APOLLO SOLAR ENERGY, INC.
Form 10-Q
August 16, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from __________ to ____________

Commission File Number: 000-12122

Apollo Solar Energy, Inc.

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	84-0601802 (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: +86 755 2580 1888

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 oNo 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.

Large accelerated filer o Accelerated filer ý
Non-accelerated filer o Smaller reporting company o
(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

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

APOLLO SOLAR ENERGY, INC.

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For the Quarterly Period Ended June 30, 2010

ITEM 1. Financial Statements

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$354,299	$507,776
Account receivable net of allowance for doubtful accounts $409,751 and $404,678, respectively	416,255	164,093
Inventories	7,751,673	7,944,740
Due from related parties	4,411,271	3,652,756
Prepaid expenses and other sundry current assets	772,804	583,826
Total current assets	13,706,302	12,853,191
Property, machinery and mining assets, net	21,908,168	21,048,231
Non-marketable investment	45,479	43,943
Investment in joint venture	189,206	189,175
Total other assets	22,142,854	21,281,349
Total Assets	$35,849,154	$34,134,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term loan	3,853,165	4,388,033
Account payable - trade	521,099	283,689
- Construction vendors	2,516,650	2,764,464
Accrued expenses, taxes and other sundry current liabilities	2,011,371	1,239,674
Deferred taxes liability	318,191	393,716
Due to shareholders	-	5,839,869
Total current liabilities	9,220,477	14,909,445
Shareholders' equity		
Perferred stock, $.001 par value,25,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2010 and December 31, 2009		
Common stock, $.001 par value, 100,000,000 shares authorized, 50,133,462 and 44,555,131 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	50,133	44,555
Additional paid-in capital	28,553,660	19,192,138
Accumulated deficit	(3,396,107)	(1,298,792)
Accumulated other comprehensive income	1,420,991	1,287,194

Total shareholders' equity	26,628,677	19,225,095
Total Liabilities And Shareholders' Equity	$35,849,154	$34,134,540

The accompanying notes are an aggreate part of the financial statements

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE (LOSS)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Sales	$ 1,501,919	$ 1,681,755	$ 2,575,965	$ 3,990,374
Cost of sales	(1,258,220)	(1,287,590)	(2,097,459)	(3,099,278)
Gross profit	243,699	394,165	478,505	891,096
Operating Expenses				
General and adminstrative expenses	787,829	656,621	1,922,936	1,625,216
Selling expenses	44,218	51,220	116,337	121,717
Research and development expenses	343,531	38,944	353,110	49,962
Total Operating Expenses	1,175,578	746,785	2,392,384	1,796,895
Operating Loss	(931,879)	(352,620)	(1,913,879)	(905,800)
Interest expenses	(79,123)	(98,771)	(183,436)	(189,103)
Loss before income taxes	(1,011,002)	(451,391)	(2,097,315)	(1,094,903)
Provision for income taxes	-	11,667	-	23,488
Net loss	$ (1,011,002)	$ (463,058)	$ (2,097,315)	$ (1,118,391)
Other Comprehensive Income (Loss)				
Foreign Currency Translation Adjustment	$ 7,830	$ (6,270)	$ 133,797	$ (35,199)
Comprehensive loss	$ (1,003,172)	$ (469,328)	$ (1,963,517)	$ (1,153,590)
Basic and Diluted Loss per common share				
Basic	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.03)
Diluted	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.03)
Weighted average common share outstanding				
Basic	48,723,554	44,555,131	46,743,316	44,555,131
Diluted	48,723,554	44,555,131	46,743,316	44,555,131

