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

FORM 10-K
(Amendment No. 2)

(Mark One)

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from __________ to __________

Commission file number: 01-31937

SHENGDATECH, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**26-2522031** (I.R.S. Employer Identification No.)

Unit 2003, East Tower, Zhong Rong Heng Rui International Plaza,
620 Zhang Yang Road, Pudong District, Shanghai 200122
People's Republic of China

(Address of Principal Executive Offices)

86-21-58359979 (Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	**Name of Each Exchange on Which Registered**
Common Stock, par value $.00001	The NASDAQ Global Select Market

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 ☐ No ☑

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 ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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. ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):
Yes ☐·No ☑

The aggregate market value of the 28,114,324 shares of voting and non-voting common equity stock held by non-affiliates of the registrant was $105,428,715 as of June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, based on the last sale price of the registrant's common stock on such date of $3.75 per share, as reported by The NASDAQ Stock Market, Inc.

As of March 15, 2010, there were 54,202,036 shares of common stock of ShengdaTech, Inc. outstanding.

Explanatory Note

This amendment no. 2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 is filed in response to comments in the letter dated August 11, 2010 received by the Company from the U.S. Securities and Exchange Commission.

SHENGDATECH, INC.
(A Nevada Corporation)

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PART I

Item 1. Business

Overview

We are a leading and fast growing Chinese manufacturer of specialty additives. Our nano precipitated calcium carbonate ("NPCC") products are used as functional additives and fillers in a broad array of products due to their low cost and the overall improved chemical and physical attributes they provide to end products. As a market leader of high-grade NPCC products, we deploy advanced processing technology to convert limestone into high quality NPCC products, which are sold to our customers in the tire, polyvinyl chloride ("PVC") building materials, polypropylene ("PP") building materials, ink, paint, latex, adhesive, paper and polyethylene ("PE") industries.

Prior to November 2008, we also manufactured, marketed and sold coal-based chemical products, namely, ammonium bicarbonate, liquid ammonia, methanol and melamine. We marketed and sold coal-based chemical products mainly as chemical fertilizers and raw materials for the production of organic and inorganic chemical products, including formaldehyde and pesticides. On June 16, 2008, the Tai'an City Government, as part of China's strengthening of environmental law enforcement reform, issued a notice directing Bangsheng Chemical Facility, our coal-based chemical facility in Tai'an City, to cease production due to the close proximity of our facility to residential and non-manufacturing business properties. In accordance with the Tai'an City Government's notice, we ceased production at our Bangsheng Chemical Facility on October 31, 2008. As a result, we recorded an impairment charge of approximately $3.9 million for Bangsheng Chemical Facility equipment in the fourth quarter of 2008. We do not believe there is additional impairment of assets in 2009. In December 2009, the Company decided to discontinue our operations at Bangsheng Chemical Facility and to sell all of its operating assets and inventory. Although we discontinued the Bangsheng coal-based chemical operations, the Company is currently seeking other strategic opportunities in the chemical business.

Our Reorganization and Corporation Structure

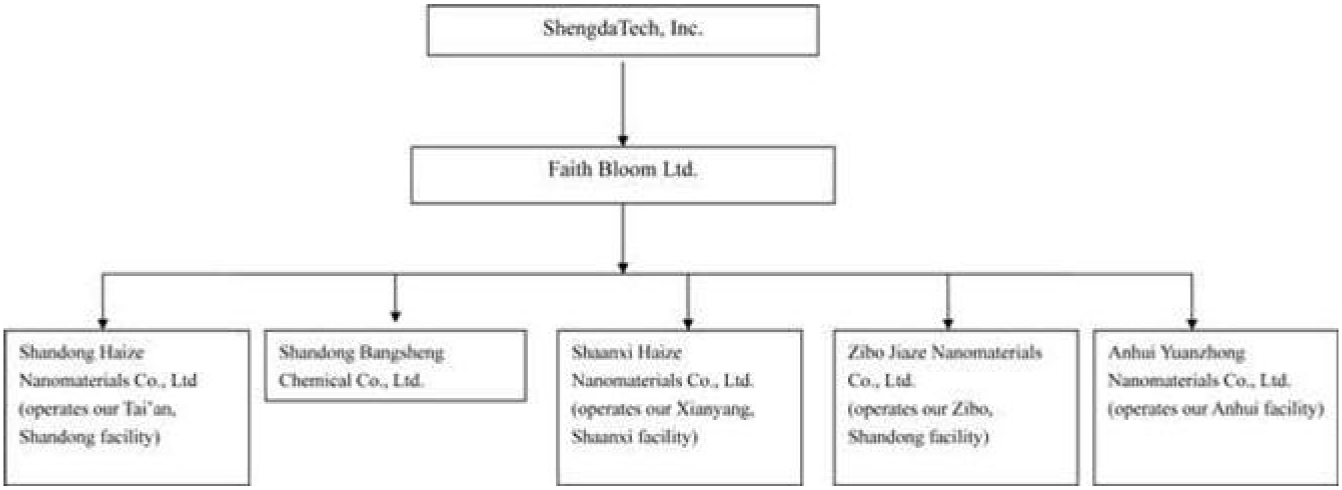
We were organized as a Nevada corporation on May 11, 2001 under the name Zeolite Exploration Company for the purpose of acquiring, exploring and developing mineral properties. We conducted no material operations from the date of our organization until March 2006. On March 31, 2006, we consummated a share exchange pursuant to a Securities Purchase Agreement and Plan of Reorganization with Faith Bloom Limited, a British Virgin Islands company, and its stockholders. As a result of the share exchange, we acquired all of the issued and outstanding capital stock of Faith Bloom in exchange for a total of 50,957,603 shares of our common stock. The share exchange is accounted for as a recapitalization of Zeolite and resulted in a change in our fiscal year end from July 31 to December 31. Faith Bloom Limited was deemed to be the accounting acquiring entity in the share exchange and, accordingly, the financial information included in this annual report reflects the operations of Faith Bloom, as if Faith Bloom had acquired us.

Faith Bloom was organized on November 15, 2005 for the purpose of acquiring from Eastern Nanomaterials Pte. Ltd., a Singapore corporation, all of the capital shares of Shandong Haize Nanomaterials Co., Ltd and Shandong Bangsheng Chemical Co., Ltd., which are Chinese corporations engaged in the manufacture, marketing and sales of a variety of NPCC products and coal-based chemicals for use in various applications. On December 31, 2005, Faith Bloom acquired all of the capital shares of Shandong Haize Nanomaterials Co., Ltd and Shandong Bangsheng Chemical Co., Ltd.

As a result of the transactions described above, Shandong Haize Nanomaterials Co., Ltd and Shandong Bangsheng Chemical Co., Ltd. are wholly-owned subsidiaries of Faith Bloom, and Faith Bloom is a wholly-owned subsidiary of Zeolite. On April 4, 2006, Faith Bloom formed a wholly-owned subsidiary in Shaanxi, China to run the NPCC facility in Shaanxi Province. Effective January 3, 2007, Zeolite changed its name to ShengdaTech, Inc. On July 1, 2008, Faith Bloom formed a wholly-owned subsidiary in Zibo, Shandong Province to operate our new NPCC facility in Zibo.

On December 11 2009, Faith Bloom completed its acquisition of Anhui Chaodong Nanomaterials Science and Technology Co., Ltd. ("Chaodong"), a company located in Anhui province, to operate our new Anhui facility. The name of Anhui Chaodong Nanomaterials Science and Technology Co. Ltd. was changed to Anhui Yuanzhong Nanomaterials Co., Ltd. ("Anhui Yuanzhong") in April 2010.

Our corporate structure is depicted in the following chart:



Market Opportunity

The NPCC Markets in china

NPCC refers to ultrafine nano precipitated calcium carbonate, a synthetic industrial material made from limestone, which has an average particle diameter of less than 100 nanometers or 0.1 micron. The nano particle is smaller than the wavelength of visible light and provides characteristics such as narrow distribution range of grain-size and improved decentrality, which make the compounds suitable for many applications. In the filler and additive industry, traditional fillers, including carbon blacks and precipitated calcium carbonate, have been used for years as a means to reduce material costs by replacing a portion of higher cost materials. The main functions of the traditional fillers are to occupy the space and act as cheap diluents of more expensive materials. Fillers play a major role in all types of polymers, such as thermoplastics, rubbers and thermosets. NPCC is an emerging product in the functional filler and additive industry with numerous possibilities of new applications, many of which are yet to be developed. As functional additives, NPCC offers additional benefits than traditional fillers. Due to its low cost and special chemical properties, NPCC has been widely used in the rubber, plastic, paint, ink, paper and adhesive manufacturing industries to improve product quality while maintaining or reducing costs. It can be used solely as an additive which contributes to the processing features of end products, or it can also be applied together with other fillers such as precipitated calcium carbonate, titanium oxide and silicon dioxide.

Compared to traditional fillers, NPCC offers a broad range of advantages when used as functional additives. These advantages include the following:

- Enhanced performance of end products, including but not limited to improved durability, increased tensile strength, improved heat resistance and better stabilization; and

- Reduced product cost through substitution of NPCC for more expensive materials.

While research into and manufacturing of NPCC in China began in the early 1980s, the NPCC industry only recently experienced strong growth, resulting from increased awareness of its ability to replace more expensive materials and its functionality to enhance the performance of various end products. In China, NPCC products are primarily used as functional additives in feedstock materials to the automobile, construction and consumer sectors. Typical feedstock materials that use NPCC include tires, PVC building materials, PP building materials, ink, paint, latex, adhesives, paper and PE plastic materials. We believe that the development of the plastics, rubber, paper, construction coating and daily-use chemical industries in China will increase demand for NPCC. With the maturity of the NPCC technology and its expanded applications in China, we believe that domestically produced NPCC with superior quality and steady performance will gradually replace the market share of the imported products of foreign competitors.

NPCC products have been primarily used in the following industries:

Tire and Rubber

NPCC, when treated by a surface coating agent to improve compatibility, can fill the spatial structure in rubber and enhance the properties of certain rubber products, such as tires and latex. NPCC can be applied solely as an additive or used together with other fillers such as precipitated calcium carbonate, clay and carbon black to reduce expensive rubber content and to improve certain properties of the rubber products. NPCC is a rubber strengthening additive that can enhance the flexibility, break elongation, tear resistance, abrasion resistance and anti-aging performance of rubber and the use of NPCC provides a 10-20% overall improvement in performance measured by increased traction wave resistance, tear resistance, break elongation, tensile strength and aging resistance. In addition, NPCC can also partially substitute for certain more expensive materials such as carbon black and silicon dioxide, thus reducing the overall cost of manufacturing without negative impact on reinforcing and whitening features.

In 2009, China has exceeded the United States and became the world's largest automobile consumption nation with annual sales of passenger cars of approximately 10.3 million units. Therefore, we expect NPCC products to obtain a larger market share compared to traditional fillers in the rubber and tire fields.

Plastic Materials

Plastic materials, including PVC, PE and PP, are a significant end market for NPCC products. When modified with a surface coating agent, NPCC particles become compatible with organic substances which facilitate their use as a functional additive in plastic materials. Modified NPCC particles can be used in plastics such as PVC building materials to increase their tensile strength, flexibility, durability and heat resistance, to stabilize their dimensions and to improve color fastness and glossiness. In addition, NPCC can be used as a substitute for more expensive materials, such as silicon dioxide, which may considerably reduce the total cost of the end products.

Paper

We believe that China's paper industry represents large untapped market opportunities for domestic NPCC manufacturers. NPCC can be used as a functional additive for newsprint paper, coating paper and specialty paper products. NPCC can improve the glossiness, whiteness, opacity and printability of paper products, while reducing the requirement for more expensive titanium dioxide or kaolin. China's paper industry is currently migrating from acid sizing to alkaline sizing in terms of production process. We believe this migration increases the market opportunity for NPCC, which can only be applied in the alkaline sizing process.

Paints, Ink and Adhesives

NPCC products have a range of other applications in the construction and automotive industries, including surface coatings, water-based and oil-based paints, adhesives and sealants. NPCC has also been widely used as an additive in oil-based printing inks. When used as a substitute of certain more expensive materials such as titanium dioxide or kaolin, NPCC can reduce component cost as well as maintain or reinforce the features of the end products.

Our Business

NPCC Production

We commenced our NPCC operations in 2001 with the installation of our first NPCC production line, which had an annual production capacity of 10,000 metric tons, in Tai'an, Shandong Province. As of December 2009, we have increased our total annual NPCC production capacity to 250,000 metric tons. We believe that we are currently the largest Chinese manufacturer of NPCC products in terms of net sales for the year ended December 31, 2009.

In August 2009, we, through our wholly-owned subsidiary, Faith Bloom, entered into an equity transfer agreement with Anhui Chaodong Cement Co., Ltd., a company incorporated under the laws of the People's Republic of China, pursuant to which Faith Bloom acquired the entire equity of Chaodong, a PRC company and wholly-owned subsidiary of Anhui Chaodong Cement Co., Ltd. Chaodong was an inactive manufacturer of NPCC, and its assets include mining rights to reserves of approximately 13.2 million metric tons of limestone and existing buildings and equipment. The acquisition was approved by the Chinese government in November 2009. Anhui Chaodong Cement Co., Ltd. and Chaodong were not affiliates of our Company or any of our directors or officers. On December 11, 2009, we completed our acquisition of Chaodong, which has an annual production capacity of 10,000 metric tons. The name of Chaodong was changed to Anhui Yuanzhong Nanomaterials Co., Ltd. in April 2010. Anhui Yuanzhong, which operates our Anhui facility, started production in May 2010 after we completed certain repairs and maintenances of the acquired facility and equipment and performed certain technological upgrades consistent with our Zibo, Shandong facility.

In August 2009, we, through Faith Bloom Limited, entered into a project investment agreement with the local government of Hanshan County, Anhui Province. Pursuant to this agreement, we agreed to invest an aggregate amount of RMB 1,200 million (approximately $175.7 million) in several phases by 2013, which includes an investment in a new NPCC project with an annual capacity of 200,000 metric tons of NPCC per year and the purchase of land-use rights for a total area of approximately 341,335 square meters (approximately 84.35 acres). The local government also agreed to grant to us exclusive mining rights to good quality limestone, and provide other utilities and services for manufacturing purposes. We plan to utilize third parties for mining or processing operations and do not plan to engage in any mining or processing operations. In addition to this agreement, we also agreed to purchase land-use rights for a total area of approximately 66,767 square meters (16.5 acres) from the local government of Hanshan County, Anhui Province for Anhui Yuanzhong. These agreements are investment plans and are not contractually binding until key elements of contract terms such as transaction prices and specific payment schedules are fully agreed upon, binding agreements are executed, and approval from the relevant government agencies are obtained.

The following table exhibits all of our facilities with their respective annual production capacities and production volume of NPCC for the last three years.

		2007	2008	2009
Tai'an, Shandong facility	Production Capacity (metric tons) as of December 31	30,000	30,000	30,000
	Annual Output (metric tons)	34,259	34,070	33,538
Xianyang, Shaanxi facility	Production Capacity (metric tons) as of December 31	100,000	160,000	160,000
	Annual Output (metric tons)	87,652	147,935	163,294
Zibo, Shandong facility	Production Capacity (metric tons) as of December 31	-	-	60,000
	Annual Output (metric tons)	-	-	13,350
Total	Production Capacity (metric tons) as of December 31	130,000	190,000	250,000
	Annual Output (metric tons)	121,911	182,004	210,181

We established a research and development center in Pudong, Shanghai, which is dedicated to the research and development of NPCC applications. Our research and development center has attracted NPCC researchers and scholars with advanced degrees in chemistry and materials science who primarily focus on improving the quality of our existing NPCC products and developing innovative NPCC products for new applications. As an example, we developed new NPCC products for use in the paper and PE industries and began receiving orders from paper manufacturers in 2007 and from PE customers in February 2008. In addition, we expect to begin selling our newly developed NPCC products to the asphalt and PVC plastic glove markets in the near future. Currently, our product is undergoing trials with a number of potential asphalt industry customers.

We currently sell our NPCC products in Shandong Province, the Yangtze River Delta and other parts of China through resident sales representatives. Internationally, in 2009, we targeted five countries for our product export: Singapore, Thailand, South Korea, Malaysia and India. International sales accounted for approximately 0.4%, 9.6%, and 7.1% of our total NPCC net sales in 2007, 2008, and 2009, respectively. In July 2009, we established a new international sales team at our headquarters in Shanghai, China. In January 2010, we strengthened our international sales and marketing efforts by appointing Mr. Gary Cao, who has over 12 years of experience as a sales and marketing director for leading chemical companies in China and the Asia Pacific region, as our new international marketing director. We believe international sales and marketing will make more contribution to our business as the worldwide economy recovers.

Revenue and Net Income from Continuing Operations

Our revenue and net income from continuing operations have increased steadily since 2006. In 2009, our revenue was $102.1 million and our net income from continuing operations was $23.6 million.

Our Products

Our key applications for our NPCC products and their respective end markets are as follows:

NPCC Applications	Primary Use
Rubber	Additive for tires
Plastic	Additive for PVC building materials and PE
Paint and ink	Additive for ink and water-based and oil-based paints
Latex	Additive for latex gloves
Adhesive	Additive for high-grade silicone adhesive and polysulfide sealant
Paper	Additive for coating paper

Our NPCC business focuses on the production of high-quality and low-cost NPCC products. Our NPCC business has strong positions in the tire and PVC building materials markets, and has expanded into the ink, paint, latex and adhesives markets. To further diversify our customer base, we plan to gain share in the paper and PE markets, which are currently relatively underserved by the NPCC industry.

We have established effective quality assurance systems for our NPCC products. Our Tai'an, Shandong facility has been ISO 9001-certified since 2003 and our NPCC products were awarded "Shandong Top Brand" at the end of 2006. Our Xianyang, Shaanxi facility has been ISO 9001-certificated since 2007.

Intellectual Property

We jointly own a patent with Tsinghua University for an advanced NPCC particle production technology based on membrane-dispersion techniques. This patent was granted by the State Intellectual Property Office of the PRC in November 2007 and will expire on September 9, 2025.

We also utilize a proprietary technique for NPCC chemical modification to tailor our NPCC particles to the end product.

We utilize a trademark for our NPCC products, which is licensed by our related party and registered with the Trademark Office of the State Administration for Industry and Commerce of China, relating to the Chinese words "盛科 (Shengke)." As agreed to by our related party, we have rights to use this trademark at no cost indefinitely.

Research and Development

As of December 31, 2009, we have 26 members in our research and development team. Among them, 13 hold Ph.D. degrees, 13 hold Masters degrees and most have worked in the NPCC research field for more than four years. Mr. Xiaochuan Zhu, our Director of Research and Development, with more than 10 years of experience, is leading our effort to develop and improve a proprietary technology for modifying NPCC products. This new technology can be used to modify the property of a specific NPCC product to fit a particular end product and, in addition, improve the quality of such end product. Recently, much progress has been made in the applications in paper, PE and asphalt products. With this new technology, tires, PVC building materials, paints, adhesives and paper of equal or better quality can be made at a lower cost. We are also developing NPCC products for other applications, including extensions of existed products and new products such as epoxy resin, cosmetics and asphalt.

