2009, 87% of sales were made to customers in North America and 13% of sales were made to customers in Asia.

For the years ended December 31, 2008, 38% of sales were made to customers in North America and 62% of sales were made to customers in Asia.

NOTE 18. VULNERABILITY DUE TO OPERATIONS IN PRC

The Company’s operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than twenty years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRCs political, economic and social conditions. There is also no guarantee that the PRC government’s pursuit of economic reforms will be consistent or effective.

Substantially all of the Company’s businesses are transacted in RMB, which is not freely convertible. The Peoples Bank of China or other banks are authorized to buy and sell foreign currencies at the exchange rates quoted by the Peoples Bank of China. Approval of foreign currency payments by the Peoples Bank of China or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

Since the Company has its primary operations in the PRC, the majority of its revenues will be settled in RMB, not USD. Due to certain restrictions on currency exchanges that exist in the PRC, the Company’s ability to use revenue generated in RMB to pay any dividend payments to its shareholders outside of China may be limited.

The Company's business depends on maintaining licenses of its current products from the Chinese government. Failure to obtain the necessary licenses when needed can cause the Company’s business plan to be delayed.

In September 2006, the PRC changed the laws regarding transfer of equity in PRC companies in exchange for equity in non-PRC companies. Approvals and registrations for such transfers are required and penalties may be imposed if the requirements are not met.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk are primarily cash and cash equivalents.

NOTE 19. COMMITMENT AND CONTINGENCIES

On November 20, 2009, Sichuan Apollo entered into common stock pursuant agreement (the “Purchase Agreement”) with Bengbu Design & research Institute for Glass Industry (“Bengbu”) pursuant to which the Company agreed to issue 9,000,000 shares of its common stock (“Common Stock”) for an aggregate purchase price of US$9,000,000. The Purchase Agreement contains customary representations, warranties and covenants. The closing of the private placement is expected to take place in the near future, although there can be no assurance that the transaction will be completed on the proposed terms or at all. Each party’s obligation to complete the transaction remains subject to the satisfaction or waiver of various conditions.

NOTE 20. SUBSEQUENT EVENTS

On March 28, 2010, certain existing Company stockholders entered into a Cancellation of Debt and Conversion Agreement with the Company pursuant to which each such stockholder agreed to convert aggregate loans to the Company in the amount of $6,925,329 held by such stockholders into shares of the Company’s common stock at a price per share of $1.60.

The Company has reviewed subsequent event through March 31, 2010 and no additional material subsequent events occurred through that date.