The accompanying notes are an aggreate part of the financial statements

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APOLLO SOLAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities		
Net loss	$(2,097,314)	$(1,118,390)
Adjustments to reconcile net income to net cash (used in) operating activities:		
Stock-based compensation	437,960	373,262
Depreciation	458,161	598,367
Deferred tax assets	(78,170)	9,418
Changes in assets and liabilities:		
(Increase) decrease in -		
Account receivable-trade	(249,430)	(287,821)
Inventories	244,843	213,263
Prepaid expenses and other sundry current assets	274,672	295,005
Account payable-trade	233,976	(301,101)
Accounts payable - construction	(264,657)	(50,469)
Accrued expenses and other sundry currenty liabilities	598,895	(38,919)
Net cash provided used in operating activities	(441,064)	(307,385)
Cash flows from investing activities		
Non-marketable investment	-	(43,904)
Payment for research project	(300,000)	-
Purchase of property and equipment, net	(1,092,088)	(1,011,214)
Government subsidy to purchase of Fixed Assets	-	2,019,579
Acquisition of land use rights	-	(3,673,545)
Acquisition of extraction rights and other properity and equipment	(79,938)	-
Net cash used in investing activities	(1,472,026)	(2,709,084)
Cash flows from financing activities		
Proceeds from short-term loans, net of payment of short-term loans	439,513	1,956,358
Proceeds from shareholder loan	2,000,000	-
Payment shareholder loan	(1,493)	(3,202,661)
Advance to related party	(679,762)	(361,671)
Net cash provided by (used in) financing activities	1,758,258	(1,607,974)
Effect of exchange rate changes on cash and cash equivalents	1,353	(6,284)
Net decrease in cash and cash equivalents	(153,478)	(4,630,727)
Cash and cash equivalents, beginning of year	507,776	4,874,044
Cash and cash equivalents, end of period	$354,298	$243,318

Supplemental disclosures of cash flow information:

Interest paid	$114,536	$5,163
Income taxes paid	$93,290	$9,862

The accompanying notes are an aggregate part of the financial statements

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APOLLO SOLAR ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Apollo Solar Energy, Inc. (the "Company) reflect all material adjustments consisting of only normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual report on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and those estimates. Estimates that are particularly susceptible to change include assumptions used in determining the fair value of securities owned and non-readily marketable securities.

The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the entire year or for any other period.

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. 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 Mining 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 Mining Business for a specified period of time. As a result, we consolidate the financial results of the VIE related to the Mining Business.

NOTE 3. 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.

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 mining 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 mines, 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 mining 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 six months ended June 30, 2010 and 2009, 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 mining segment or manufacturing segment.

Recently issued accounting pronouncements

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company does not expect the adoption of this ASU to have a material impact on its financial statements.

In December, 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU to have a material impact on its financial statements.

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company does not expect the adoption of this ASU to have a material impact on its financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company does not expect the adoption of this ASU to have a material impact on its financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its financial statements.

NOTE 4. DUE FROM RELATED PARTIES

The breakdown of due from related parties consists of the following:

	As of	
	June 30, 2010	December 31, 2009
Due from Xinju	$ 4,315,947	$ 3,477,719
Due to JV-Chenggu Zhong Guandian	14,655	175,037
Total	$ 4,411,271	$ 3,652,756

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 6). All the above loans are non-interest bearing and due on demand.

NOTE 5. 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 6. 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 June 30, 2010 the JV have 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 agreed to 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 agreed to 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. In addition, as of June 30, 2010, no additional assets were transfered to JV. 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 7. SHORT-TERM LOAN

The short-term loan includes the following::

	Balance at	
	June 30, 2010	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	$609,018	$604,951
b) Loan payable to Bank of Communication, Chengdu branch due on February 8, 2011, with interest at 6.64% per annum, collateralized by the buildings and land use right of Diye	294,902	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 the buildings of Sichuan Apollo	737,311	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 the buildings of Sichuan Apollo	737,311	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 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

g) Loan payable to Bank of China, Xihanggang Branch, Chengdu		
due on January 19,2011 with interest at		
5.84% per annum, collateralized by the the buildings of Sichuan Apollo	1,474,622	-
	$3,853,164	$4,388,033

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NOTE 8. 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.

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	2 years
Expected volatility	40%
Risk-free interest rate	2%
Dividend yield	-

The following is a summary of the Company's stock option activity and related information for its option plan for the six months ended June 30, 2010.

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2009	830,000	$ 0.96	
Granted	-	-	
Exercised	-	-	
Forfeited	(312,500)	0.82	
Outstanding at June 30, 2010	517,500	.10	9 years
Exercisable at June 30, 2010	517,500	$ .10	9 years

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NOTE 9. 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.

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.