Our research and development activities are a three-stage process. During the first stage, we apply surface coating agents to NPCC according to different pre-designed formulas for comparative studies. The modified NPCC is tested for mass, size, oil absorbance and other traits to determine if it displays the appropriate features. During the second stage, approximately two kilograms of NPCC product is produced with lab equipment using a formula selected at the first stage. The NPCC product produced is applied to an end product such as a tire, paint or ink. The end product is then tested for a set of properties and other parameters to determine if they meet expectations. If the formula is successful at the second stage, it will be further tested. During the third stage, several tons of the NPCC products are manufactured at a NPCC facility using the formula that passed the second test and is sent to potential customers for an industrial scale test. Our research and development staff is dispatched to such customers' sites to assist with the test.

We focus on further developing and improving our core manufacturing technologies to expand our product lines and reduce overall costs. In 2009, we completed sample testing of our NPCC products with approximately 40 companies in various industries, such as PVC, rubber, adhesive, latex and coating. As of December 31, 2009, we had 59 potential customers at various stages of our sample testing process.

We had previously entered into joint development agreements with Tsinghua University and Qingdao University of Science and Technology to develop new NPCC technologies. Under the agreement with Qingdao University of Science and Technology, we have exclusive ownership to any technology developed. Under the agreement with Tsinghua University, we jointly own any technology developed and have an exclusive right to use such technology. Our joint development program with Tsinghua University has produced a membrane-dispersion patent which was granted by the Patent Office of the State Intellectual Property Office of China in November 2007.

In addition, we have adopted an advanced membrane-dispersion technology in the production process at our Xianyang, Shaanxi facility and our Zibo, Shandong facility with phase I capacity of 60,000 metric tons. This technology not only reduces production cost, but also enables us to have better control of the size and consistency of the nano-particles, which greatly improves our NPCC product quality. Our research and development center in Pudong, Shanghai, China is our base for training research and technical personnel and developing new technologies. We believe that this research and development center is sufficient to meet our current research and development needs and we are in a good position to attract qualified research personnel at a reasonable cost. Thus, we are currently conducting our research and development internally, and have terminated our research and development cooperation with Tsinghua University and Qingdao University of Science and Technology.

Sales and Marketing

Our sales team consists of 52 employees, 32 of which are devoted to domestic sales and 20 of which are devoted to international sales. To expand distribution channels and increase our market share, we will continue our efforts on building our international sales team. We also plan to regularly attend industry fairs and exhibitions to obtain the latest industry information. We have become a member of www.alibaba.com.cn, the largest business-to-business Internet portal in China.

Through our sales and marketing efforts, we have established our leadership in the NPCC industry in China, particularly for applications in the tire and PVC building materials markets. We have successfully entered the oil-based paint and paper industries. We are now actively marketing our NPCC products to major international companies in the adhesive industry and our products in the asphalt industry are under testing processes domestically. We plan to begin supplying our products to certain major international companies in the adhesive industry and to domestic asphalt manufacturers.

At present, our NPCC products are primarily sold and marketed directly by our sales and marketing staff. Our NPCC products are mainly sold in Shandong Province, Yangtze River Delta and other parts of China. We are actively expanding our NPCC marketing network into other parts of China and have resident sales representatives in multiple locations in China including Shanghai, Xi’an, and Dongying, Shandong Province. We have also successfully expanded into the international market for NPCC. We have sold our NPCC products to a number of Asian countries, including Singapore, Thailand, South Korea, Malaysia and India. Additionally, our international sales department is actively testing our products with customers in North America.

Raw Materials

In 2009, the cost of raw materials accounted for approximately 52.8% of our total production cost. Anthracite, modification agents and limestone are the major raw materials for producing NPCC products.

We have multiple suppliers for all of our major raw materials, except for modification agents. Soft coal and anthracite are in abundant supply in China with a large number of suppliers. We are currently considering increasing the number of our supplier partners for modification agents or potentially producing them internally.

Given the importance of certain key raw materials such as limestone to our business, we obtained mining rights over high quality limestone in Shaanxi and Anhui Provinces. All of our limestone reserves, 11.6 million metric tons in Shaanxi Province and 13.2 million metric tons in Anhui Province, are proven reserves. We are currently in negotiations with the government regarding the price and payment terms for our mining rights for our Zibo, Shandong facility. The Company plans to utilize third parties for mining and processing operations and does not plan to engage in any mining or processing operations. During 2009, 2008 and 2007, all of our limestone was purchased from external sources and amounted to 376,707 metric tons, 311,253 metric tons and 223,803 metric tons, respectively.

For production of NPCC, high quality limestone has both strict requirements in its chemical content and certain requirements in its physical properties. With regards to chemical composition, high calcium carbonate content in the limestone is required, and at the same time, identified detrimental impurity must be at a low enough level. Although high calcium carbonate content in limestone is prevalent in nature, most of it cannot be used to produce NPCC due to the levels of certain detrimental impurities. We measure the required chemical content in percentages. Generally, we consider the content percentage of various chemicals when measuring the quality standard, such as the percentages of $CaCO_3$, Fe_2O_3, Al_2O_3, MgO, and other chemicals in the limestone.

In terms of the physical properties, we utilize two measures: the whiteness of the limestone (with over 90% of calcium) and that the limestone does not disintegrate when it is calcinated under high temperatures. Our whiteness test requirement is a measurement of the chemical purity of calcium carbonate.The Company’s policies limit the purchase of limestone to limestone that fulfills the Company’s criteria described above.

Supplier Management System

Although most of our key raw materials are widely available in China, the price for certain raw materials such as coal has been fluctuating greatly in the past few years, which has affected our profit margin. We have adopted measures to reduce risks in raw material supply costs, including establishing long-term relationships with suppliers and diversifying supply sources.

Purchasing Procedures with View to Quality and Stability of Suppliers

Purchasing activities are conducted in accordance with our standard purchasing procedures. Potential suppliers are provided with our quality standards for the raw material and are invited to make initial offers, which are compared objectively according to relevant quality guidelines. After validating various suppliers' services and capabilities for quality and stable supply, we select the qualified supplier with the lowest price. Our finance department has also established an oversight process by appointing individuals to conduct independent market research of key raw material prices periodically. We have implemented a standard procedure to insure that all purchasing requirements are strictly adhered to.

We generally use either cash payment or on credit for payment to suppliers of our raw materials. Credit payments have terms of 30 to 90 days. We enter into contracts with all long-term suppliers of raw materials. Regardless of payment terms, payments are not made until our purchasing procedures are completed.

Major Suppliers

The table below lists our major suppliers for the year ended December 31, 2009.

Major Suppliers for NPCC Business

Suppliers		Amount Purchased in 2009 (USD million)	% of Total Purchases in 2009
Xintai Liantai Material Co., Ltd	Anthracite	4.46	8.42%
Xianyang Chuangfa Trading Co., Ltd.	Anthracite and soft coal	8.63	16.30%
Qingdao Siwei Chemical Co. Ltd.	Modification agent	6.93	13.09%
Qianxian Tianhe Mining Industry LLC	Limestone and soft coal	5.38	10.16%
	Total		47.97%

Our Major Customers

We sell our NPCC products to customers in the tire, PVC building materials, ink, paint, latex, adhesive, paper and PE industries. Our customers are mainly located in Shandong Province, the Yangtze River Delta and other parts of China. Most of our top NPCC customers are large-scale manufacturers of tires and PVC building materials.

For the year ended December 31, 2009, sales to our top five NPCC customers collectively accounted for 10.5% of total NPCC sales. For the same period, approximately 7.0% of our NPCC sales were contributed by overseas markets.

Major Customers of our NPCC Products

Name	Industry	Amount of Sale in 2009 (USD million)	Percentage of Total Sales
Triangle Tire Co., Ltd.	Tire	2.12	2.08%
Zhaoyuan Liao Rubber Products Co., Ltd.	Tire	2.25	2.21%
Qingdao Doublestar Tire Industrial Co., Ltd.	Tire	2.18	2.14%
Zhenjiang Suhui Latex Production Co., Ltd.	Tire	1.83	1.78%
Shengtai Group Co., Ltd.	Tire	1.75	1.70%
Total		10.13	9.91%
Dalian Jinyuan Building Materials & Plastics Co., Ltd.	PVC	2.17	2.13%
Shandong Ruifeng Chemical Co., Ltd.	PVC	2.00	1.96%
Tangshan Jiaji Composite Pipe Corp. Ltd.	PVC	1.70	1.67%
Cangzhou Cangjing Chemical Co., Ltd.	PVC	1.65	1.62%
Total		7.52	7.38%

Competition

We are subject to intense competition. Some of our competitors have greater financial resources, larger size, and better established market recognition in both domestic and international markets than us.

For our NPCC products, we compete based upon proprietary technologies, manufacturing capacity, product quality, production cost and ability to produce a diverse range of products. Our competitors include NPCC manufacturers both within China and around the world.

We also face competition from certain well-established foreign chemical companies, including Imperial Chemical Industries Limited (ICI), Solvay S.A., Minerals Technologies Inc., and Shiraishi Calcium Kaisha Ltd. For example, competition for our NPCC products in the paper and ink industries primarily comes from Japanese manufacturers such as Shiraishi Calcium Kaisha, which sells to Chinese automobile paint makers and Japanese ink makers in China.

Regulation

In China, waste gas and water discharges in our manufacturing processes are regulated and must meet certain standards under China's environmental laws and regulations. The local branch of the Ministry of Environmental Protection of the People's Republic of China samples and tests our gas and water discharge regularly. The specifications of these discharges must be consistent with the regulations for industrial waste water and gas and relevant laws and standards, including the Water Pollution Discharge Standard for the Synthetic Ammonia Industry issued by the Ministry of Environmental Protection of the People's Republic of China. Our NPCC facilities are not required to obtain Production Safety Licenses.

Pursuant to the Environment Impact Assessment Law, which came into effect on September 1, 2003, the construction or expansion of our NPCC facilities is subject to environment impact assessment procedures conducted by local environmental protection authorities in China, including the acceptance of environment impact assessment reports of each project by the environmental protection authorities. As of December 31, 2009, we have a total annual production capacity of 250,000 tons of NPCC, and we have passed environment impact assessment for 190,000 metric tons of NPCC production capacity. The remaining capacity has not yet passed the assessment and is expected to pass the assessment by the end of September 2010. The local environmental regulatory department in Qian County, where our Xianyang, Shaanxi facility is located, has orally advised us that we may continue to produce NPCC during the process of passing the environmental impact assessment, and we therefore believe that the temporary non-compliance with the Environment Impact Assessment Law will not have and has not had in the past material effects on our capital expenditures, earnings, and competitive position. However, if the environmental regulatory department in Xianyang or at a higher level determines that we are not compliant with the Environment Impact Assessment Law, we may be subject to fines or other legal sanctions. Although we have not been punished by any environmental regulatory department as of December 31, 2010, we cannot assure you that the government will take the same position in future.

Employees

As of December 31, 2009, we employed 1,063 full-time employees. Of our total employees, 10.5% are management personnel, 3.6% are sales staff members and 2.4% are R&D staff members. We believe that we maintain a satisfactory working relationship with our employees, and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

As required by applicable Chinese law, we have entered into employment contracts, which include confidentiality and non-compete provisions prohibiting employees from disclosing our trade secrets or using trade secrets for purposes other than benefiting us, with all employees.

Our employees in China participate in a state pension program organized by Chinese municipal and provincial governments. We are required to contribute to the program at the rate of 20% of the average monthly salary of our employees. In addition, we are required by Chinese law to cover employees in China with other types of social insurance. Our total contribution may amount to as much as 30% or more of the average employee monthly salary. We have purchased social insurance for all of our employees who voluntarily participate in the social insurance program. Social insurance expenses were approximately $347,287 and $567,741 for 2009 and 2008, respectively.

Pursuant to Chinese laws, our Chinese subsidiaries are required to establish housing accumulation funds for their employees and to contribute to the funds at a certain percentage of the monthly salary of each employee. Failure to comply with such obligation may subject our Chinese subsidiaries to fines not exceeding approximately $7,200 for each subsidiary. We have established housing accumulation funds for our qualified employees since December 2008.

Additional Information

Our Internet address is www.shengdatechinc.com. We make available, free of charge, through our Internet address our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Item 1A. Risk Factors

Cautionary Statement Regarding Future Results, Forward-Looking Information And Certain Important Factors

In this report we make, and from time to time we otherwise make, written and oral statements regarding our business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends, and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects," "anticipates," "intends," "target," "goal," "plans," "objective," "should" or similar expressions identify forward-looking statements, which may appear in documents, reports, filings with the Securities and Exchange Commission, news releases, written or oral presentations made by officers or other representatives made by us to analysts, stockholders, investors, news organizations and others, and discussions with management and other of our representatives. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement.

In addition to other matters identified or described by us from time to time in filings with the SEC, there are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement, include the following:

Risks Related To Our Business and Operations

Subsequent to the cease of production of our coal-based chemical production facility on October 31, 2008, we generate all of our net sales from our NPCC products and a reduction in net sales from our NPCC products would cause our net sales to decline and could materially harm our business. After we ceased production at our Bangsheng Chemical Facility on October 31, 2008 in compliance with the directive from the Tai'an City Government, we no longer generate net sales from the sale of coal-based chemical products and derive all of our net sales from the sale of our NPCC products. As of December 31, 2009, the Bangsheng coal-based chemical operations have been discontinued. For the year ended December 31, 2009, our sales of NPCC products were approximately $102.1 million, or 99.7% of our total net sales and the remaining 0.3% or $295,899 was generated from sales of coal inventory of Bangsheng Chemaical Facility. Going forward, continued market acceptance of our NPCC products will remain important to our success, and a reduction in revenue from the sale of our NPCC products will materially harm our business, financial condition and results of operations.

We may not be able to maintain our competitive advantage in NPCC technology. At present, we are the largest manufacturer of NPCC products in China in terms of production capacity. Our competitive edge depends heavily on the new technology employed in our NPCC manufacturing process. We adopted the ultra gravity precipitation technology in the manufacturing process in our Tai'an, Shandong facility. In our Xianyang, Shaanxi facility and Zibo, Shandong facility, we deployed the membrane-dispersion technology co-developed and co-owned with Tsinghua University. We currently have the exclusive right to use this technology. At this time, other than maintaining our own research and development center in Shanghai, we are not working in partnership with any universities or research institutions. The growth of our business and development of new technology may require that we seek external collaborative partners for research and development. We cannot assure you that we will be able to enter into agreements with collaborative partners on terms acceptable to us, if any at all. In addition, if more advanced technology is developed for the manufacturing of NPCC by our competitors, we may lose our competitive advantage and our results of operations may be adversely affected.

Our failure to develop and introduce new NPCC products could reduce our sales or market share. We rely on our research and development team develop and improve technologies for NPCC production. Our research and development team developed a technology used to modify the property of a specific NPCC product to fit a particular end product and, in addition, improve the property of such end product. However, research and development activities are inherently uncertain, and we might encounter practical difficulties in commercializing our research results. A variety of competing NPCC products that our competitors may develop could prove to be more cost-effective and have better performance than our NPCC products. Therefore, our research and development efforts may be rendered obsolete by the technological advances of our competitors. Our failure to develop and introduce new NPCC products could render our products uncompetitive or obsolete, and result in a decline in our sales or market share.

Our NPCC products have limited applications. We may not be able to increase the range of applications of our NPCC products. Presently, our existing NPCC products are used as functional additives for tire, PVC building materials, PP building materials, ink, paint, latex, adhesive, paper and PE products. Our products, therefore, depend heavily on a limited number of industries. Our growth potential may be limited if we cannot expand the markets for our existing NPCC products or develop new products for other industries. Although we have increased our research and development efforts to expand the range of applications of our NPCC products, there is no assurance that we will succeed in our efforts.

We may not be able to continue to produce high-quality NPCC products, which may negatively impact our business. We believe that the quality of our NPCC products is critical to our success. We maintain quality control standard procedures and expect our employees to strictly comply with these procedures. We also apply a distribution control system in NPCC production to ensure process control and stability. Any quality problems with our products due to any reason such as the failure to implement our quality control and distribution control systems, delays in shipments, cancellations of orders or customer returns and complaints, could harm our reputation. In addition, we purchase raw materials such as limestone and modification agents from third-party suppliers. We may be unable to exercise the same degree of quality control over these third-party production facilities as we can over our own facilities. Any quality problems associated with the raw materials produced by these third-party producers or suspension of the supply of high-quality raw materials may adversely affect our reputation and cause a decrease in sales of our products and a loss of market share.

Our NPCC business depends significantly on the tire industry. If the composition of tires changes and we fail to develop formulas that are applicable to a new composition, our NPCC business could be harmed. In 2009, our NPCC business derived approximately 34.3% of revenues from sales to tire manufacturers. If these customers cease or decrease their orders of NPCC products from us, our NPCC business could be adversely affected. In addition, our NPCC products can be used in tire production to obtain desired properties since the current tire composition allows for calcium carbonate as an additive. If the composition of tires changes in the future, our NPCC products may not be compatible with the change. As a result, our NPCC business could be adversely affected.

The United States government's increase in tariffs on tires imported from China may harm the business of our customers, which would cause our revenue to decline and materially and adversely affect our business. China's accession to the World Trade Organization ("WTO") included transitional remedies to address import surges into other countries leading to market disruption. In the United States, the relevant safeguard provision was enacted as Section 421 of the Trade Act of 1974. Section 421 permits US domestic industries and workers injured by rapidly increasing imports from China to seek relief. Similar to other safeguard provisions, a Section 421 investigation is initiated by the filing of a petition with the United States International Trade Commission ("ITC"). On the basis of information developed in an investigation, the ITC determined, pursuant to section 421(b)(1) of the Trade Act of 1974, that certain passenger vehicle and light truck tires from China are being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products. On September 11, 2009, the United States government announced the decision to grant relief in the form of increasing the tariffs on such passenger vehicle and light truck tires from China for a three-year period by 35% in year one, 30% in year two, and 25% in year three. The increase in tariffs may harm the export business of our NPCC customers in the tire industry, which would decrease demand for our NPCC products, cause our revenue to decline and materially and adversely affect our business.

The Chinese government is tightening its environmental laws and strengthening its enforcement, which could adversely affect our business. With increased environmental awareness among Chinese citizens, the Chinese government is beginning to tighten environmental laws and regulations. The measures include adopting new laws and regulations such as Urban and Rural Planning Law and Regulation on National General Survey of Pollution Sources, and amending existing laws and regulations such as Law of the PRC on the Prevention and Control of Water Pollution. Some of these laws and regulations govern the level of fees payable to government entities providing environmental protection services and the prescribed standards relating to the discharge of solid or liquid wastes and gases. Recently, the Chinese government has stepped up its enforcement efforts due to the occurrence of several significant environmental disasters. If we fail to comply with the PRC environmental protection laws and regulations or if any new or revised environmental laws and regulations are promulgated, we may have to increase capital investments to build or upgrade environmental protection facilities or incur the risk of being subject to fines, and, in either scenario, our business, results of operations and prospects may be adversely affected.