NOTE 10. 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 June 30, 2010 and December 31, 2009 , the Company did not accumulate any statutory reserve due to the accumulated deficit.

NOTE 11. BUSINESS SEGMENTS

For the six months ended June 30, 2010,

	Manufacturing	Refining	Mining	Corporate & Others	Consolidated Total
Revenue	$ -	$ 2,532,278	$ 43,687	$ -	$ 2,575,975
Operating loss	(438,539)	(482,798)	(83,148)	(909,394)	(1,913,879)
Depreciation and amortization	270,799	173,585	13,777		458,161
Capital expenditures	(63,815)	-	(79,938)	-	(143,753)
Total Assets	21,942,759	13,027,703	550,607	328,085	35,849,154

For the six months ended June 30, 2009,

	Manufacturing	Refining	Mining	Corporate & Others	Consolidated Total
Revenue	$ -	$ 3,990,374	$ -	$ -	$ 3,990,374
Operating loss	(372,329)	178,444	(43,522)	(668,393)	(905,799)
Depreciation and amortization	240,849	344,079	13,439		598,367
Capital expenditures	2,413,269	149,540	102,371		2,665,180

Total Assets	22,275,758	11,357,296	2,160,418	146,325	35,939,797

NOTE 12. CONCENTRATIONS

For the six months ended June 30, 2010, three major customers accounted for approximately 69% of total sales. At June 30, 2010, one customer accounted for 85% of total accounts receivable outstanding, respectively.

For the six months ended June 30, 2009, one major customer accounted for 84.3% of total sales.

For the six months ended June 30, 2010, 27.7 % of sales were made to customers in North America and 72.3% of sales were made to customers in Asia.

For the six months ended June 30, 2009, 6.2% of sales were made to customers in North America and 93.8% of sales were made to customers in Asia.

NOTE 13. JOINT TECHNOLOGY

On March 16, 2010 (the “Effective Date”), the Company entered into a Joint Research Agreement (the “Agreement”) with the New Jersey Institute of Technology (the “NJIT”) pursuant to which the Company agreed to pay NJIT sponsorship funds in an aggregate amount of $1,500,000, to be delivered in three equal installments within 15 days of each of the Effective Date, the first anniversary of the Effective Date, and the second anniversary of the Effective Date. Under the terms of the Agreement, the NJIT will provide certain laboratory instruments, equipment and personnel to develop novel CdTe thin film PV technology (the “Project”), and will deliver bi-annual reports to the Company regarding the Projects during the term of the Agreement. The NJIT granted to the Company an exclusive option and right of first refusal to receive a royalty-bearing license to any intellectual property rights the NJIT may have related to the Project, which license will be on commercially reasonable terms, as negotiated in good faith by the parties. The NJIT also granted to Company a right of first refusal to enter into negotiations with the NJIT regarding the creation of a separate business entity for the purpose of commercializing any intellectual property resulting from the Project. The Agreement will remain in effect for a period of three years, unless earlier terminated by either the Company or the NJIT upon 30 days prior written notice.

As of June 30, 2010, the Company has made a payment of US$300,000 sponsorship fund to NJIT. $125,000 was recorded as Research & Development cost for the six months ended June 30, 2010.

NOTE 14. 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 15. 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.

As of June 30, 2010, the parties to the Bengbu Agreement were still working to obtain such government authorizations necessary to complete the transaction. There can be no assurance that the transaction will be completed on the proposed terms or at all.

NOTE 16. SHAREHOLDER LOAN CONVERSION

On April 23, 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 $8,925,329 held by such stockholders into an aggregate of 5,578,330 shares of the Company's common stock at a price per share of $1.60.

ITEM 2. 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-Q and in our Annual Report on Form 10-K filed on March 31, 2010, as amended by Amendment No. 1 to our Annual Report on Form 10-K, filed on April 30, 2010. 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.