Pursuant to the Environment Impact Assessment Law, which came into effect on September 1, 2003, the construction or expansion of our NPCC facilities is subject to environment impact assessment procedures by local environmental protection authorities in China, including the acceptance of environment impact assessment reports of each project by the environmental protection authorities. As of December 31, 2009, we have a total annual production capacity of 250,000 tons of NPCC, and we have passed environment impact assessment for 190,000 metric tons NPCC production capacity. The remaining capacity has not yet passed the assessment and is expected to pass the assessment by the end of September 2010. The local environmental regulatory department in Qian County, where our Xianyang, Shaanxi facility is located, has orally advised us that we may continue to produce NPCC during the process of passing the environmental impact assessment, and we therefore believe that the temporary non-compliance with the Environment Impact Assessment Law will not have and has not had in the past material effects on our capital expenditures, earnings, and competitive position. However, if the environmental regulatory department in Xianyang or at a higher level determines that we are not compliant with the Environment Impact Assessment Law, we may be subject to fines or other legal sanctions.

We, our suppliers and our customers are vulnerable to natural disasters which could severely disrupt the normal operation of our business and adversely affect our business, financial condition and operating results. We operate multiple facilities and source products from companies that operate facilities, which may be damaged or disrupted as a result of natural disasters such as earthquakes, floods, and heavy rains, technical disruptions such as electricity or other power source outage or other infrastructure breakdowns, computer outages and electronic viruses. Such events may lead to the disruption of information systems and telecommunication services for sustained periods. Such natural disasters also may make it difficult or impossible for our employees to reach our business locations. Damage or destruction that interrupts our provision of products could adversely affect our reputation, our relationships with clients, or cause us to incur substantial additional expenditure to repair or replace damaged equipment or facilities. We may also be liable to our customers for disruption in service resulting from such damage or destruction. Furthermore, the operations of our suppliers could be subject to natural disasters and other business disruptions, which could cause shortages and price increases in various materials essential for the manufacturing of our products or result in shortage of our products. If we are unable to procure an adequate supply of raw materials that are required to manufacture our products, our revenue and operating results would be adversely affected.

Our business, financial condition and operating results depend on our customers' future success with their products, which may fail to achieve the results we and our customers expect. Currently, we supply the tire, PVC building materials, PP building materials, ink, paint, latex, adhesive, paper and PE industries with our NPCC products. The potential for growth and success of our NPCC business largely depends on our customers' future success in their products. If our customers are not successful in developing their products, their demand for our NPCC products may decrease and our NPCC business may be adversely impacted as a result.

The sales cycle for our products is difficult to predict, which may make it difficult to plan our expenses and forecast our operating results and could have an adverse effect on our financial results and share price. If our sales cycle lengthens, our quarterly operating results may become less predictable and more volatile. Due to the relatively large size of some orders, a delayed sale could have a material adverse effect on our quarterly revenue and operating results. If our projected revenue does not meet our expectations, we are likely to experience a shortfall in our operating profit relative to our expectations. As a result, we believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful and that you should not rely on them as an indication for future performance. It is also possible that our quarterly results of operations may be below the expectations of public market analysts and investors. If this occurs, the price of our common stock will likely decrease.

We may not be able to achieve and maintain an effective system of internal control over financial reporting, a failure of which may prevent us from accurately reporting our financial results or detecting and preventing fraud. We are subject to reporting obligations under the U.S. securities laws. We are required to prepare a management report on our internal control over financial reporting containing our management's assessment of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over our financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that our internal control over financial reporting is not effective. Our reporting obligations as a public company may place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

In May 2008, our consolidated financial statements for the year ended December 31, 2007 were restated to correct an overstatement of advances paid to suppliers and an understatement of property and equipment. In January 2007, our consolidated financial statements were restated to correct an overstatement of revenues and selling expenses for the years ended December 31, 2003, 2004, and 2005. Also, our December 31, 2003 consolidated financial statements were restated to correct an overstatement of general and administrative expenses and an understatement of cost of sales and selling expenses. Our restatements of our prior consolidated financial statements may have exposed us to risks associated with litigation, regulatory proceedings and government enforcement actions. We are unable to predict what action, if any, the SEC or other regulatory bodies may pursue or what consequences such an action may have on us. We are also unable to predict the likelihood of or potential outcomes from litigation, other regulatory proceedings or government enforcement actions, if any, relating to the need to restate our historical consolidated financial statements. The resolution of these matters could be time-consuming and expensive, and further distract management from other business concerns and harm our business. Furthermore, if we were subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, we could be required to pay damages or penalties or have other remedies imposed, which could harm our business and financial condition.

Although the restatements we have made did not result in material changes to our previously reported revenues and profits, our management determined that certain material weaknesses existed in our internal control over financial reporting as of December 31, 2008. Our management had continued to work on taking remedial measures and determined that our internal control over financial reporting was effective as of December 31, 2009. We, however, cannot assure you that our financial statements will not be restated in a way that causes material changes to our reported revenues and profits in the future.

We may not be able to successfully carry out our strategic acquisition and investment strategy. Our future success depends in part on our ability to make strategic acquisitions and investments and failure to do so could have a material adverse effect on our market penetration and revenue growth. We, therefore, intend to make strategic acquisitions and investments in the chemical business. We cannot assure you however that we will be able to successfully make such strategic acquisitions and investments that will prove to be effective for our business due to certain uncertainties such as delay in obtaining required governmental approvals for making such strategic acquisitions.

Strategic acquisitions and investments could subject us to a number of risks, including risks associated with shared proprietary information and loss of control of operations that are material to our business. Moreover, strategic acquisitions and investments may be difficult to finance and/or expensive to fund and may also be expensive to implement and subject us to the risk of non-performance by a counterparty, which may in turn lead to monetary losses that materially and adversely affect our business. Strategic acquisition and investment could also divert our management's attention as well as other resources away from our core business. Finally, a full integration of the acquired companies into our business may also prove to be difficult, which may hinder or delay our planned growth.

The cost of our raw materials fluctuates significantly, which may adversely impact our profit margin and financial position. Raw materials that we use in the manufacture of our NPCC products include limestone, anthracite and modification agents, among which costs of anthracite represented 21.1% of the cost of goods sold of our NPCC business in 2009. The costs of modification agents and limestone represented 25.8% of the cost of goods sold of our NPCC business in 2009. The prices of these materials are subject to market forces beyond our control. In the last few years, coal prices have fluctuated substantially. The price for coal may continue to increase in the future due to the rapid development of the Chinese economy. If the price for coal and other raw materials increases in the future, our profit margin could decrease considerably.

We are dependent on our suppliers for key materials such as limestone and modification agents. If we cannot secure such raw materials from our suppliers, our business may be adversely affected. We purchase raw materials from suppliers. We may experience a shortage or interruption in the supply of our raw materials in the future and if any such shortage or interruption occurs, our production capabilities and results of operations could be materially adversely affected. At the present time, we purchase our supply of modification agents used in NPCC production exclusively from two suppliers. If these two suppliers are unwilling or unable to provide us with the modification agent we require in sufficient quantities and at acceptable prices, we would have to resort to our research and development center or alternative suppliers for modification agent supply. We cannot assure you that our research and development center would be able to make modification agents in a timely manner and in sufficient quantities or that alternative suppliers would be able to provide modification agents at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all. Our inability to find or develop alternative sources could adversely affect our business operations.

We extend relatively long payment terms for accounts receivable for our NPCC business. If any of our customers fails to pay us, our business may be adversely affected as a result. As is customary in our industry in China, we extend relatively long payment terms to our customers of up to 90 days. As a result of the size of many of our orders, these extended terms may adversely affect our cash flow and our ability to fund our operations from operating cash flow. Also, if our customers place large orders for our products, requiring fast delivery, our inventory and working capital may be impacted. If our customers experience sales slowdowns or other issues, they may not pay us in a timely fashion, even on our extended terms. The failure of our customers to pay us in a timely manner would negatively affect our working capital, which could in turn adversely affect our cash flow, revenues and operating results in subsequent periods.

Expansion of our business may put added pressure on our management and operational infrastructure and we may not be able to meet increased demand for our NPCC products, adversely affecting our operating results. Our business plan is to significantly grow our operations to meet anticipated growth in demand for existing NPCC products. Growth in our business may place a significant strain on our personnel, management, financial systems and other resources. The evolution of our business also presents numerous risks and challenges, including:

- the continued acceptance of our NPCC products by the tire, PVC building materials and other industries;
- our ability to successfully and rapidly expand sales to potential customers in response to potentially increasing demand;
- the cost associated with such growth, which is difficult to quantify, but could be significant;
- rapid technological changes;
- continued R&D efforts; and
- the highly competitive nature of the NPCC industry.

If we are successful in achieving rapid market growth of our NPCC products, we will be required to deliver large volumes of quality products to customers on a timely basis at a reasonable cost to those customers. Meeting any such increased demand will require us to expand our manufacturing facilities, to increase our ability to purchase raw materials, to increase the size of our work force, to expand our quality control capabilities and to increase our production scale. Such demands would require more capital and working capital than we currently have available. We cannot assure you that our current and planned operations, personnel, systems, internal procedures and controls will be adequate to support our future growth.

Our business depends substantially on the continuing efforts of our executive officers, research personnel and other key personnel, and our business may be severely disrupted if we lose their services. We depend on key members of our management team, research personnel and other key personnel. We do not maintain key employee insurance. If one or more of our executive officers and other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. Each of our executive officers, key research personnel and marketing managers has either entered into a confidentiality and non-competition agreement with us or is subject to confidentiality and non-competition obligations under their employment agreements with us. However, if any disputes arise between our executive officers, key research personnel and marketing managers and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, the extent to which any of these agreements could be enforced in China, where all of our executive officers reside and hold substantially all of their assets. See "—Risks Related to Doing Business in China—Our business is largely subject to the uncertain legal environment in China and your legal protection could be limited."

We may not be able to obtain the consent of Tsinghua University for the use of the membrane-dispersion patent by any future subsidiaries. Pursuant to agreements with Tsinghua University, our Tai'an, Shandong, Zibo, Shandong and Xianyang, Shaanxi facilities have the right to use a membrane-dispersion patent jointly held by Tsinghua University and us, and any third-party use of the patent is prohibited without the prior consent of Tsinghua University. In the event that any future subsidiary, including our Anhui facility with 10,000 metric tons of capacity, desires to use the membrane-dispersion patent, we will be required to enter into additional fee arrangements with Tsinghua University. However, we cannot assure you that we will be able to enter into such arrangements with Tsinghua University allowing the use by such future subsidiaries of the membrane-dispersion patent under terms and conditions acceptable to us, if at all.

Our business depends on our ability to protect our intellectual property effectively. If any of our patents are not protected or any of our trade secrets are divulged, our business prospects may be harmed. The success of our business depends in substantial measure on the legal protection of the patent which we are licensed to use and co-own with Tsinghua University in China and other proprietary rights in technology we hold. We cannot assure you that our procedures adequately monitor the infringements of our intellectual property rights, and we cannot be certain that the steps we have taken will prevent unauthorized use of our intellectual property in China where it may be difficult to enforce the law to protect our proprietary rights as compared to the laws of the United States. The validity and breadth of claims in patents and trade secrets involve complex legal and factual issues and, therefore, the extent of their enforceability and protection is highly uncertain. Issued patents or patents based on pending patent applications or any future patent applications or trade secrets may not exclude competitors from the use of such intellectual property or may not provide a competitive advantage to us. In addition, patents that are licensed to us or that have been issued to us may not be held valid if subsequently challenged and others may claim rights in or ownership of such patents. Furthermore, we cannot assure you that our competitors have not developed, or will not develop similar products, will not duplicate our products, or will not design around any patents issued to or licensed by us.

We claim proprietary rights in various unpatented technologies, know-how, and trade secrets relating to products and manufacturing processes. We protect our proprietary rights in our products and operation through know-how and trade secrets, especially where we believe patent protection is not appropriate or obtainable. Trade secrets, however, are difficult to protect. While we use reasonable efforts to protect our trade secrets, such as nondisclosure agreements, our employees and research partners may unintentionally or willfully disclose our information to competitors. In addition, nondisclosure agreements may not be enforceable or provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. For example, NPCC products are differently formulated for different applications. The formulas are maintained as trade secrets and are revealed only to a small number of technical and management personnel. In particular, our trade secrets provide us with a competitive edge in the tire industry, of which only a very few other NPCC manufacturers have successfully entered. If any of our trade secrets are divulged, we could lose our competitive edge in the tire and other industries. In addition, if our competitors independently develop information that is equivalent to our trade secrets, it will be more difficult for us to enforce our rights and our business could be harmed.

We may have difficulties in enforcing our intellectual property rights through litigation. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. We cannot assure you that the outcome of such potential litigation will be in our favor. Such litigation may be costly and may divert management attention as well as our other resources away from our business. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial conditions.

Our business benefits from certain PRC government incentives. Expiration of, or changes to, these incentives could have a material adverse effect on our results of operations. In accordance with the former PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises and the related implementing rules, and as approved by the relevant tax authorities, some of our PRC subsidiaries were subject to an enterprise income tax rate of 15% and a local income tax rate of 1.5% for 2007. Under approvals issued by the tax authorities and the transitional arrangements under the EIT Law and its relevant regulations, Shandong Haize Nanomaterials Co., Ltd. and Shandong Bangsheng Chemical Co., Ltd. were exempted from income tax for 2005 and 2006, were taxed at a reduced rate of 16.5% for 2007, and were taxed at 12.5% for 2008 and 2009; and Shaanxi Haize Nanomaterials Co., Ltd. was exempted from income tax for 2006 and 2007, and is taxed at a reduced rate of 12.5% from 2008 to 2010. As these tax incentives expire, our PRC subsidiaries income tax rate will increase significantly, and any increase of our PRC subsidiaries' income tax rate in the future could have a material adverse effect on our financial condition and results of operations.

The EIT Law provides a unified enterprise tax rate of 25% and unifies tax deduction standards are applied equally to both domestic-invested enterprises and foreign invested enterprises such as our PRC subsidiaries. The EIT Law and its relevant regulations provide a five-year transition period starting from January 1, 2008 for enterprises which were established prior to March 16, 2007. On December 26, 2007, the State Council issued the Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives, or Circular 39. Pursuant to Circular 39, foreign-invested enterprises established prior to March 16, 2007 and eligible for certain preferential tax treatments, such as our PRC subsidiaries, continue to enjoy the preferential tax treatments in the manner and during the periods as former laws and administrative regulations provided until such periods expire. The unified income tax rate of 25% will be applied to our PRC subsidiaries after the expiration of the above-mentioned periods of preferential tax treatments. While the EIT Law equalizes the tax rate for foreign-invested enterprises and domestic companies, preferential tax treatments continue to be given to companies in certain encouraged sectors and to those classified as high technology companies enjoying special support from the state. We cannot assure you that our PRC subsidiaries who enjoyed/is enjoying their respective tax holidays will continue to qualify for any preferential tax treatment after the transitional period provided by the EIT Law and its relevant regulations, which could result in a decrease in our profits. Any increase in our effective tax rate as a result of the above may adversely affect our operating results.

We have limited business insurance coverage in China, which could harm our business. We are exposed to many risks, including equipment failures, natural disasters, industrial accidents, power outages, and other business interruptions. We do not have adequate property or casualty insurance covering all of our facilities, equipment, offices or inventory. Furthermore, if any of our products are faulty, then we may become subject to product liability claims or we may have to engage in a product recall. We do not carry business interruption insurance or product liability insurance and, as a result, we may be required to pay for financial and other losses, damages and liabilities, including those caused by natural disasters and other events beyond our control, out of our own funds, which could have a material adverse effect on our business, financial condition and results of operations.

***We may require additional capital, which may not be available on commercially reasonable terms, or at all**.* Capital raised through the sale of equity securities may result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. Financing may be unavailable in amounts or on terms acceptable to us, or at all. Failure to obtain such additional capital could have an adverse impact on our business strategies and growth prospects.

If our executive officers, directors and principal stockholders choose to act together, they will be able to exert significant influence over us and our significant corporate decisions and may act in a manner that advances their best interests and not necessarily those of other stockholders. Our executive officers, directors, and beneficial owners of 5% or more of our outstanding common stock and their affiliates will beneficially own approximately 48.1% of our outstanding common stock. As a result, these persons, acting together, will have the ability to influence significantly the outcome of all matters requiring stockholder approval, including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets and they may act in a manner that advances their best interests and not necessarily those of other stockholders, including investors, by, among other things:

- delaying, deferring or preventing a change in control of us;
- entrenching our management and/or our board of directors;
- impeding a merger, consolidation, takeover or other business combination involving us;
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us; or
- causing us to enter into transactions or agreements that are not in the best interests of all stockholders.

We may incur substantial additional indebtedness in the future, which could adversely affect our financial condition and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations. We may from time to time incur substantial additional indebtedness. If we or our subsidiaries incur additional debt, the risks that we face as a result of such indebtedness and leverage could intensify. The increase in the amount of our indebtedness could adversely affect our financial condition and our ability to generate sufficient cash. For example, it could:

- increase our vulnerability to adverse general economic and industry conditions;

- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, dividend payments and other general corporate purposes;

- limit our flexibility in planning for or reacting to changes in the businesses and the industries in which we operate;

- place us at a competitive disadvantage compared to our competitors which have less debt;

- limit, along with the financial and other restrictive covenants of such indebtedness, our ability to borrow additional funds; and

- increase the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We may not generate sufficient cash flow to meet our anticipated operating expenses or to service our debt obligations as they become due.

Risks Related To Our Industry

Disruptions in the capital and credit markets related to the current national and worldwide financial crisis, which may continue indefinitely or intensify, could adversely affect our results of operations, cash flows and financial condition, or those of our customers and suppliers. The current disruptions in the capital and credit markets may continue indefinitely or intensify, and adversely impact our results of operations, cash flows and financial condition, or those of our customers and suppliers. Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our ability to access capital needed to conduct or expand our businesses or conduct acquisitions or make other discretionary investments, as well as our ability to effectively hedge our currency or interest rate. Such disruptions may also adversely impact the capital needs of our customers and suppliers, which, in turn, could adversely affect our results of operations, cash flows and financial conditions.

China's commitments to the World Trade Organization may intensify competition. In connection with its accession to the World Trade Organization, China made many commitments including opening its markets to foreign products, allowing foreign companies to conduct distribution businesses and reducing customs duties. As a result, foreign manufacturers may ship their NPCC products into or establish manufacturing facilities in China. Competition from foreign companies may reduce our selling prices, net sales and profit margins, adversely affecting our business.

Our failure to comply with ongoing governmental regulations could hurt our operations and reduce our market share. In China, the chemical industry is undergoing increasing regulations as environmental awareness increases in China and our manufacturing facilities are subject to various pollution control laws and regulations which include Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Water Pollution, Implementation Rules of the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Air Pollution, Safety Administration Regulations for Hazardous Chemicals, the Law of the PRC on the Prevention and Control of Solid Waste Pollution, and the Law of the PRC on the Prevention and Control of Noise Pollution. The trend is that the Chinese government toughens its regulations and penalties for violations of environmental regulations. New regulatory actions are constantly changing our industry. Although we believe we have complied with applicable government regulations in all material aspects, there is no assurance that we will be able to do so in the future.

If we cannot compete successfully for market share against other NPCC product companies, we may not achieve sufficient product revenues, and our business could suffer. The market for our products is characterized by intense competition and rapid technological advances. Our products compete with a multitude of products developed, manufactured and marketed by others and we expect competition from new market entrants in the future. We believe that the principal competitive factors in the markets for our products are manufacturing capacity, quality of products, price, research and development capability, and customer base.

Risks Related To Doing Business In China

Changes in China's political or economic situation could harm our business and our operational results. Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Some changes that could have this effect are:

- Level of government involvement in the economy;
- Control of foreign exchange;
- Methods of allocating resources;
- Balance of payments position;
- International trade restrictions; and
- International conflict.

The Chinese economy differs from the economics of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in many ways. The economic reforms in China have been conducted under a tight control of the Chinese government. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

Our business is largely subject to the uncertain legal environment in China and your legal protection could be limited. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally used. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly and their interpretation and enforcement involves uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign invested enterprises to hold licenses and permits such as requisite business licenses. In addition, all of our executive officers and our directors are residents of China, and substantially all the assets of these persons are located outside the U.S. As a result, it could be difficult for investors to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons.

The Chinese government exerts substantial influence over the manner in which we conduct our business activities. China only recently has permitted provincial and local economic autonomy and private economic activities. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property, work safety, labor protection, and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy, or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we hold in Chinese properties.

A slowdown or other adverse developments in the economy of the PRC may materially and adversely affect our customers, demand for our products and our business. All of our operations are conducted in the PRC. Although the economy of the PRC has grown significantly in recent years, we cannot assure you that such growth will continue. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in the PRC could materially reduce the demand for our products and materially and adversely affect our business.

Future inflation in China may inhibit our activity to conduct business in China. In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. During 2007 and 2008, the rates of inflation in China were 4.8% and 5.9%, respectively. However, in 2009, the inflation rate in China was negative 0.8%. Expansion and inflation have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. Higher inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the end market for our products. In addition, due to the tightening of credit, we may have difficulties in securing funding from financial institutions in China, which could adversely affect our operations.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively. The majority of our revenues will be settled in Renminbi and U.S. Dollars, and any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents at those banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

The value of our securities will be affected by the foreign exchange rate between U.S. dollars and Renminbi. The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi, and between those currencies and other currencies in which our sales may be denominated. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position, our business, and the price of our common stock may be harmed. If we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

We may not be able to distribute our assets upon liquidation. Our assets are predominately located inside China. Under the laws governing foreign investment enterprises in China, dividend distribution and liquidation are allowed but subject to certain procedures under the relevant laws and rules. Any dividend payment will be subject to the decision of the board of directors and subject to foreign exchange rules governing such repatriation. Any liquidation is subject to both the relevant government agency's approval and supervision as well the foreign exchange control. This may generate additional risk for our investors in case of liquidation.

PRC regulations relating to the establishment of offshore special purpose companies by PRC domestic residents and registration requirements for employee stock ownership plans or share option plans may subject our PRC resident beneficial owners or the plan participants to personal liability, limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us. State Administration for Foreign Exchange or SAFE issued a circular in October 2005 requiring PRC domestic residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the circular as an "offshore special purpose company." PRC domestic residents who are stockholders of offshore special purpose companies and have completed round trip investments but did not make foreign exchange registrations for overseas investments before November 1, 2005 were retroactively required to register with the local SAFE branch before March 31, 2006. PRC resident stockholders are also required to amend their registrations with the local SAFE branch in certain circumstances. We are aware that our PRC domestic resident stockholders subject to the SAFE registration requirement have registered with the Shandong SAFE branch and amended their registration upon the share exchange between us and Faith Bloom Limited. We cannot provide any assurances that all of our stockholders who are PRC residents have made all required amendments and will make or obtain any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our PRC resident stockholders to comply with the registration procedures set forth therein may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends or limit our PRC subsidiaries' ability to obtain foreign-exchange-dominated loans.

As it is uncertain how the SAFE regulations will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

In December 2006, the People's Bank of China promulgated the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, or the Individual Foreign Exchange Rules, setting forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the Individual Foreign Exchange Rules, which, among other things, specified approval requirements for certain capital account transactions such as a PRC individuals participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On March 28. 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, PRC individuals who are granted stock options by an overseas publicly-listed company are required, through a qualified PRC agent or a PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures. We and our PRC employees who might be granted stock options are subject to the Stock Option Rule. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

We may be treated as a resident enterprise for PRC tax purposes, under the Enterprise Income Tax Law and its implementing rules which became effective on January 1, 2008, and may subject to PRC income tax on our worldwide income and we may have to withhold PRC withholding tax for any dividends or interest we pay to our non-PRC corporate stockholders or noteholders. Under the Enterprise Income Tax Law of the People's Republic of China, or the EIT Law, and its implementing rules, all domestic and foreign investment companies in China are subject to a uniform enterprise income tax at the rate of 25%. In addition, dividends from domestic companies to their foreign corporate stockholders are subject to withholding tax at a rate of 10%, if the foreign investors are considered non-resident enterprises without any establishment or place of operation within China or if the dividends payable have no connection with the establishment or place of the foreign investors within China, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a lower withholding tax rate. Moreover, under the EIT Law, enterprises established under the laws of non-PRC jurisdictions, but whose "de facto management body" is located in the PRC are treated as resident enterprises for PRC tax purposes. Under the implementing rules of the EIT Law, "de facto management body" is defined as a body that has material and overall management and control over the business, personnel, accounts and properties of an enterprise. Because all of our management is currently based in China, we may be considered as a PRC resident enterprise.

If the PRC tax authorities determine that we are a "resident enterprise" for PRC EIT Law purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as "tax-exempt income," we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. The impact of the imposition of enterprise income tax will be mitigated to the extent we can obtain a foreign tax credit for such taxes against our U.S. income tax liability on such income. Finally, it is possible that the new "resident enterprise" classification could result in a situation in which a 10% withholding tax is imposed on dividends or interest we pay to our non-PRC corporate stockholders or noteholders and with respect to gains derived by our non-PRC corporate stockholders or noteholders from transferring our shares or our convertible notes.

Our subsidiaries in China are subject to restrictions on dividend payments and making other payments to us or any other affiliated company. We are primarily a holding company and do not conduct any business operations other than our holding of the equity interests in China. As a result, we rely on dividends, consulting and other fees paid to us by our subsidiaries in China. Our ability to pay dividends and meet our obligations is partially dependent upon receiving such payments from our subsidiaries in China. PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China are also required to set aside at least 10% of their after-tax profits, if any, each year according to Chinese accounting standards and regulations to fund certain reserve funds, unless such reserve funds have reached 50% of their respective registered capital. These reserves are not distributable as cash dividends. Furthermore, our subsidiaries are required to allocate portions of their respective after-tax profits to their enterprise expansion funds and staff welfare and bonus funds at the discretion of their boards of directors or equivalent governing bodies.

Our PRC subsidiaries are obligated to withhold and pay PRC individual income tax in respect of the salaries and certain other income received by their employees who are subject to PRC individual income tax. If our PRC subsidiaries fail to withhold or pay such individual income tax in accordance with applicable PRC regulations, they may be subject to certain sanctions and other penalties, which could have a material adverse impact on its business. Under PRC individual income tax law, our PRC subsidiaries are obligated to withhold and pay individual income tax in respect of the salaries and certain other income received by their employees who are subject to PRC individual income tax. Our PRC subsidiaries may be subject to certain sanctions and other liabilities under the PRC tax rules and regulations in case of failure to withhold and pay individual income taxes for their employees in accordance with the applicable law and regulations. Sales commission is a component of the compensation paid to our sales personnel and we do not currently deduct or withhold individual income tax for this portion of the salary. Although we have not received any notice or penalty from PRC tax authorities, we cannot assure you that such notice or penalty will not occur in the future. We have subsequently established relevant tax withholding policies and we believe that such taxes will be effectively withheld in 2010.

Any future outbreak of severe acute respiratory syndrome or avian influenza in China, or similar adverse public health developments, may severely disrupt our business and operations. A renewed outbreak of severe acute respiratory syndrome, the Avian Flu or another widespread public health problem in China, where all of our manufacturing facilities are located and where all of our revenues are derived from, could have a negative effect on our operations. In addition, there have been confirmed human cases of avian influenza in PRC, Vietnam, Iraq, Thailand, Indonesia, Turkey, Cambodia and other countries which have proven fatal in some instances. If such an outbreak or any other similar epidemic were to spread in China, where our operations are located, it may adversely affect our business and operating results.

Such an outbreak could have an impact on our operations as a result of:

- quarantines or closures of our manufacturing facilities, which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese economy.

Risks Related To Our Common Stock

The trading prices of many companies that have business operations only in China have been volatile, which may result in large fluctuations in the price of our common stock and losses for investors. The stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many companies that have business operations exclusively in China. These fluctuations have often been unrelated or disproportionate to the operating performance of many of these companies. Any negative change in the public's perception of these companies could decrease our stock price regardless of our operating results. The market price of our common stock has been and may continue to be volatile. We expect our stock price to be subject to fluctuations as a result of a variety of factors, including factors beyond our control. These factors include:

- actual or anticipated variations in our quarterly operating results;
- announcements of technological innovations or new products or services by us or our competitors;
- announcements relating to strategic relationships or acquisitions;
- additions or terminations of coverage of our common stock by securities analysts;
- statements by securities analysts regarding us or our industry;
- conditions or trends in the our industry; and
- changes in the economic performance and/or market valuations of other NPCC and chemical companies.

The prices at which our common stock trades will affect our ability to raise capital, which may have an adverse affect on our ability to fund our operations.

The market price of our shares experienced, and may continue to experience, significant volatility. For the period from December 31, 2008 to December 31, 2009, the trading price of our shares on the NASDAQ Global Select Market and previously, on the Nasdaq Capital Market has ranged from a low of US$2.52 per share to a high of US$7.20 per share. Numerous factors, including many over which we have no control, may have a significant impact on the market price of our shares.

We do not intend to pay cash dividends in the near future. We have never declared or paid cash dividends on our capital stock and we do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business. In addition, the terms of any future debt or credit facility may preclude us from paying any dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of potential gain in your investment for the foreseeable future.

We may incur increased costs as a result of changes in laws and regulations relating to corporate governance matters. As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations adopted by the SEC and by The NASDAQ Global Select Market, including expanded disclosures and accelerated reporting requirements. Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and other requirements have increased our costs and require additional management resources. Additionally, these laws and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

For the year ended December 31, 2009, net cash inflow from operating activities of continuing operations was US$28.0 million. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing existing indebtedness or seeking equity capital. These strategies, if implemented, may not be instituted on satisfactory terms. Any of these constraints upon us could materially and adversely affect our ability to satisfy our obligations under our 6.0% convertible senior notes due 2018.

Future issuances of shares or equity-related securities may depress the trading price of our shares. Any issuance of equity securities could dilute the interests of our existing stockholders and could substantially decrease the trading price of our shares. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust our ratio of debt to equity and to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons.

Sales of a substantial number of shares or other equity-related securities in the public market could depress the market price of our shares, and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our shares or other equity-related securities would have on the market price of our shares. In addition, the price of our shares could be affected by possible sales of our shares by investors who view our convertible notes as a more attractive means of obtaining equity participation in our company and by hedging or arbitrage trading activity by investors that we expect to develop involving our convertible note.

Our articles of incorporation contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our shares. Our articles of incorporation contain provisions that could discourage, delay or prevent a merger, acquisition or other change of control of our company or changes in our board of directors that our stockholders might consider favorable, including transactions in which you might receive a premium for your shares. For example, our board of directors has the authority to create and issue, without prior stockholder approval, preferred stock that may have rights senior to those of our common stock and that, if issued, could operate as a "poison pill" to dilute the stock ownership of a potential hostile acquirer to prevent an acquisition that is not approved by our board of directors. These provisions also could limit the price that investors might be willing to pay in the future for our shares, thereby depressing the market price of our shares. Stockholders who wish to participate in these transactions may not have the opportunity to do so. In addition, we are subject to the provisions of Chapter 78 of the Nevada Revised Statutes, which may prohibit certain business combinations with stockholders owning 10% or more of our outstanding voting stock. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

You may have difficulty enforcing judgments obtained against us. Substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United Slates. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon those persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United Stales and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, it is uncertain whether such PRC courts would he competent to hear original actions brought in the PRC against us or such persons predicated upon the securities laws of the United States or any state.

Risks Related To Our 6.0% Convertible Senior Notes Due 2018

The notes are unsecured, are effectively subordinated to all of our existing and future secured indebtedness and are structurally subordinated to all liabilities of our subsidiaries, including trade payables. The notes are unsecured, are effectively subordinated to all of our existing and future secured indebtedness, to the extent of the assets securing such indebtedness, and are structurally subordinated to all liabilities of our subsidiaries, including trade payables. As of December 31, 2009, our subsidiaries had no short-term bank borrowings or long-term bank borrowings to which the notes would be structurally subordinated. All of our operations are conducted through our subsidiaries. None of our subsidiaries has guaranteed or otherwise become obligated with respect to the notes. Our right to receive assets from any of our subsidiaries upon its liquidation or reorganization, and the right of holders of the notes to participate in those assets, is structurally subordinated to claims of that subsidiary's creditors, including trade creditors. Even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by us. Furthermore, none of our subsidiaries is under any obligation to make payments to us, and any payments to us would depend on the earnings or financial condition of our subsidiaries and various business considerations. Statutory, contractual or other restrictions may also limit our subsidiaries' ability to pay dividends or make distributions, loans or advances to us. For these reasons, we may not have access to any assets or cash flows of our subsidiaries to make payments on the notes.

We have made only limited covenants in the indenture for the notes, and these limited covenants may not protect your investment. The indenture for the notes does not:

- require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, does not protect holders of the notes in the event that we experience significant adverse changes in our financial condition or results of operations;
- restrict our subsidiaries' ability to issue securities that would be senior to the shares of our subsidiaries held by us;
- restrict our ability to repurchase our securities;
- restrict our ability to pledge our assets or those of our subsidiaries
- restrict our ability to make investments or to pay dividends or make other payments in respect of our shares, or other securities ranking junior to the notes; or
- restrict our ability to incur indebtedness in an amount not exceeding $15 million.

Furthermore, the indenture for the notes contains only limited protections in the event of a change in control. We could engage in many types of transactions, such as acquisitions, refinancings or recapitalizations, which could substantially affect our capital structure and the value of the notes and our shares but may not constitute a "fundamental change" that permits holders to require us to repurchase their notes. For these reasons, the noteholder should not consider the covenants in the indenture or the repurchase features of the notes as a significant factor in evaluating whether to invest in the notes.

Because we have not registered the notes and the shares issuable upon conversion of the notes, the noteholders will have a limited ability to resell them. We have not registered the notes or the shares issuable upon conversion of the notes under the Securities Act or any state securities laws. Unless they are registered, noteholders may not offer or sell the notes or the shares issuable upon conversion of the notes except pursuant to exemptions from the registration and qualification requirements of federal and state securities law. Although we have agreed to file and make effective a registration statement under the Securities Act with respect to the notes and the shares issuable upon conversion of the notes, we have not done so and we may not be required to do so pursuant to the registration rights agreement if the notes or the shares issuable upon conversion of the notes become eligible for resale pursuant to Rule 144 promulgated under the Securities Act. In addition, the registration rights agreement we entered into with the initial purchasers will permit us to prohibit offers and sales of the notes pursuant to that registration statement for a period of up to an aggregate of 30 days (or, under certain circumstances, 60 days) in any 90 days period or an aggregate of 90 days in any 12-month period. Holders of the notes must also take certain actions, including completing and submitting a questionnaire, and undertake certain obligations, before we are required to register their notes or the shares issuable upon conversion of the notes. For these reasons, the noteholder may not be able to resell their notes or shares issuable upon conversion of the notes. In addition, holders who sell their notes under the registration statement we agree to file may have certain potential liability under the Securities Act.

The increase in the conversion rate applicable to notes that holders convert in connection with a make-whole change of control may not adequately compensate you for the lost option time value of your notes that result from that make-whole change of control. If a make-whole change of control occurs, we will under certain circumstances increase the conversion rate applicable to holders who convert their notes within a specified time frame. The amount of the increase in the conversion rate depends on the date when the make- whole change of control becomes effective and the applicable price described in the notes' offering memorandum. Although the increase in the conversion rate is designed to compensate the noteholder for the lost option time value of their notes as a result of the make-whole change of control, the increase in the conversion rate is only an approximation of the lost value and may not adequately compensate the noteholder for the loss. In addition, the noteholder will not be entitled to an increased conversion rate if the applicable price is greater than US$150 per share or less than US$15 per share (in each case, subject to adjustment).

Our obligation to increase the conversion rate as described above also could be considered a penalty, in which case its enforceability would be subject to general principles of reasonableness of economic remedies.

We may be unable to raise the funds to pay interest on the notes, to purchase the notes on the purchase dates, upon a fundamental change or at maturity. The notes initially bear interest semi-annually at a rate of 6.0%, and we, in certain circumstances, are obligated to pay additional interest. On June 1, 2011 and June 1, 2013, holders may require us to purchase, for cash, all or a portion of their notes, at 100% of their principal amount, plus any accrued and unpaid interest to, but excluding, that date. If fundamental change occurs, holders of the notes may require us to repurchase, for cash, all or a portion of their notes. We are obligated to pay the principal amount of the notes outstanding at the maturity date. We may not have sufficient funds for any required repurchase of the notes or required payment of principal return or interest, and we may have to refinance our credit facilities in order to make payments under the notes. In addition, the terms of any borrowing agreements which we may enter into from time to time may require early repayment of borrowings under circumstances similar to those constituting a fundamental change. These agreements may also make our repurchase of notes an event of default under such agreements. If we fail to pay interest on the notes or repurchase the notes when required, we will be in default under the indenture governing the notes.

The conversion rate of the notes may not be adjusted for all dilutive events. The conversion rate of the notes is subject to adjustment upon the occurrence of certain events, including, but not limited to, the issuance of share dividends on our shares, the issuance of certain rights or warrants, subdivisions, combinations, distributions of share capital, indebtedness or assets, cash dividends and certain issuer tender or exchange offers.

Such conversion rate will not be adjusted, however, for other events, such as a third party tender or exchange offer or an issuance of shares for cash, any of which may adversely affect the trading price of the notes or our shares. In addition, an event that adversely affects the value of the notes may occur, and that event may not result in an adjustment to the conversion rate.

Certain significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to purchase the notes. The fundamental change provisions will only afford protection to holders of the notes upon the occurrence of certain transactions. Other transactions such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us may not constitute a fundamental change. In the event of any such transaction, the holders would not have the right to require us to purchase the notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the value of notes.

Because your right to require repurchase of the notes is limited, the market price of the notes may decline if we enter into a transaction that is not a fundamental change under the indenture relating to the notes. The term "fundamental change" is limited and may not include every event that might cause the market price of the notes to decline or result in a decrease in creditworthiness of the notes. The term "fundamental change" does not apply to certain transactions in which at least 90% of the consideration paid for our shares in a merger or similar transaction is securities traded on a United States national securities exchange. Our obligation to repurchase the notes upon a fundamental change may not preserve the value of the notes in the event of a highly leveraged transaction, reorganization, merger or similar transaction.