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 wholly-owned Dashuigou mine located in Sichuan Province, PRC. In addition we source tellurium from another mine in Shimian, Majiagou, PRC, through variable interest entity agreements, or the 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 mine, or the VIE Arrangement, in accordance with a license granted by the Chinese government, which extends through January, 2013, 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 mines 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 Dashuigou and Majiagou mines and believe this ability to be a significant competitive advantage because the cost of tellurium sourced from our own mines 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 mines 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 believe we are unique in that we expect to both mine and refine of 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 with 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, 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, we 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 mine and the mining rights related to that certain tellurium and bismuth mine in Shimian Majiagou, which rights we collectively referred to as the Mining 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 Mining Business for a specified period of time. As a result, we consolidate the financial results of the VIE related to the Mining 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.

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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 Mining 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 Mining 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 Mining 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 Mining Business, on such terms as the parties shall agree from time to time.

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 exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are 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 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 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. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. At June 30, 2010 and December 31, 2009, the Company has an allowance for doubtful accounts of $409,751 and $404,678 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.

Results of Operations

The following table sets forth certain information from our condensed consolidated statements of income and comprehensive income for the six months ended June 30, 2010 and 2009 (unaudited) and for the three months ended June 30, 2010 and 2009 (unaudited):

	Six months Ended June 30,		Three months Ended June 30,	
	2010	2009	2010	2009
Sales	$ 2,575,965	$ 3,990,374	$ 1,501,919	$ 1,681,755
Cost of Sales	2,097,459	3,099,278	1,258, 220	1,287,590
Gross profit	478,505	891,096	243,699	394,165
Operating Expenses				
General and administrative expenses	1,922,936	1,625,216	787,829	656,621
Selling expenses	116,337	121,717	44,218	51,220
Research and development expenses	353,110	49,962	343,531	38,944
Total Operating Expenses	2,392,384	1,796,895	1,175,578	746,785
Operating Loss	(1,913,879)	(905,800)	(931,879)	(352,620)
Interest expenses	(183,436)	(189,103)	(79,123)	(98,771)
Provision for income taxes		23,488		11,667
Net Loss	$ (2,097,315)	$ (1,118,391)	$ (1,011,002)	$ (463,058)

As a Percentage of Sales				
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	81.4%	77.7%	83.8%	76.6 %
Gross profit	18.6%	22.3%	16.2%	23.4%
Expenses				
General & administrative expenses	74.6%	40.7%	52.5%	39.0 %
Selling expenses	4.5%	3.1%	2.9%	3.0 %
Research and development expenses	13.7%	1.2%	22.9%	2.3 %
Total operating expenses	92.8%	45.0%	78.3%	44.3 %
Net Loss	(81.4%)	(28.0%)	(67.3%)	(27.5) %

Three Months Ended June 30, 2010 and 2009

Sales

Sales for the three months ended June 30, 2010 were $1,501,919, compared to the sales of $1,681,755 in the same period in 2009. This decrease of 10.7% was primarily attributable to the global financial crisis and the long lead time of our products. Due to the financial crisis, a significant number of our customers did not place orders as planned at the second half of last year, and the long lead time cause a long period of time between the date we received the orders and the time we ship the goods and recognize the revenue. As such, our business volume was reduced for the three months ended June 30, 2010. In addition, the Company's tighter credit policy to customers and the high degree of concentration on certain customers in the past also contributed to the drop of sales for the three months ended June 30, 2010.

Cost of sales

Cost of sales for the three months ended June 30, 2010 was $1,258,220, compared to the cost of sales of $1,287,590 for the period ended June 30, 2009. The decrease in dollar amount was 2.3% and was due to the decrease of sales offset price increase of raw materials.

Gross profit

Gross profit for the three months ended June 30, 2010 was $243,699, compared to the gross profit of $394,165 for the period ended June 30, 2009. This represented a decrease of $150,466, or 38.2%, compared to the same period of 2009, which was due to the decrease of sales offset increase of raw materials costs. The gross profit margin for the three months ended June 30, 2010 was 16.2%, compared to that of 23.4% in the same period of 2009. Gross profit margin decreased as price of raw materials increased.

Selling and marketing expenses

For the three months ended June 30, 2010, selling and marketing expenses were $44,218, compared to $51,220 for the same period ended June 30, 2009, representing an decrease of 13.7% in line with decrease of sales. In March, 2010 a new marketing manager was hired who had experience with international sales and in June, 2010 a new technical advisor was also hired who will be helpful in seeking new customers.