If you hold notes, you are not entitled to any rights with respect to our shares, but you are subject to all changes made with respect to our shares. If you hold notes, you are not entitled to any rights with respect to our shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on our shares), but you are subject to all changes affecting the shares. You will only be entitled to rights on the shares if and when we deliver shares to you in exchange for your notes. For example, in the event that an amendment is proposed to our certificate of incorporation or articles of association requiring stockholders approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of the shares, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any resulting changes in the powers, preferences or special rights that affect our shares.

If an active and liquid trading market for the notes does not develop, the market price of the notes may decline and the noteholders may be unable to sell the notes. The notes are a new issue of securities for which there is currently no public market, and no active trading market might ever develop. If the notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the price and volatility in the price, of our shares, our performance and other factors. In addition, we do not know whether an active trading market will develop for the notes. To the extent that an active trading market does not develop, the liquidity and trading prices for the notes may be harmed.

We have no plans to list the notes on a securities exchange; however, the notes sold to qualified institutional buyers pursuant to Rule 144A will be eligible for The Portal Market at the time of issuance thereof. Any market-making activity, if initiated, may be discontinued at any time, for any reason or for no reason, without notice.

The liquidity of any market for the notes will depend upon the number of holders of the notes, our results of operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the notes and other factors. An active or liquid trading market for the notes may not develop, and you may be unable to resell your notes or may only be able to sell them at a substantial discount.

Provisions of the notes could discourage an acquisition of us by a third party. Certain provisions of the notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes in integral multiples of US$1,000. We may also be required to issue additional shares upon conversion in the event of certain fundamental changes.

Item 1B. Unresolved Staff Comments

There are no unresolved comments from the SEC.

Item 2. Properties

All land in China is owned by the State. Individuals and companies are permitted to acquire rights to use land or land use rights for specific purposes. In the case of land used for industrial purposes, the land use rights are granted for a period of 50 years. This period may be renewed at the expiration of the initial and any subsequent terms. Granted land use rights are transferable and may be used as security for borrowings and other obligations. We currently lease from our affiliate, Shandong Shengda Technology Co., Ltd., a total area of approximately 60,000 square meters of land with manufacturing facilities, employee quarters, warehouses and office buildings in Tai'an City, China. We also own approximately 315,783 square meters of land in Xianyang, Shaanxi Province, with manufacturing facilities, employee quarters, warehouses, kitchens and office buildings. These constitute the basis of our operations as a manufacturer of NPCC products. In addition, we have obtained land use rights of approximately 234,487 square meters of land in Zibo, Shandong Province, with manufacturing facilities, employee quarters, warehouses, kitchens and office buildings. We are currently in negotiations with the government regarding the price and payment terms for our mining rights at our Zibo, Shandong facility.

On June 16, 2008, the Tai'an City Government, as part of China's strengthening of environmental law enforcement reform, issued a notice directing the Company to cease the production of the current products of our Bangsheng Chemical Facility in Tai'an City due to the close proximity of the facility to residential and non-manufacturing business properties. In accordance with the Tai'an City Government's relocation notice, we ceased production at our Bangsheng Chemical Facility on October 31, 2008. In December 2009, the Company committed to a plan to sell all of the Bangsheng Chemical Facility operating assets, primarily plant equipment and inventory, and discontinued the Bangsheng coal-based chemical operations.

In August 2006, Shandong Shengda Technology completed the construction of a NPCC manufacturing facility with approximately 251,285 square meters in Xianyang City, Shaanxi Province, China. The designed capacity for this facility is 60,000 metric tons of NPCC in the first phase. In July 2007, we completed an additional 40,000 tons of capacity in the second phase. We added an additional 60,000 metric tons of capacity in the second quarter of 2008. In May 2010, the Company entered into an agreement to purchase three-year mining rights for approximately 11.6 million metric tons of limestone reserve with the Shaanxi provincial government for its Xianyang, Shaanxi facility.

In August 2009, we completed the first phase construction of our NPCC facility in Zibo, Shandong on approximately 234,487 square meters in the Zibo High-Tech Development Zone in Zibo, Shandong Province with an annual production capacity of 60,000 metric tons.

In August 2009, we, through our wholly-owned subsidiary Faith Bloom Limited, entered into an Equity Transfer Agreement with Anhui Chaodong Cement Co., Ltd., a company incorporated under the laws of the People's Republic of China, pursuant to which Faith Bloom acquired the entire equity of Chaodong. Chaodong was an inactive manufacturer of nano precipitated calcium carbonate, and its assets include mining rights to reserves of 13.2 million tons of limestone and existing buildings and equipment. All of our limestone reserves, 11.6 million metric tons in Shaanxi Province and 13.2 million metric tons in Anhui Province, are proven reserves. The name of Chaodong was changed to Anhui Yuanzhong in April 2010. The acquisition was approved by the Chinese government in November 2009. Anhui Yuanzhong has an annual capacity of 10,000 metric tons. In connection with the acquisition of Anhui Yuanzhong, in August 2009, we, through Faith Bloom Limited entered into a Project Investment Contract with the local government of Hanshan County, Anhui Province, People's Republic of China. Pursuant to this agreement, we anticipate investing RMB 1,200,000,000 (approximately $175.7 million) in several phases by 2013, which includes an investment in a new NPCC project that has the capacity to manufacture 200,000 tons of NPCC per year and the purchase of land-use rights for approximately 341,335 square meters (approximately 84.35 acres) of land. This agreement is currently under government review and is subject to governmental approval. In addition to the investment per this agreement, the Company also agreed to purchase the land-use rights for approximately 66,767 square meters (16.5 acres) of land from the local government for Anhui Yuanzhong, which is subject to the approval of the local government. Such approval will require administrative procedures including a public bidding to establish the transaction price. These agreements are investment plans and are not contractually binding until key elements of contract terms such as transaction prices and specific payment schedules are fully agreed upon and evidenced by execution of agreements.

The main equipment and machinery of our NPCC business includes ultra gravity reactors, membrane dispersion micro-mix reactors, carbonators, limestone kilns, slaking equipment, and packaging machines.

We believe that all our properties and equipment have been adequately maintained, are generally in good condition, and are suitable and adequate for our business. In addition, we believe that the newly completed facility and the expected additional land use rights will be sufficient for our expansion efforts.

Item 3. Legal Proceedings

There are no known pending legal proceedings to which we or our properties are subject.

PART II

Item 5. Market For Registrant's Common Equity, Related Shareholder Matters, And Issuer Purchases Of Equity Securities

MARKET PRICE INFORMATION

Our common stock has been quoted on The NASDAQ Global Select Market under the symbol "SDTH" since January 31, 2008. This was after our common stock had been quoted on the NASDAQ Capital Market under the symbol "SDTH" since May 24, 2007. There was no public trading activity in our shares during the two fiscal years through March 31, 2006. From March 31, 2006 to May 24, 2007 there was some minimal trading activity in our shares. The following table provides the high and low sales prices for our common stock for years 2008 and 2009.

Year ending December 31, 2008	High	Low
First Quarter	$ 15.57	$ 7.01
Second Quarter	$ 10.60	$ 7.43
Third Quarter	$ 10.49	$ 6.00
Fourth Quarter	$ 7.15	$ 2.67

Year ending December 31, 2009	High	Low
First Quarter	$ 4.29	$ 2.52
Second Quarter	$ 4.78	$ 3.05
Third Quarter	$ 7.20	$ 3.86
Fourth Quarter	$ 7.19	$ 5.31

Year ending December 31, 2010	High	Low
First Quarter (until March 12)	$ 7.05	$ 5.30

On March 12, 2010, the last reported sale price of our common stock on The NASDAQ Global Select Market was $6.87 per share.

Shareholders

As of March 12, 2010, we had 54,202,036 outstanding shares of common stock held by approximately 310 shareholders of record.

Recent Sales of Unregistered Securities

None.

Dividend Policy

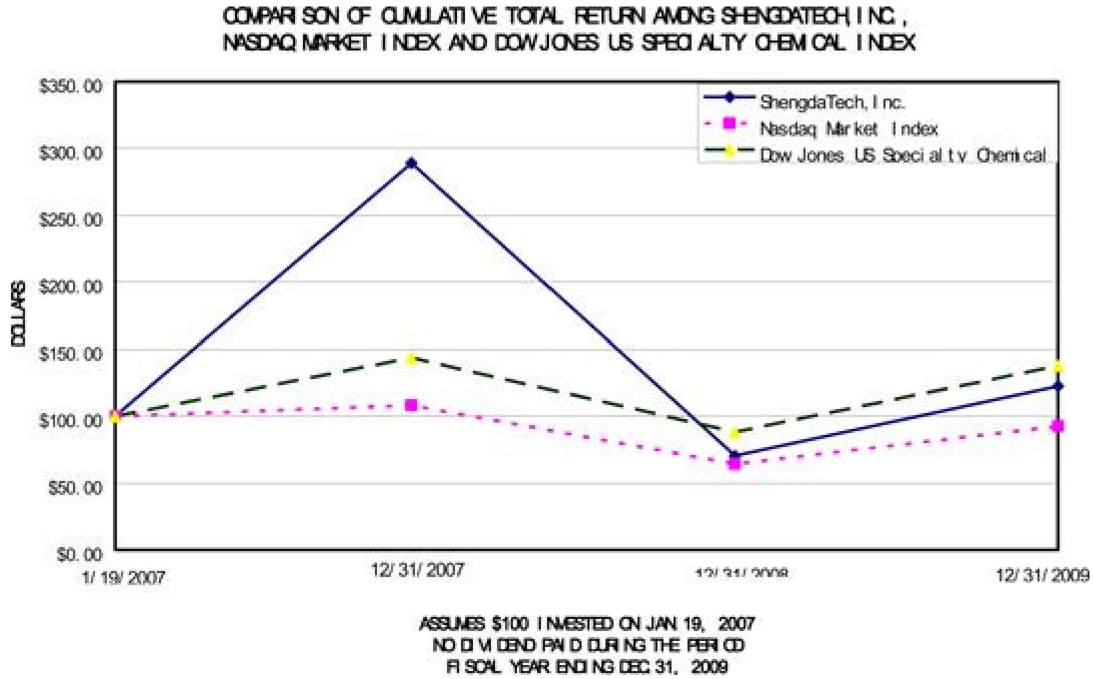
To date, we have neither declared nor paid any cash dividends on shares of our common stock. We presently intend to retain earnings to finance the operation and expansion of our business and do not anticipate declaring cash dividends in the foreseeable future.

Repurchases of Equity Securities

No repurchases of our common stock were made in the fiscal year covered by this Form 10-K.

Stock Price Performance Graph

The following chart compares the cumulative total shareholder return on the Company's shares of Common Stock with the cumulative total stockholder return of (i) the Nasdaq Stock Exchange Market Index and (ii) the Dow Jones US Specialty Chemical Index:



The material in this chart is not soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended or the Exchange Act, whether made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation language in such filing.

Item 6. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations,” our consolidated financial statements and related notes, and the other financial information included in this report.

SHENGDATECH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31, 2005	2006	2007	2008	2009
ASSETS					
Current assets:					
Cash	$ 10,749,300	$ 34,684,142	$ 26,366,568	$ 114,287,073	$ 115,978,763
Accounts receivable	2,583,881	4,115,538	6,075,371	6,806,066	4,600,722
Inventories	253,104	909,493	1,074,820	2,310,995	2,018,283
Due from related parties	-	1,601	1,712	-	-
Prepaid expenses and other receivables	1,314,640	1,028,499	2,262,872	510,825	3,947,086
Income tax refund receivable	-	-	-	-	1,455,906
Current assets of discontinued operations	6,476,727	2,716,399	2,695,151	962,942	801,983
Assets held for sale	-	-	-	-	1,718,475
Total current assets	**21,377,652**	**43,455,672**	**38,476,494**	**124,877,901**	**130,521,218**
Property, plant and equipment, net	4,216,158	18,288,002	56,623,334	98,344,722	123,099,860
Land use rights	-	-	124,028	15,710,333	15,432,743
Intangible assets	-	-	-	-	280,329
Debt issuance costs	-	-	-	3,096,073	1,720,209
Non-current assets of discontinued operations	4,363,518	5,285,677	5,720,082	1,777,800	-
Total assets	**$ 29,957,328**	**$ 67,029,351**	**$ 100,943,938**	**$ 243,806,829**	**$ 271,054,359**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 400,542	$ 1,211,485	$ 2,996,020	$ 4,493,551	$ 3,998,532
Accrued expenses and other payables	721,677	1,076,408	2,848,308	4,342,006	4,737,356
Income taxes payable	195,859	564,151	5,869	1,588,895	60,573
Due to related parties	193,150	2,852,885	633,638	1,737,404	1,572,427
Payable for acquisition	-	-	-	-	3,803,060
Current liabilities of discontinued operations	3,673,512	4,195,158	5,456,918	14,912	42,068
Total current liabilities	**5,184,740**	**9,900,087**	**11,940,753**	**12,176,768**	**14,214,016**
Long-term convertible notes	-	-	-	77,926,310	79,298,539
Non-current income taxes payable	-	-	-	974,131	1,598,237
Note payable to related party	-	-	-	-	601,631
Net deferred income tax liabilities	-	-	-	5,387,262	4,443,810
Non-current liabilities of discontinued operations	-	-	-	293,977	294,708
Total liabilities	**5,184,740**	**9,900,087**	**11,940,753**	**96,758,448**	**100,450,941**
Total shareholders' equity	**24,772,588**	**57,129,264**	**89,003,185**	**147,048,381**	**170,603,418**
Total liabilities and shareholders' equity	**$ 29,957,328**	**$ 67,029,351**	**$ 100,943,938**	**$ 243,806,829**	**$ 271,054,359**

SHENGDATECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,				
	2005	2006	2007	2008	2009
Net sales	$ 14,613,733	$ 22,007,814	$ 46,721,673	$ 82,419,689	$ 102,121,804
Cost of goods sold	9,264,339	13,297,976	26,812,587	48,316,242	60,218,310
Gross profit	**5,349,394**	**8,709,838**	**19,909,086**	**34,103,447**	**41,903,494**
Operating expenses:					
Selling	796,074	1,181,341	1,680,259	2,438,908	2,103,822
General and administrative	426,339	2,110,956	2,658,806	3,074,051	5,669,923
Total operating expenses	**1,222,413**	**3,292,297**	**4,339,065**	**5,512,959**	**7,773,745**
Operating income	**4,126,981**	**5,417,541**	**15,570,021**	**28,590,488**	**34,129,749**
Other income (expense):					
Interest income	8,474	47,654	94,643	132,423	685,858
Interest expense	-	-	-	(7,456,418)	(10,662,252)
Gain on extinguishment of long-term convertible notes	-	-	-	5,511,487	1,624,844
Gain on bargain purchase	-	-	-	-	619,466
Other expense, net	-	(72,690)	(12,094)	(51,604)	(121,976)
Other income (expense), net	**8,474**	**(25,036)**	**82,549**	**(1,864,112)**	**(7,854,060)**
Income from continuing operations before income taxes	**4,135,455**	**5,392,505**	**15,652,570**	**26,726,376**	**26,275,689**
Income tax expense	-	-	450,347	3,705,669	2,721,532
Income from continuing operations	**4,135,455**	**5,392,505**	**15,202,223**	**23,020,707**	**23,554,157**
Income (Loss) from discontinued operations, net of taxes	11,827,016	12,134,143	11,828,122	13,007,595	(449,550)
Net Income	$ 15,962,471	$ 17,526,648	$ 27,030,345	$ 36,028,302	$ 23,104,607
Basic Earnings per share:					
Income from continuing operations	$ 0.07	$ 0.11	$ 0.28	$ 0.42	$ 0.43
Income (Loss) from discontinued operations	$ 0.18	$ 0.23	$ 0.22	$ 0.24	(0.00)
Net income per share	$ 0.25	$ 0.34	$ 0.50	$ 0.66	$ 0.43
Diluted Earnings per share:					
Income from continuing operations	$ 0.07	$ 0.11	$ 0.28	$ 0.39	$ 0.43
Income (Loss) from discontinued operations	$ 0.18	$ 0.23	$ 0.22	$ 0.21	(0.00)
Net income per share	$ 0.25	$ 0.34	$ 0.50	$ 0.60	$ 0.43
Weighted average shares outstanding:					
Basic	64,455,210	51,900,641	54,107,408	54,202,036	54,202,036
Diluted	64,455,210	52,022,801	54,188,410	62,205,660	54,204,923

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative explanation from the perspective of our management on our business, financial condition, results of operations, and cash flows.

Overview

We are a leading and fast growing Chinese manufacturer of specialty additives. Our nano-precipitated calcium carbonate ("NPCC") products are used as functional additives and fillers in a broad array of products due to their low cost and the overall improved chemical and physical attributes they provide to end products. As a market leader of high-grade NPCC products, we deploy advanced processing technology to convert limestone into high quality NPCC products, which are sold to our customers in the tire, PVC building materials, PP building materials, ink, paint, latex, adhesive, paper and PE industries.

Factors Affecting our Results of Operations

Our operating results are primarily affected by the following factors:

- ***NPCC Industry Growth***. We believe the growth of the market for NPCC in China for the long term and the penetration of NPCC applications into different industries will be general determining factors in evaluating our financial condition and operating performance.

- ***Research and Development.*** We believe our research and development capabilities have become an increasingly important driver of our growth. Our research and development team has developed a technology to modify the property of a specific NPCC product to fit a particular end product and, in addition, improve the property of such end product. We believe this technology is essential to the development and introduction of our new NPCC products, and we focus on our research and development capabilities in evaluating our operating performance.

- ***Production Capacity and Production Volume***. We believe the rapid growth of the NPCC market in China and our ability to continuously penetrate new areas of NPCC applications are factors that determine our financial condition and operating performance. We believe that the ability to increase our production capacity will allow us to significantly increase revenues and profit.

- ***Price of NPCC Products***. We believe our ability to maintain a stable price structure with the quality of our products and our technical service capabilities are factors that determine our financial condition and operating performance. We believe most of our customers in China use NPCC as an additive to enhance functionalities of their end products and to save costs, which are directly affected by the quality of NPCC used. Accordingly, we believe our reputation for quality and reliable technical support allows us to command relatively higher average selling prices and generate higher gross margins than our competitors who do not possess the same reputation.

- ***Raw Material Supply and Prices***. We focused on the costs of raw material supplies in evaluating our financial condition and operating performance. The per unit costs of producing our products are subject to the supply and price volatility of coal and other raw materials. We expect that they will continue to be affected by factors such as fluctuations of world energy prices and general economic conditions such as inflation and transportation.

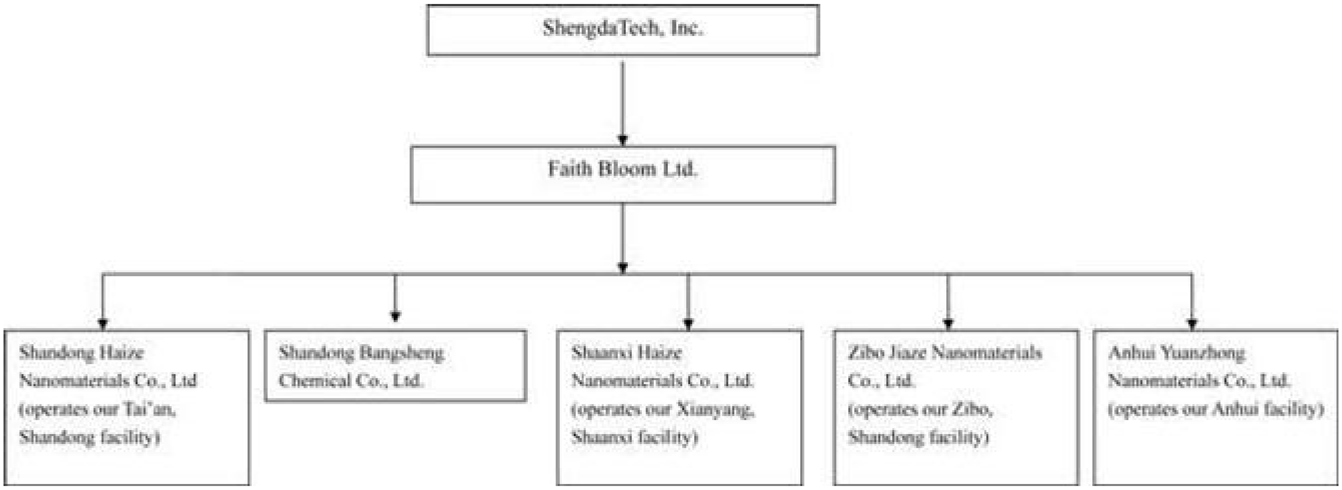
- ***Competition***. While China's NPCC market is expected to grow, we are subject to intense competition. We face significant competition from NPCC manufacturers within China and well-established chemical companies from other countries. We compete based upon proprietary technologies, manufacturing capacity, product quality, production costs and the ability to produce a diverse range of NPCC products. Whether we compete successfully will determine our net sales, financial condition and operating performance.

Organization

ShengdaTech is incorporated in Nevada in the United States of America. ShengdaTech's wholly-owned subsidiaries, Chaodong, Shandong Haize Nanomaterials Co., Ltd. ("Shandong Haize Nano"), Bangsheng Chemical, Shaanxi Haize Nanomaterials Co., Ltd. ("Shaanxi Haize Nano"), and Zibo Jiaze Nanomaterials Ltd. ("Zibo Nano") and collectively the "PRC operating subsidiaries" are established under the laws of the PRC.

On December 11, 2009, Faith Bloom, a wholly-owned subsidiary of ShengdaTech, acquired 100% of the equity interest of Chaodong. Chaodong was an inactive manufacturer of NPCC products. The name of Chaodong was changed to Anhui Yuanzhong Nanomaterials Co., Ltd. in April 2010.

Our corporate structure is depicted in the following chart:



Net Sales

We derive our net sales from the sale of our NPCC products.

The most significant factors that directly or indirectly affect our sales are as follows:

- Manufacturing capacity of NPCC;
- Breakthroughs of R&D and applications of NPCC;
- Pricing of our NPCC products;
- Competitive landscape;
- Industry demand; and
- Exchange rate

Manufacturing capacity of NPCC. We increased our annual manufacturing capacity of NPCC from 90,000 metric tons as of December 31, 2006 to 190,000 metric tons as of December 31, 2008 and further to 250,000 metric tons as of December 31, 2009. Our Phase I NPCC facility in Zibo started production in late August 2009. The facility reached 90% capacity utilization at the end of 2009 and 100% capacity in January 2010. Our Anhui facility started production in May 2010 after we completed certain repair and maintenance of the facility and equipment and performed certain technological upgrades consistent with our Tai'an, Shandong facility. Increasing capacity allows us to provide a stable supply of NPCC to our existing customers and attract new customers.

Breakthroughs of research and development and applications of NPCC. We jointly developed with Tsinghua University the membrane-dispersion technology for NPCC production, which was officially granted a patent in November 2007. With the membrane-dispersion patent, we intend to maintain our leading position in technology for the NPCC market in China through continuing efforts in developing new NPCC products for applications in different industries.

Pricing of our NPCC products. The pricing of our NPCC products generally is determined by manufacturing costs, overall market demand, competition, and, increasingly, costs associated with developing the technology. In addition, the pricing of some of our NPCC products depends on the amount of cost saving that a particular industry or customer can achieve. For example, with respect to tire and PVC building materials, the pricing of NPCC products is principally affected by the cost saving benefit our customers realize by replacing some of the relatively expensive carbon black and silicon dioxide with less expensive NPCC. With respect to paper, the pricing of NPCC is principally affected by comparable imported products.

Competitive landscape. The competition in the Chinese NPCC market is stratified. In low-end applications, where several options are available, including precipitated calcium carbonate (PCC) and other fillers, suppliers are experiencing price pressure from their counterparts and from end users. However, in more complex applications, where NPCC use has proven to lower manufacturing costs and improve quality, end users will accept higher-priced and technologically advanced products, especially producers of tires, adhesives, high-end oil and inks, and auto coating industries. We target potential end users of high-end NPCC products. Our exclusive, patent-protected membrane-dispersion technology differentiates us from other competitive offerings and enables us to penetrate the market.

Industry demand. Our business and sales of product growth depends on industry demand for NPCC. The downstream industries we supply are the tire, polyvinyl chloride (PVC) building materials, ink, paint, latex, adhesive, paper and polyethylene (PE) industries. Given the diverse application of our NPCC products and the development of our R&D pipeline for new end markets, we believe that our business is well positioned for continued growth.

Section 421 of the Trade Act of 1974. China's accession to the World Trade Organization ("WTO") included transitional remedies to address import surges into other countries leading to market disruption. In the United States, the relevant safeguard provision was enacted as Section 421 of the Trade Act of 1974. Section 421 permits U.S. domestic industries and workers injured by rapidly increasing imports from China to seek relief. Similar to other safeguard provisions, a Section 421 investigation is initiated by the filing of a petition with the United States International Trade Commission ("ITC"). On the basis of information developed in such investigation, the ITC determined, pursuant to Section 421(b)(1) of the Trade Act of 1974, that certain passenger vehicle and light truck tires from the PRC are being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products. On September 11, 2009, the United States government announced the decision to grant relief in the form of increasing the tariffs on such passenger vehicle and light truck tires for a three-year period by 35% in year one, 30% in year two, and 25% in year three. The increase in tariffs may harm the export business of our NPCC customers in the tire industry, which would decrease demand for our NPCC products, cause our revenue to decline and materially and adversely affect our business.

Exchange rate. Our sales of products have been affected by the foreign exchange rate between USD and RMB because the functional currency of our operating subsidiaries in the PRC is Renminbi while our financial statements have been expressed in USD, the functional currency of ShengdaTech, Inc. The accompanying consolidated statements of income have been translated using the average exchange rates prevailing during each of the periods presented.

Cost of Goods Sold

Cost of goods sold consists primarily of raw materials, packaging, utility and supply costs consumed in the manufacturing process, manufacturing labor, depreciation expenses and direct overhead expenses necessary to manufacture finished goods as well as warehousing and distribution costs such as inbound freight charges, shipping and handling costs, purchasing and receiving costs, and inspection costs.

The most significant factors that directly or indirectly affect our cost of goods sold are as follows:

- Processing technologies for NPCC;
- Transporting, supply, and price of limestone;
- Supply and price of limestone;
- Availability and price of anthracite and soft coal;
- Supply and price of electricity; and

- Exchange rate.

Processing technologies for NPCC. The advancement of NPCC processing technologies is crucial in order to deliver value to our clients. In conjunction with Tsinghua University, we successfully completed the development of a more advanced membrane-dispersion technology, which was officially granted a patent in November 2007. We and Tsinghua University each have a 50% ownership share of the technology. We have the exclusive right to use the technology under a license agreement with Tsinghua University for the life of the patent. The membrane-dispersion technology enables us to produce NPCC in a more efficient and cost effective manner.

Transporting, supply, and price of limestone. Limestone is an important raw material for NPCC. Our average unit price for limestone have fluctuated from $6.53 per metric ton in 2008 to $6.90 per metric ton in 2009. Our Shaanxi Facility is close to a high-quality limestone quarry, which enables us to minimize transportation cost of limestone. We maintain a strong relationship with our mining contractor which conducts extracting activities for us. In addition, on June 19, 2008, we entered into an investment agreement with the Management Committee of Zibo High-Tech Industrial Development Zone (the “Management Committee”). The Management Committee has agreed to continue to sell to us sources of good quality limestone. As of December 31, 2009, the transfer of mining rights to our Company is still under review of the Management Committee. In addition, the acquisition of Anhui Yuanzhong on December 11, 2009 included approximately two years of limestone mining rights. We are applying for the extension of mining rights with the PRC government. If the application is approved, another thirty years of mining rights will be granted. In addition, we have entered into a Project Investment Agreement with the government of Hanshan County, Anhui Province, which also includes the exclusive mining rights of good quality limestone. We believe that our access to these limestone sources will be sufficient to satisfy our limestone requirements and expansion needs for the foreseeable future.

Availability and price of anthracite and soft coal. Anthracite and soft coal are used in the production of our NPCC products as key raw material and fuel, respectively. Anthracite and soft coal represented approximately 37.6% of our total cost of goods sold in 2009. We have long-term relationships with our coal suppliers. We have also developed a network of alternative suppliers for backup purposes. Average anthracite prices has fluctuated in recent periods, increasing from approximately $145 per metric ton for 2008 to approximately $151 per metric ton for 2009.

Supply and price of electricity. Electricity from the grid is the primary power source for the production of NPCC, and it is currently supplied by the local government. The price of electricity for the NPCC industry remained fairly consistent at $0.08/kwh for 2008 and 2009.

Exchange rate. Our cost of products sold has been affected by the foreign exchange rate between USD and RMB because the functional currency of our operating subsidiaries in the PRC is the RMB while our financial statements are expressed in USD, which is the functional currency of ShengdaTech, Inc. The accompanying consolidated statements of income have been translated using the average exchange rates prevailing during each of the periods presented.

Gross Profit

Our gross profit has been, and will be, affected by many factors, including (a) the demand for our products, (b) the average selling price of our products, which in turn depends in part on the mix of products sold, (c) new product introductions, (d) the volume and costs of manufacturing of our products, (e) competitive activities, (f) expanded international operations and (g) entry into new industry applications.

Operating Expenses

Operating expenses consist of selling and general and administrative expenses.

Selling, general and administrative expenses consist primarily of personnel costs, including salaries, bonuses, commission and employee benefits, office facility and equipment costs, amortization of land use rights, research and development costs, and other support costs including utilities, insurance, and professional fees.

Critical Accounting Policies and Estimates

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our significant accounting policies are set forth in detail in Note 2 to our consolidated financial statements included elsewhere in this annual report. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements

Revenue Recognition - We recognize revenues from the sale of products when they are realized and earned. We consider revenue realized or realizable and earned when (1) it has persuasive evidence of an arrangement, (2) delivery has occurred, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Revenues are not recognized until products have been shipped to the client (except for our exported products, for which title transfers at the customer's port), risk of loss has transferred to the client and client acceptance has been obtained, client acceptance provisions have lapsed, or we have objective evidence that the criteria specified in client acceptance provisions have been satisfied. We sell all products to end users and recognize revenues, net of sales rebates and taxes, when the products are shipped. We have no post-delivery obligations on our products sold.

Valuation of Long-lived Assets - The carrying values of our long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project the undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections were to indicate that the carrying value of the long-lived asset will not be recovered, the carrying value of the long-lived asset is reduced by the estimated excess of the carrying value over the estimated fair value. Assets held for sale for discontinued operations are recognized at the lesser of carrying value or fair value less costs to sell.

Long-term convertible notes - On January 1, 2009, as required by US GAAP, we changed how we account for our long-term convertible notes (the "Notes") The change significantly impacts the accounting for our convertible notes by requiring us to account separately for the liability and equity components of the Notes because, upon conversion at any time before June 1, 2011, the make-whole interest payment may be settled in cash. The liability component is measured so the effective interest expense associated with the convertible notes reflects our borrowing rate at the date of issuance for similar debt instruments without the conversion feature. The difference between the cash proceeds associated with the convertible notes and this estimated fair value is recorded as a debt discount and amortized to interest expense through June 1, 2011, the earliest date the holders of the Notes can demand payment. Determining the fair value of the liability component requires the use of accounting estimates and assumptions. These estimates and assumptions are judgmental in nature and could have a significant impact on the determination of the liability component and, in effect, the associated interest expense. According to the guidance, the carrying amount of the liability component is determined by measuring the fair value of a similar liability that does not have an associated equity component. If no similar liabilities exist, estimates of fair value are primarily determined using assumptions that market participants would use in pricing the liability component, including market interest rates, credit standing, yield curves, and volatilities.

Business combination - The application of the purchase accounting requires certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible assets and property, plant and equipment as well as the liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. Measurement of fair value and useful lives are based to a large extent on anticipated cash flows. If actual cash flows vary from those used in calculating fair values, this may significantly affect our future results of operations. Factors that may affect the assumptions regarding future cash flows include: long-term sales forecasts and anticipation of selling price erosion due to excessive capacities and competition. For significant acquisitions, the purchase price allocation is carried out with assistance from independent third-party valuation specialists. The valuations are based on information available at the acquisition date.

Results of operations

Continuing Operation —Comparison for the Years ended December 31, 2008 and 2009

Sales of Products

	For the Years Ended December 31,					
	2008		2009		Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	%
Net sales-NPCC	82,419,689	100.0	102,121,804	100.0	19,702,115	23.9

For the year ended December 31, 2009, net sales increased by $19,702,115 or 23.9% compared to the year ended December 31, 2008. The increase was mainly due to an increase in sales volume of 32,684 metric tons driven by an increased market demand during the year ended December 31, 2009, resulted in a $15,745,065 increase in sales. In addition, the average selling price for the year ended December 31, 2009 was approximately $482 per metric ton, an increase of $22 per metric ton from an average selling price of $460 per metric ton for the year ended December 31, 2008, which resulted in a $3,957,050 increase in sales. The increase in our average selling price was due primarily to our pricing strategy and the change in our product mix based on market demands.

We expect our average selling price to fluctuate narrowly within a small range. We believe the quality of our products and our strong technical service capability will allow us to maintain a stable price structure. For the year ended December 31, 2009, our sales for plastic, adhesive and latex applications increased by $15,972,617, $3,523,549, and $873,377, respectively, compared to the year ended December 31, 2008. Our sales for rubber, paper, paint and ink applications for the year ended December 31, 2009 remained stable compared to the year ended December 31, 2008.

Cost of Goods Sold and Gross Profit

	For the Years Ended December 31,					
	2008		2009		Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	(%)
Cost of Goods Sold-NPCC	48,316,242	58.6	60,218,310	59.0	11,902,068	24.6
Gross Profit-NPCC	34,103,447	41.4	41,903,494	41.0	7,800,047	22.9

The cost of goods sold increased by $11,902,068 or 24.6% for the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase in cost of goods sold comprised an increase in raw material cost of $6,239,578, an increase in utilities of $4,050,260 and an increase in other production expenses of $1,612,230. Raw materials for our products are mainly limestone, anthracite, and supplemental chemicals. During 2009, our raw materials costs per metric ton increased by 5.2% or $7 compared to 2008. We expect the cost for raw materials to fluctuate with commodity price of anthracite. Price of anthracite correlates with general changes in energy price. During 2009, utilities costs and other productions expenses per metric ton increased 5.6% or $7 compared to 2008 due to price increase in electricity and initial production start-up costs at our Zibo, Shandong Facility for the first several months after the August 2009 production launch.

The gross margin decreased slightly by 0.4%, from 41.4% for the year ended December 31, 2008 to 41.0% for the year ended December 31, 2009. An increase in sales volume and the average selling price in the current period were offset by an increase in raw material costs, utilities and production expenses. The initial production start-up costs at our Zibo, Shandong Facility for the first several months after the August 2009 production launch had a negative impact of $1,006,410 on our gross margin for the year ended December 31, 2009.

Operating Expenses

	For the Years Ended December 31,					
	2008		2009		Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	(%)
Operating Expenses						
Selling expenses	2,438,908	3.0	2,103,822	2.0	(335,086)	(13.7)
General and administrative expenses	3,074,051	3.7	5,669,923	5. 6	2,595,872	84.4
Total Operating expenses	5,512,959	6.7	7,773,745	7.6	2,260,786	41.0

Selling expenses decreased by $335,086, or 13.7%, for the year ended December 31, 2009 compared to the prior year. This decrease was mainly due to a decrease of approximately $572,126 that resulted from a change in our NPCC staff commission policy to lower commission rates from 3.0% to 1.6% effective January 1, 2009, which was partially offset by an increase of $237,040 in office expenses, salary and welfare expenses.

General and administrative expenses increased by $2,595,872 or 84.4% for the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase was mainly due to an increase in our professional services costs of $1,223,579 associated with accounting and auditing and other professional expenses, an increase in our payroll costs associated with executive compensation of $656,005, an increase in research and development expenses of $214,510, an additional amortization charge for land use rights and related property tax expenses for our new Zibo, Shandong facility of $212,636 and $141,724, respectively, and an increase of $147,418 in other miscellaneous expenses.

Operating Income and Income from Continuing Operations before Income Taxes

	For the Years Ended December 31,					
	2008		2009		Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	(%)
Operating Income	28,590,488	34.7	34,129,749	33.4	5,539,261	19.4
Interest income	132,423	0.2	685,858	0.7	553,435	417.9
Gain on extinguishment of long-term convertible notes	5,511,487	6.7	1,624,844	1.6	(3,886,643)	(70.5)
Other expenses	(51,604)	(0.1)	(121,976)	(0.1)	(70,372)	136.4
Gain on bargain purchase	-	-	619,466	0.6	619,466	-
Interest expense	(7,456,418)	(9.0)	(10,662,252)	(10.4)	(3,205,834)	(43.0)
Income from Continuing operations before income taxes	26,726,376	32.4	26,275,689	25.7	(450,687)	(1.7)
Income tax expense	3,705,669	4.5	2,721,532	2.7	(984,137)	(26.6)

Operating income increased by $5,539,261 or 19.4% for the year ended December 31, 2009, compared to the year ended December 31, 2008.

Interest income for the year ended December 31, 2009 increased by $553,435 compared to the year ended December 31, 2008, which was mainly due to an increased average cash balance as a result of the proceeds from the issuance of convertible notes in May 2008.

Interest expense, related primarily to our convertible notes, was $10,635,500 for the year ended December 31, 2009. Interest expense included $5,447,649 contractual coupon interest on convertible notes, $1,217,755 amortization of debt issuance costs, and $5,690,927 amortization of debt discount. Interest expense was reduced by $1,720,831 interest cost capitalized during the year ended December 31, 2009. Our long-term convertible notes balance is accreted through the amortization of our debt discount to interest expense. Interest expense is calculated each period on the debt balance during the year using the effective interest method.