General and administrative expenses

We incurred general and administrative expenses of $787,829 for the three months ended June 30, 2010, compared to that of $656,621 in the same period of 2009, representing an increase of 20.0%. The increase was primarily due to the growth in salary and overseas travelling expense as company is pursuing overseas expansion, conference expense and board of directors meeting expenses.

Research and development expenses

For the three months ended June 30, 2010, we incurred R&D expenses of $343,531, compared to $38,944 for the three months ended June 30, 2009. This represents a increase of 782.1% with the percentage of research and development expenses took of sales has increased from 2.3% to 22.9%. The increase of absolute amount of spending on research and development expenses was due to investment of total $1.5 million in next 3 years to NJIT to set up a joint Apollo CdTe research center. We are committed to the improvement of product quality and the development of new products. We expect to continue to invest in R&D to ensure our products are of high quality and remain competitive.

Net income/loss

For the three months ended June 30, 2010 we had a net loss of $1,011,002, compared to net loss of $463,058 for the three months ended June 30, 2009. The main reason for decrease in net income in the three months ended June 30, 2010 was a decrease in sales and an increase in costs, primarily in general and administrative expenses.

Six Months Ended June 30, 2010 and 2009

Sales

Sales for the six months ended June 30, 2010 were $2,575,965, compared to the sales of $3,990,374 in the same period in 2009. This decrease of 35.4% was primarily attributable to the global financial crisis and the long lead time of our products. Due to the financial crisis, a significant number of our customers did not place order as planned at the second half of last year, and the long lead time cause a long period of time between the date we received the orders and the time we ship the goods and recognize the revenue. As such, our business volume was reduced for the three months ended June 30, 2010. In addition, our tighter credit policy to customers and the high degree of concentration on certain customers in the past also contributed to the drop of sales for the three months ended June 30, 2010.

Cost of sales

Cost of sales for the six months ended June 30, 2010 was $2,097,459, compared to the cost of sales of $3,099,278 for the period ended June 30, 2009. The decrease in dollar amount was 32.3% and was due to the decrease of sales and price increase of raw materials.

Gross profit

Gross profit for the six months ended June 30, 2010 was $478,505, compared to the gross profit of $891,096 for the period ended June 30, 2009. This represented a decrease of $412,591, or 46.3%, compared to the same period of 2009, which was due to the decrease of sales and increase of raw materials. The gross profit margin for the three months ended June 30, 2010 was 18.6%, compared to that of 22.3% in the same period of 2009. Profit margin decreased as price of raw materials increased.

Selling and marketing expenses

For the six months ended June 30, 2010, selling and marketing expenses were $116,337, compared to $121,717 for the same period ended June 30, 2009, representing a decrease of 4.4%. In March, 2010 a new marketing manager was hired who had experience with international sales and in June, 2010 a new technical advisor was also hired who will be helpful in seeking new customers.

General and administrative expenses

We incurred general and administrative expenses of $1,922,936 for the six months ended June 30, 2010, when compared to that of $1,625,216 in the same period of 2009, representing an increase of 18.3%. The increase was primarily due to the growth in salary and overseas travelling expense as we pursue overseas expansion to build a Apollo CdTe research center with NJIT, and conference expenses and board of directors meeting expenses.

Research and development expenses

For the six months ended June 30, 2010, we incurred R&D expenses of $353,110, compared to $49,962 for the six months ended June 30, 2009. This represents an increase of 606.8% with the percentage of research and development expenses took of sales has increased from 1.2% to 13.7%. The increase of absolute amount of spending on research and development expenses was due to investment of a total of $1.5 million over the next three years to NJIT to set up a joint Apollo CdTe research center. We are committed to the improvement of product quality and the development of new products. We expect to continue to invest in R&D to ensure our products are of high quality and remain competitive.

Net income/loss

For the six months ended June 30, 2010 we had a net loss of $2, 097,315, compared to net loss of $1,118,391 for the six months ended June 30, 2009. The main reason for decrease in net income in the six months ended June 30, 2010 was a decrease in sales and an increase in costs, primarily in general and administrative expenses.