During the first quarter of 2009, we recorded a gain on extinguishment of debt of $1,624,844 due to the repurchase of the convertible notes with an aggregate principal amount of $5,223,000 from certain investors for cash of $2,535,745 plus accrued interest of $72,144 through privately negotiated transactions. The difference of $1,062,411 was allocated to debt issuance cost and the discount on the convertible notes in an amount of $158,109 and $904,302 respectively. We did not repurchase any additional convertible notes during the remaining year of 2009. The Company is not actively seeking to repurchase additional convertible notes and has no plan for early termination of the convertible notes.

On December 11, 2009, we completed our acquisition of Anhui Yuanzhong and recognized a gain on bargain purchase of $619,466. The company was able to acquire Anhui Yuanzhong with a bargain purchase price due to the fact that the seller planned to focus on its core business of manufacturing cement and that the seller has experienced difficulty in selling the business in the market as all equipment used by the business was specifically built to fit ultra gravity technology systems. We are one of the very few potential buyers that have the technology, human resources, research and development expertise, and sales and marketing capabilities to operate the business. Prior to recording a gain, the Company reassessed whether all acquired assets and all liabilities assumed have been identified and performed re-measurements to verify that the consideration paid and assets acquired have been properly valued and recorded based on information available to the Company.

Our effective income tax rate decreased from 13.9% for the year ended December 31, 2008 to 10.3% for the year ended December 31, 2009 due primarily to the effect of the PRC income tax holiday, which amounted to $3,673,625 and $4,385,137, respectively.

Discontinued Operations—Comparison for the Years ended December 31, 2008 and 2009

In December 2009, the Company decided to discontinue operations at our Bangsheng Chemical Facility and to sell all of its fixed assets and inventory. The facility ceased production at the end of October 2008. Our Bangsheng Chemical Facility operation was a component of our consolidated entity, and as such requires discontinued operations reporting treatment.

A summary of the operating results of discontinued operations for the years ended December 31, 2009 and 2008 is as follows:

	For the Years Ended December 31,					
	2008		**2009**		**Change**	
	Amount ($)	**% of Total Revenue**	**Amount ($)**	**% of Total Revenue**	**Amount ($)**	**(%)**
Net Sales	**67,007,450**	**100.0**	**295,899**	**100.0**	**(66,711,551)**	**(99.6)**
Gross profit	21,020,951	31.4	-	-	(21,020,951)	(100.0)
Impairment of property, plant and equipment	3,931,253	5.9	-	-	(3,931,253)	(100.0)
Income /(Loss) from discontinued operations before income taxes	15,758,189	23.5	(449,550)	(151.9)	(16,207,739)	(102.9)
Income tax expense	2,750,594	4.1	-	-	(2,750,594)	(100.0)

The net sales of $295,899 for the year ended December 31, 2009 were generated from sale of Bangsheng Chemical Facility's residual coal inventory after it ceased operations at the end of October 2008. Our Bangsheng Chemical Facility conducted ordinary course of business between January 1, 2008 and October 31, 2008 and its operating results during that period were included in our financial statement for the year ended December 31, 2008.

Due to the cessation of production at our Bangsheng Chemical Facility, the carrying amount of the plant equipment was reduced to the fair value based on the estimated selling price in the used equipment market. This resulted in an impairment loss of fixed asset of $3,931,253 for the year ended December 31, 2008. We re-assessed our Bangsheng Chemical Facility equipment in 2009 based on the estimated selling price in the used equipment market and determined that no further impairment of loss is required for the year ended December 31, 2009.

We did not have income tax expense for the discontinued operations for the year ended December 31, 2009 due to our loss position during the year. The effective income tax rate for 2008 was approximately 17.4%.

Continuing Operation—Comparison for the Years ended December 31, 2007 and 2008

Sales of Products

	For the Years Ended December 31,					
	2007		2008		Change	
	Amount ($)	**% of Total Revenue**	**Amount ($)**	**% of Total Revenue**	**Amount ($)**	**%**
Net sales-NPCC	46,721,673	100.0	82,419,689	100.0	35,698,016	76.4

For the year ended December 31, 2008, net sales increased by $35,698,016 or 76.4% compared to the year ended December 31, 2007. The increase was mainly due to an increase in sales volume of 60,062 metric tons driven by an increased market demand during the year ended December 31, 2008, which resulted in a $27,608,525 increase in sales. In addition, the average selling price for the year ended December 31, 2008 was approximately $460 per metric ton, an increase of $75 per metric ton from an average selling price of $385 per metric ton for the year ended December 31, 2007, which resulted in a $8,089,491 increase in sales. The increase in our average selling price was due primarily to our pricing strategy and the change in our product mix based on market demands.

Cost of Goods Sold and Gross Profit

	For the Years Ended December 31,					
	2007		2008		Change	
	Amount ($)	**% of Total Revenue**	**Amount ($)**	**% of Total Revenue**	**Amount ($)**	**(%)**
Cost of Goods Sold-NPCC	26,812,587	57.4	48,316,242	58.6	21,503,655	80.2
Gross Profit-NPCC	19,909,086	42.6	34,103,447	41.4	14,194,361	71.3

The cost of goods sold for our NPCC business increased by $21,503,655 or 80.2% for the year ended December 31, 2008 compared to the prior year. This increase was mainly due to (i) an additional $16,092,246 because of increased sales volume as a result of our NPCC capacity expansion; (ii) an additional $5,411,409 from the increase in the production cost of $93.2 per metric ton as the result of the increase in the price of raw materials.

Our gross margin of NPCC decreased from 42.6% to 41.4%. This was mainly due to an increase in the average products cost of $46.4 per metric ton as a result of the price increase of anthracite and soft coal by $60.6 and $32.5, respectively, per metric ton. However, there was an increase of gross profit of $14,194,361 or 71.3% due to the increase in sales volume.

Operating Expenses

	For the Years Ended December 31,					
	2007		2008		Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	(%)
Operating Expenses						
Selling expenses	1,680,259	3.6	2,438,908	3.0	758,649	45.2
General and administrative expenses	2,658,806	5.7	3,074,051	3.7	415,245	15.6
Total Operating expenses	4,339,065	9.3	5,512,959	6.7	1,173,894	27.1

Selling expenses increased by $758,649, or 45.2%, for the year ended December 31, 2008 compared to the prior year. The main reasons were (1) sales staff commission increased by $747,657 as a result of the increase of sales; (2) running expenses such as salary expenses, office expenses and traveling expenses increased by $10,992.

General and administrative expense increased by $415,245 or 15.6% for the year ended December 31, 2008 compared to the prior year. The main reasons were (1) an increase of taxes of $85,894 paid in the form of land use tax to the government as the result of the establishment of our Zibo, Shandong facility; (2) an increase of $256,648 in depreciation charge for our research and development center and an amortization charge of $101,440 for land use rights for our Zibo, Shandong facility; (3) an increase of $47,064 in salary expenses; (4) an increase of $100,542 in research and development expenses; (5) an decrease in our professional service fee of $155,477 due to partial allocation to Bangsheng Chemical Facility since 2008; (6) a decrease of $20,866 in the running expenses, such as office expenses, traveling expenses and entertainment expenses.

Operating Income and Income from Continuing Operations before Income Taxes

	For the Years Ended December 31,					
	2007		2008		Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	(%)
Operating Income	15,570,021	33.3	28,590,488	34.7	13,020,467	83.6
Interest income	94,643	0.2	132,423	0.2	37,780	39.9
Gain on extinguishment of long-term convertible notes	-	-	5,511,487	6.7	5,511,487	-
Other expenses	(12,094)	(0.0)	(51,604)	(0.1)	(39,510)	326.7
Interest expense	-	-	(7,456,418)	(9.1)	(7,456,418)	-
Income from Continuing operations before income taxes	15,652,570	33.5	26,726,376	32.4	11,073,806	70.7
Income tax expense	450,347	1.0	3,705,669	4.5	3,255,322	722.8

Interest income for the year ended December 31, 2008 increased by $37,780 or 39.9%, which was mainly due to the increase of average cash balance from the proceeds of convertible note in May 2008.

Gain on extinguishment of long-term convertible notes for the year ended December 31, 2008 was $5,511,487, as a result of our repurchase of $19.8 million face amount of our convertible notes.

Other expense for the year ended December 31, 2008 increased by $39,510, which was mainly due to the increase in foreign exchange currency losses arising from our overseas sales.

Interest expense, related primarily to our convertible notes, was $7,456,418 for the year ended December 31, 2008. Interest expense included $3,963,167 contractual coupon interest on convertible notes, $861,877 amortization of debt issuance costs, and $3,282,469 amortization of debt discount. The interest expense was reduced by $651,095 for interest cost capitalized during the year ended December 31, 2008. Our long-term convertible notes balance is accreted through the amortization of our debt discount to interest expense. Interest expense is calculated each period on the debt balance during the year using the effective interest method.

Our effective income tax rate increased to 13.9% for the year ended December 31, 2008 from 2.9% for the year ended December 31, 2007 due to (1) the Company had an income in the United States for the year ended December 31, 2008 at a rate of 34% while nil income for the year ended December 31, 2007; (2) higher tax holiday rates for the PRC entities for the year ended December 31, 2007 as compared to the year ended December 31, 2008.

Discontinued Operations— Comparison for the Years ended December 31, 2007 and 2008

In December 2009, we decided to discontinue operations at our Bangsheng Chemical Facility and to sell all of its fixed assets and inventories. The facility ceased production at the end of October 2008. Our Bangsheng Chemical operation was a component of our consolidated entity, and as such requires discontinued operations reporting treatment.

A summary of the operating results of discontinued operations for the year ended December 31, 2008 and 2007 is as follows:

	For the Years Ended December 31,					
	2007		2008		Change	
	Amount ($)	% of Total Revenue	Amount ($)	% of Total Revenue	Amount ($)	(%)
Net Sales	53,933,120	100.0	67,007,450	100.0	13,074,330	24.2
Gross profit	14,650,869	27.2	21,020,951	31.4	6,370,082	43.5
Impairment of property, plant and equipment	-	-	3,931,253	5.9	3,931,253	-
Income from discontinued operations before income taxes	14,165,415	26.3	15,758,189	23.5	1,592,774	11.2
Income tax expense	2,337,293	4.3	2,750,594	4.1	413,301	17.7

Sales of our coal-based chemical business products increased by $13,074,330, or 24.2%, for the year ended December 31, 2008 compared to the prior year. The increase was mainly due to (1) additional revenue of $5,579,085 as a result of the increased price of ammonium bicarbonate by $35.5 per metric ton, which was partially offset by the decreased sales volume by 28,588 metric tons; (2) additional revenue of $1,150,553 as a result of the increased price of methanol by $111.6 per metric ton, which was partially offset by decreased sales volume of 6,376 metric tons; (3) additional revenue of $5,919,751 as a result of the increased price of liquid ammonia by $144.3 per metric ton, which was partially offset by decreased sales volume of 14,160 metric tons; (4) additional revenue of $4,617 as a result of the increased price of ammonia by $16.3 per metric ton, which was partially offset by decreased sales volume of 93 tons; (5) additional revenue of $543,401 as a result of the increased price of melamine by $262.9 per metric ton, which was offset by the decreased sales volume by 1,443 tons. The decrease in sales volume was due to the fact that our Bangsheng Chemical Facility was mandated to stop production in October 2008 as it was located in designated residential and non-manufacturing business zones based on the local government's enhanced urban safety and environment standard.

The gross margin of our coal-based chemical business increased by 43.5% (or $6,370,082 in gross profit), from 27.2% to 31.4%, which was mainly due to the increases in the sales prices of our chemical products which was partly offset by the increase in the prices of our raw materials.

Due to the cessation of production at our Bangsheng Chemical Facility, the carrying amount of the plant equipment was reduced to the fair value based on the estimated selling price in the used equipment market. This resulted in an impairment loss of fixed asset of $3,931,253 for the year ended December 31, 2008.

Our effective income tax rate for the Bangsheng operations for the year ended December 31, 2007 and 2008 remained stable.

Liquidity and Capital Resources

	As of and for the Years ended December 31,		
	2007	2008	2009
Cash	26,366,568	114,287,073	115,978,763
Accounts receivable, net	6,075,371	6,806,066	4,600,722
Working capital	26,535,741	112,701,133	114,588,727
Total cash provided by /(used in) continuing operations:			
Cash provided by operating activities	16,886,666	25,505,205	27,978,434
Cash used in investing activities	(38,065,706)	(52,344,883)	(24,290,530)
Cash (used in) provided by financing activities	(1,995,105)	99,472,240	(1,934,114)
Net cash provided by /(used in) discontinued operations:	14,085,213	14,758,320	(141,432)

We believe, based on our current cash levels as well as the forecast operating cash flows of 2010, that we will have sufficient funds to finance our current operations for at least the next 12 months. However, we have also planned additional capital expenditures in the next 12 months to expand our business. We anticipate that these expenditures will be funded from working capital and financing activities. We believe that the capital expenditures may be influenced by changes and there is no assurance that we will be able to obtain the necessary funds for such capital expenditures.

Our capital expenditures for the fiscal years 2007, 2008, and 2009 were $38,929,887, $53,827,097, and $24,500,728, respectively. In past years, our capital expenditures consisted primarily of costs of obtaining land use rights and purchases of property, plant and equipment and our research and development facility. We estimate that capital expenditures for 2010 will be between $64,000,000 and $70,000,000, which we will use mainly for the expansion of our Anhui facility and Zibo, Shandong facility. Capital expenditure for the six months period ended June 30, 2010 was approximately $17,600,000.

Cash. Our cash was held for capital expenditures, strategic investment and working capital purposes. As of December 31, 2009, our cash balance was $115,978,763 as compared to $114,287,073 as of December 31, 2008. The increase was primarily due to positive cash flow from operations partly offset with repurchase of convertible notes and investment in property, plant and equipment. We did not enter into investments for trading or speculative purposes.

Accounts receivable. Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our shipping and billing activity and cash collections. We established a credit policy that grants a 30 to 90 day credit term in 2009 to customers who meet our credit evaluation criteria. We exclude cash sales in our calculation of accounts receivable turnover in days. Accounts receivable turnover in days were 58 days in 2009, 60 days in 2008 and 63 days in 2007. As of December 31, 2009, there were no overdue accounts receivable.

Working capital. Our working capital balance fluctuates from period to period, which is affected by our cash flow from operating activities. Working capital includes total current assets, excluding assets held for sale, net of total current liabilities. Working capital increased from $112,701,133 as of December 31, 2008 to $114,588,727 as of December 31, 2009 due to the increased cash flow from operating activities.

Cash flows from operating activities. Cash provided by operating activities primarily consists of our cash receipts from product sales and the effect of changes in working capital and other operating activities. A primary factor affecting our operating cash flow is the timing of the cash receipts of the proceeds from the sales of NPCC and payments to purchase raw materials. Cash provided by operating activities for the year ended December 31, 2009 increased to $27,978,434 from $25,505,205 for the year ended December 31, 2008 primarily because of our increased collection of proceeds from the products sold. Cash provided by operating activities for the year ended December 31, 2008 increased to $25,505,205 from $16,886,666 for the year ended December 31, 2007 because of increased production capacity of our NPCC facility. The acquisition consideration of $3,803,060 was paid in January 2010.

Cash used in investing activities. Cash used in investing activities for the year ended December 31, 2009 decreased to $24,290,530 from $52,344,883 for the year ended December 31, 2008; cash used in investing activities for the year ended December 31, 2008 increased to $52,344,883 from $38,065,706 for the year ended December 31, 2007. These changes in cash flows used in investing activities were primarily due to the timing of our capacity build-up activities during the three-year period. Phase III (60,000 metric tons) construction of our Shaanxi facility began in the beginning of 2008 and Phase I construction of our Zibo, Shandong facility began its 60,000 metric tons construction at the end of 2008. Cash used in investing activities for the year ended December 31, 2009 primarily related to the construction of our Zibo, Shandong facility with an annual production capacity of 60,000 metric tons. The Zibo, Shandong facility was put into use at the end of August 2009.

Cash used in financing activities. Cash used in financing activities for the year ended December 31, 2009 was $1,934,114, which comprised mainly the $2,535,745 of cash paid for the repurchase of our convertible notes, offset by the proceeds from the issue of $601,631 unsecured note payable to related parties. Cash provided by financing activities for the year ended December 31, 2008 was mainly attributable to $115,000,000 of cash received from the issuance of convertible notes, offset by cash paid for debt issuance costs of $5,859,663 and cash paid for the repurchase of our convertible notes of $9,890,000 in November and December 2008. Cash used in financing activities for the year ended December 31, 2007 was $1,995,105, which was mainly due to repayment of loans with related parties.

Discontinued operations. There were minimum cash activities in the discontinued operations of our Bangsheng Chemical Facility during fiscal year 2009. Its cash balance decreased from $21,775,738 at the beginning of 2009 to $21,634,306 at the end of 2009. The decrease was mainly due to revenue of approximately $295,899 generated from the sales of residual coal inventory after it ceased operations in 2008 and the deposit interest of $78,452 earned, which were more than offset by remuneration payment of $111,332 to the security personnel, rental payments of $143,206 to Shengda Group, local income tax payments of $301,088 for the fourth fiscal quarter of 2008 and payments for other miscellaneous expenses of $14,193.

Contractual Obligations

As of December 31, 2009

	Less than one year	1-3 years	3-5 years	More than 5 years	Total
Convertible notes-principal	$ -	$ -	$ -	$ 90,027,000	$ 90,027,000
Long-term convertible notes-interest	5,401,620	10,803,240	10,803,240	18,455,535	45,463,635
Operating leases	190,677	381,354	381,354	1,898,827	2,852,212
Capital commitment	386,792	-	-	-	386,792
Total	5,979,089	11,184,594	11,184,594	110,381,362	138,729,639

On June 1, 2011 and June 1, 2013, holders of the notes may require the Company to purchase all or a portion of the notes subject to certain conditions.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

Item 7A. Quantitative And Qualitative Disclosures About Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. Our cash and cash equivalents are held for working capital and for strategic investments and acquisition purposes and consist primarily of bank deposits. We do not enter into investments for trading or speculative purposes.

Foreign Exchange Risk. Although the conversion of the Chinese Yuan ("RMB") is highly regulated in the PRC, the value of the RMB against the value of the U.S. dollar ("USD") (or any other currency) nonetheless may fluctuate and be affected by, among other things, changes in the political and economic conditions in the PRC. Under the currency policy in effect in the PRC today, the RMB is permitted to fluctuate in value within a narrow band against a basket of certain foreign currencies. The PRC is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the RMB could depreciate against the USD.

The functional currency of our operating subsidiaries in the PRC is RMB. However, the accompanying financial statements have been expressed in USD, which is our functional currency. The accompanying consolidated balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. The accompanying consolidated statements of income have been translated using the average exchange rates prevailing during the periods of each statement.

Fluctuations in exchange rates may affect our financial results reported in USD terms without giving effect to any underlying change in our business or results of operations.

Fluctuations in exchange rates may also affect our balance sheet. For example, to the extent that we need to convert U.S. dollars received from the proceeds of a financing into the RMB for our operations, appreciation of the RMB against the USD would have an adverse effect on the RMB amount that we receive from the conversion. Conversely, if we decide to convert our RMB into USD for the purpose of making payments for dividends on our shares or for other business purposes, appreciation of the USD against the RMB would have a negative effect on the U.S. dollar amount available to us. Based on the amount of our cash as of December 31, 2009, a 1.0% appreciation of the RMB against the U.S. dollar will result in an estimated increase of approximately $826,231, in our total amount of cash, and a 1.0% appreciation of the USD against the RMB will result in a decrease of approximately $809,870 in our total amount of cash.