Liquidity and Capital Resources

Our summary cash flow information is as follows:

	Six Months Ended June 30,	
	2010	2009
Net cash (used in) provided by operating activities	$(441,064)	$(307,385)
Net cash (used in) provided by investing activities	(1,472,026)	(2,709,084)
Net cash provided by (used in) financing activities	1,758,258	(1,607,974)
Effect of exchange rate changes on cash	1,353	(6,284)
Net increase (decrease) in cash	$(153,478)	$(4,630,727)
Cash at beginning of period	507,776	4,874,044
Cash at end of period	$354,298	$243,318

Net cash (used in) provided by operating activities.

Net cash used in operating activities for the six months ended June 30, 2010 was $441,064, compared to net cash used in operating activities of $307,385 in the same period in 2009. Cash used in operating activities was accounted for by an increase in accounts receivable of $249,430, an decrease in inventory $244,843, an decrease in advance for purchases of $149,672, a decrease in the other payable of $233,976, and a decrease in accrued expenses of $598,895.

For the six months ended June 30, 2009, Cash provided by operating activities was accounted for by a increase in accounts receivable of $287,821, a decrease in inventory $213,263, a decrease in prepaid expenses of $295,005, an increase in the advance for purchases of $301,101, and an increase in accounts payable of $50,469.

Net cash (used in) investing activities.

Net cash used in investing activities for the six months ended June 30, 2010 and 2009 was $1,472,026 and $2,709,084, respectively. For the six months ended June 30, 2010, the cash used in investing activities primarily consisting of the additional investment of $300,000 in Company’s investment in NJ research center and Refund of overpayment on purchase of property and equipment of $1,092,088. In the first quarter of 2009, we received $2,019,579 in government subsidies from the PRC in connection with our successful listing as a public company in the United States. These subsidies are treated as offsets to their relevant asset classes and will reduce depreciation in future periods.

Net cash (used in)/provided by financing activities.

Net cash provided by financing activities for the six months ended June 30, 2010 was $1,758,258, mainly consisting of the significant $439,513 cash inflow from short term bank loans, and $2,000,000 net cash inflow from loan from shareholders.

Net cash used in financing activities for the six months ended June 30, 2009 was $1,607,974, constituting the repayment of shareholder loans of $3,202,661 and payments to related party of $361,671, and net of the proceeds from a short-term loan of $1,956,358.

We believes that our cash flows generated internally will be sufficient to sustain operations and repay short term bank loans for the next twelve month.

Contractual obligations

The following table describes our contractual commitments and obligations as of June 30, 2010:

	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	$ -	$ -	$ ----	$ —	$ —
Short term debt	$ 3,853,165	$ 3,853,165	$ —	—	—
	$ 3,853,165	$ 3,853,165	$ —	$ —	$ —

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 Increase

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 exchange rates: 1:6.8331 for the six months ended June 30, 2009 and 1:6.8257 for the six months ended June 30, 2010. Our operating results in the past have benefited as a result of appreciation of the RMB against the U.S. dollar. 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.

Future Capital Expenditures

On April 10, 2009, we signed the VIE Agreements to acquire the exploration rights of the Dashuigou area and the mining rights of the Majiahou mine. We expect to invest in exploration, mining equipment, and refinery facility 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 additional 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.

ITEM 3. 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. 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 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

(b) Changes in Internal Controls

There were no changes in our internal control over financial reporting during the six months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting, except those disclosed above.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

In addition to other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our Annual Report on Form 10-K filed on March 31, 2010, as amended by Amendment No. 1 to our Annual Report on Form 10-K, filed on April 30, 2010 for our 2009 fiscal year. There have been no material changes to the “Risk Factors” previously disclosed in our Annual Report on Form 10-K.

ITEM 6. EXHIBITS

Index to Exhibits

The following exhibits are filed as a part of this Report.

			Incorporated by Reference			
Exhibit No	Exhibit Title	Filed Herewith	Form	Exhibit No.	File No.	Filing Date
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	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				

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Apollo Solar Energy, Inc.
Date: August 16, 2010	By: /s/ Renyi Hou Renyi Hou Chief Executive Officer
Date: August 16, 2010	By: /s/ Wilson W. Liu Wilson W. Liu Chief Financial Officer