We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk and do not currently intend to do so.

Interest rate risk. As of December 31, 2009, we had no short-term borrowings. Our interest rate risk mainly related to the 6% convertible senior notes issued with a maturity date of June 1, 2018. However, if we borrow money in future periods, we may be exposed to interest rate risk. We do not have any derivative financial instruments and believe our exposure to interest rate risk and other relevant market risks is not material.

Inflation. In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation, which may materially impact our results of operations. During 2007 and 2008, the rates of inflation in China were 4.8% and 5.9%, respectively. However, in 2009, the inflation rate in China was negative 0.7%.

Item 8. Financial Statements And Supplementary Data

Quarterly financial information is presented as follows:

	2009			
	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
Net Sales	$ 20,672,353	$ 26,018,533	$ 25,376,060	$ 30,054,858
Gross Profit	8,487,126	11,386,120	10,080,579	11,949,669
Income from continuing operations	5,353,792	6,630,891	4,848,391	6,721,083
(Loss) from discontinued operations	(78,152)	(95,726)	(217,980)	(57,692)
Net income	5,275,640	6,535,165	4,630,411	6,663,391
Basic Earning (Loss) per Common Share				
Income from continuing operations	0.10	0.12	0.09	0.12
(Loss) from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income per common share	0.10	0.12	0.09	0.12
Diluted Earnings per Common Share				
Income from continuing operations	0.09	0.12	0.09	0.12
(Loss) from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income per common share	0.09	0.12	0.09	0.12

	2008			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Net Sales	$ 13,424,531	$ 19,098,980	$ 25,526,971	$ 24,369,207
Gross Profit	5,511,619	7,782,246	10,799,455	10,010,127
Income from continuing operations	3,896,460	4,486,627	4,786,007	9,851,613
Income (loss) from discontinued operations	3,518,526	5,334,490	4,378,397	(223,818)
Net income	7,414,986	9,821,117	9,164,404	9,627,795
Basic Earning per Common Share				
Income from continuing operations	0.07	0.08	0.09	0.18
Income (loss) from discontinued operations	0.07	0.10	0.08	(0.01)
Net income per common share	0.14	0.18	0.17	0.17
Diluted Earnings per Common Share				
Income from continuing operations	0.07	0.08	0.09	0.12
Income (loss) from discontinued operations	0.07	0.10	0.08	(0.00)
Net income per common share	0.14	0.18	0.17	0.12

	2007			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Net Sales	$ 8,975,400	$ 10,828,104	$ 13,123,032	$ 13,795,137
Gross Profit	3,684,143	4,622,730	5,722,670	5,879,543
Income from continuing operations	2,770,631	3,599,068	4,626,658	4,205,866
Income from discontinued operations	2,635,997	2,433,819	3,184,602	3,573,704
Net income	5,406,628	6,032,887	7,811,260	7,779,570
Basic Earning per Common Share				
Income from continuing operations	0.05	0.07	0.08	0.08
Income from discontinued operations	0.05	0.04	0.06	0.07
Net income per common share	0.10	0.11	0.14	0.15
Diluted Earnings per Common Share				
Income from continuing operations	0.05	0.07	0.08	0.08
Income from discontinued operations	0.05	0.04	0.06	0.07
Net income per common share	0.10	0.11	0.14	0.15

Item 9. Changes In and Disagreements With Accountants On Accounting and Financial Disclosure

There are no such reportable events as required by Item 304(b) of Regulation S-K.

Item 9A. Controls And Procedures

(a) Disclosure Controls and Procedures.

Disclosure controls and procedures (as defined in Rules 13a – 15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act")) are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. This information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2009.

(b) Management's report on internal control over financial reporting.

Management is responsible of establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting (as defined in Rules 13a – 15(f) and 15d-15(f) under the Exchange Act) is a process that is 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, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company,

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the board of directors of the Company, and

- 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 and procedures may deteriorate.

Based on our evaluation of internal control over financial reporting as of December 31, 2009, management has determined that our internal control over financial reporting was effective. We acquired Anhui Yuanzhong in December 2009, and management excluded from its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2009. Anhui Yuanzhong's internal control over financial reporting associated with total assets of $4,593,970 and nil revenue, which was included in the consolidated financial statements of the Company. The Company's evaluation of the effectiveness of our internal control over financial reporting is based on the criteria established in COSO's Internal Control — Integrated Framework.

Our independent registered public accounting firm, KPMG has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, as stated in their report, which appears below.

(c) Changes in internal control over financial reporting.

As previously reported under "Item 4 — Controls and Procedures" in our quarterly report on Form 10-Q for the quarter ended September 30, 2009, management concluded that our internal control over financial reporting was not effective based on the material weaknesses identified in the Company's internal control over financial reporting described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. Management has continued to work on remediation efforts since the filing of that report.

During the quarter ended December 31, 2009, changes in our internal control over financial reporting occurred related to the two previously reported material weaknesses as follows:

- Management had concluded that for non-routine transactions and related disclosures, we did not maintain adequate policies and procedures and lacked personnel possessing adequate technical accounting expertise to ensure that those transactions are properly accounted for and disclosed in our consolidated financial statements. As of December 31, 2009, management has concluded that the severity of this previously reported material weakness has been sufficiently reduced and remediated such that the previously reported material weakness is no longer a material weakness. We have designed adequate policies and procedures and hired and trained enough technically-qualified personnel to properly account for and disclose non-routine transactions. In addition, as part of the 2009 period-end financial closing procedures, management utilized a monthly monitoring process. Based on these reviews, which are part of the control process, non-routine transactions and related disclosure controls are deemed to be operating effectively.

- Management had concluded that we did not design and maintain effective policies and procedures to ensure adequate maintenance of tax records, timely reconciliation of income tax accounts and adequate analysis and review of deferred tax calculations. As a result, we did not maintain effective internal control over accounting for income taxes and related financial statement disclosures. As of December 31, 2009, management has concluded that the severity of this previously reported material weakness has been sufficiently reduced and remediated such that the previously reported material weakness is no longer a material weakness. We have designed policies and procedures to ensure the maintenance of tax records, timely reconciliation of income tax accounts and adequate analysis and review of deferred tax calculations and hired qualified third party specialists to perform these procedures. In addition, as part of the 2009 period-end financial closing procedures, management utilized a monthly monitoring process. Based on these reviews, which are part of the control process, tax records, timely reconciliation of income tax accounts and adequate analysis and review of deferred tax calculations and related disclosure controls are deemed to be operating effectively.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
ShengdaTech, Inc.:

We have audited ShengdaTech, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ShengdaTech, Inc.'s management is responsible 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 Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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 that 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, ShengdaTech, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

The Company acquired Anhui Chaodong Nanomaterials Science and Technology Co., Ltd. (Chaodong) during 2009, and management excluded from its assessment of the effectiveness of ShengdaTech, Inc.'s internal control over financial reporting as of December 31, 2009, Chaodong's internal control over financial reporting associated with total assets of $4,593,970 and nil revenue, included in the consolidated financial statements of the ShengdaTech, Inc. and subsidiaries as of and for the year ended December 31, 2009. Our audit of internal control over financial reporting of ShengdaTech, Inc. also excluded an evaluation of the internal control over financial reporting of Chaodong.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ShengdaTech, Inc. and subsidiaries of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended, and our report dated March 15, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG
Hong Kong, China
March 15, 2010

Item 9b. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have provided below certain information about our executive officers and directors. Our directors serve for a term of one year or until their successors are duly elected and qualify. Our executive officers serve at the pleasure of our board of directors and have no fixed term of office.

Name	Age	Position
Xiangzhi Chen	48	President, Chief Executive Officer and Director
Andrew Weiwen Chen	42	Chief Financial Officer
Anhui Guo	40	Director and Chief Operating Officer
Dongquan Zhang	69	Director
A. Carl Mudd	66	Director
Sheldon B. Saidman	67	Director
Lei Du	31	General Manager of Shandong Haize Nanomaterials Co., Ltd
Yong Zhao	37	General Manager of Shaanxi Haize Nanomaterials Co., Ltd.
Gongbo Wang	32	General Manager of Zibo Jiaze Nanomaterials Co., Ltd.
Zhendong Li	31	General Manager of Anhui Yuanzhong Nanomaterials Science and Technology Co., Ltd.

Mr. Xiangzhi Chen has served as our chief executive officer, president and director since March 31, 2006. Mr. Chen is the founder of Faith Bloom and its subsidiaries and has served as their chairman and chief executive officer since the subsidiaries' formation in 2001. He served as president of Shandong Shengda Technology Co., Ltd., one of our affiliates, from January 2003 to March 2009. We believe Mr. Chen's qualifications to serve on our board include his extensive knowledge of the Company as founder, chairman, CEO, and president and his understanding and in-depth experience in dealing in the markets served. In addition, we believe that his vision and progressive leadership will continue to positively influence the Company's profitable revenue growth and corresponding profitability, and his background positions him to grow the Company both organically and by acquisition.

Mr. Andrew Weiwen Chen brings over 12 years of senior management experience in accounting, auditing, financial analysis and reporting for both public and private companies in China and the United States. Mr. Chen was appointed as our chief financial officer in April 2009. From September 2008 to March 2009, Mr. Chen served as chief financial officer at Trony Solar Holdings in Shenzhen, China, where he played a leading role in the completion of a $45 million private equity financing and supported the Company's future plans for an initial public offering ("IPO"). From July 2007 to August 2008, he also worked as chief financial officer and vice president at China Nepstar Chain Drug Store Ltd., a NYSE-listed leading pharmacy chain in China, where he gained significant experience in Sarbanes Oxley ("SOX") implementation and maintenance, SEC reporting and disclosure, the IPO process and investor relations. From June 2000 to February 2007, Mr. Chen also served as chief financial officer at YRC Worldwide Inc.'s China International Transportation Operations and as financial controller and senior auditor at Honeywell International Inc. in the United States and China. He began his accounting/finance career with PricewaterhouseCoopers in their New York and Atlanta offices. Mr. Chen holds a Master's degree in Accountancy and an MBA in Finance from the University of Alabama at Tuscaloosa, U.S. He also has a Bachelor of Arts degree from Xiamen University, China.

Ms. Anhui Guo has served as our chief operating officer since April 2009. She had served as our chief financial officer from March 2006 to April 2009, has served as our vice president and treasurer since March 31, 2006 and as director since February 23, 2007. Ms. Guo has served as chief financial officer of Faith Bloom and its subsidiaries from 2001. Ms Guo was manager of finance of Shandong Shengda Construction Co., Ltd., one of our affiliates, from January 2001 to January 2003. She has served as manager of finance of Shandong Shengda Technology Co., Ltd., one of our affiliates, since January 2003. Ms. Guo was licensed as an accountant in 1996. We believe Ms. Guo's qualifications to serve on our board include her extensive knowledge of the Company as a long-term executive, which gives her detailed understanding of the complexities of the operation. Her experience allows her to direct the operations of the Company and her financial experience provides valuable insights both in directing the business operations and in serving on the board of directors.

Mr. Dongquan Zhang has served as our director since February 23, 2007. Mr. Zhang has extensive experience in the chemical industry especially in research and development and regulatory areas. Currently he is a member of the board of directors of All China Association of Petro-Chemical Industry, vice president of Shandong Chemistry and Chemical Engineering Association, and vice president of Shandong Environmental Industry Association, and president of Shandong Chemical Industrial Pollution Prevention Association. From February 1994 to December 2000, he served as director general and senior engineer of the Petro-Chemical Industry of Shandong Province. We believe Mr. Zhang's qualifications to serve on our board include his extensive knowledge of the Company, his experience serving on boards of other companies, and his extensive knowledge and experience of the markets in which we conduct business. Furthermore, Mr. Zhang is a professional in the chemical industry and provides technical support to the board, which support is particularly important when evaluating new ventures proposed to the board.

Mr. A. Carl Mudd has served as our director since February 23, 2007. Mr. Mudd has extensive management experience especially in the financial area. He has spent the past 14 years consulting with and mentoring CEOs and Boards of Directors of major companies on global strategy, business processes and international operations and 27 years as CFO, COO and president of international companies. From 2003 to 2006, he was an advisory director at CIMIC Holdings, Ltd. From 1993 to 1996, he served as director and chairman of the Audit Committee at AM International, Inc. Mr. Mudd also serves as an independent director and chairman of the Audit Committee and Member of the Compensation Committee and Nominating & Corporate Governance Committee of Sutor Technologies Group, LTD (SUTR) a NASDAQ listed company. He is also a Statutory Director of the National Association of Corporate Directors-North Texas Chapter. He is a Certified Public Accountant, holds a business degree from St. Edward's University and a Certification of Director Education – The National Association of Corporate Directors Institute. We believe Mr. Mudd's qualifications to serve on our board include his extensive knowledge of the Company, his international management experience of both public and privately held companies and his in-depth knowledge of finance, accounting, and general management.

Mr. Sheldon B. Saidman has served as our director since February 23, 2007. Mr. Saidman has extensive senior executive experience, especially in marketing and general management. He has held positions as president or chief operating officer in several companies, both pubic and private. From May 2001 to October 2005, he served as president of Liberty Wire & Cable, Inc. since September 2005, he has owned and served as president of Saidman & Associates, Inc., a business management consulting practice and serves as a Member of Board of Directors of Roscoe Medical, Inc., a privately held company owned by River Associates Investments, LLC, a private equity group. He holds a bachelor's degree in journalism and public relations from The University of Maryland. We believe Mr. Saidman's qualifications to serve on our board include his extensive knowledge of the Company, his experience serving on boards of other companies and the unique perspective he brings to various issues considered by the board, particularly related to sales, marketing, and general management.

Mr. Lei Du has served as general manager of Shandong Haize since July 2008. From January 2007 to July 2008, Mr. Du served as the vice president of Shandong Haize. From July 2001 to January 2007, he served as the vice director of the R&D center of Shandong Haize. He holds a bachelor's degree in engineering from Qingdao Science & Technology University.

Mr. Yong Zhao has served as general manager of Shaanxi Haize Nano-Materials Co., Ltd. ("Shaanxi Haize") since October 2006 and responsible for the overall management of our nano-materials business in Shannxi Haize. From August 2002 to October 2006, he was the vice general manager of Shandong Haize Nano-Materials Co., Ltd.

Mr. Gongbo Wang has served as general manager of Zibo Jiaze since August 2009. From December 2008 to August 2009, Mr. Wang served as the director of the Project Department of Zibo Jiaze. From July 2007 to December 2008, he served as vice president of Shaanxi Haize. From January 2007 to July 2007, he served as vice president of Shandong Haize. From January 2005 and January 2007, he served as director of the Development Department of Shandong Shengda Technology Co., Ltd. ("Shengda Group"), a related party of ShengdaTech, Inc. From April 1998 to January 2005, he served as laboratory director and workshop manager of a subsidiary of Shengda Group. He graduated from Shandong University with a degree in law.

Mr. Zhendong Li has served as general manager of Anhui Yuanzhong Nanomaterials Co., Ltd. since January 2010. From May 2009 to December 2009, he served as vice president of Shaanxi Haize Nanomaterials Co., Ltd. From July 2007 to April 2009, he worked in the research and development center of our Company. From September 2004 to July 2007, he served as an assistant to the general manager of Yongye Electronic Co., Ltd and as a technician engineer in Xi'an Rejoy Pharmaceutical Co., Ltd. from July 2002 to March 2004. Mr. Li graduated from Xi Bei University and holds a master's degree in engineering.

Board Composition and Committees

Our Board has five (5) members, of which three (3) are independent directors. We have an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Audit Committee has been established as a separately-designated standing committee in accordance with section 3(a)(58)(A) of the Exchange Act. The Audit Committee has at least one member, Mr. A. Carl Mudd, who meets the definition of an "audit committee financial expert" under SEC rules and whom the Board has determined to be "independent". Mr. Xiangzhi Chen serves as both our chief executive officer and the chairman of the Board. We believe that combining the role of chairman and CEO is appropriate for our operations because Mr. Chen is most familiar with our business strategy and our industry. We also believe that the combined role of chairman and CEO facilitates the flow of information between the board and management and helps promote effective corporate governance. We do not have a lead independent director, but have independent board members that bring experience, oversight and expertise from outside the Company and our industry.

Audit Committee. The Audit Committee currently comprises Mr. A. Carl Mudd, Mr. Dongquan Zhang and Mr. Sheldon B. Saidman, with Mr. A. Carl Mudd as the chairman, each of whom are "independent" as that term is defined by SEC rules and under the NASDAQ listing standards. The Audit Committee is directly responsible for the appointment, retention, compensation and oversight of the work of any registered public accounting firm employed by the Company (including resolution of disagreements between management and the accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or other services. Any such registered public accounting firm must report directly to the Audit Committee. The Audit Committee has the ultimate authority and responsibility to evaluate and, where appropriate, replace the independent registered public accounting firm.

The Audit Committee held seven (7) meetings for year 2009.

Compensation Committee. The Compensation Committee is responsible for the administration of all salary, bonus and incentive compensation plans for our officers and key employees. The members of the Compensation Committee are Mr. Dongquan Zhang, Mr. A. Carl Mudd and Mr. Sheldon B. Saidman as the chairman, all of whom are "independent" directors.

The Compensation Committee held one (1) meeting for year 2009 and the attendance rates for all committee members was 100%.

The Board or the Management has not used any service of any compensation consultants.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for preparing a list of candidates to fill the expiring terms of directors on our Board of Directors. The committee submits the list of candidates to the Board of Directors who determines which candidates will be nominated to serve on the Board of Directors. The nominees are then submitted for election at the annual meeting of stockholders. The committee also submits to the entire Board of Directors, a list of candidates to fill any interim vacancies on the Board of Directors resulting from the departure of a member of the Board of Directors for any reason prior to the expiration of his term. In recommending candidates for the Board of Directors, the committee keeps in mind the functions of this body.

The committee considers various criteria, including the ability of the individual to meet SEC and NASDAQ “independence” requirements, general business experience, general financial experience, knowledge of the company’s industry (including past industry experience), education, and demonstrated character and judgment. The committee will consider director candidates recommended by a stockholder if the stockholder mails timely notice to the secretary of the Company at its principal offices, which notice includes (i) the name, age and business address of such nominee, (ii) the principal occupation of such nominee, (iii) a brief statement as to such nominee’s qualifications, (iv) a statement that such nominee consents to his or her nomination and will serve as a director if elected, (v) whether such nominee meets the definition of an “independent” director under the SEC rules and under NASDAQ listing standards and (vi) the name, address, class and number of shares of company stock held by the nominating stockholder.

The Company has no definitive policy on diversity. With the exception of two independent directors who are American citizens, the Company is managed by executives of Chinese citizenship and actively staffs the Company at all levels with employees that are citizens of China. Currently, the board believes that there exists no need for a diversity policy for employees or directors because the Company is diversified when compared to American-based enterprises. If the Company expands its markets to North America, or seek to expand or make changes to its Board members, we will develop a policy containing the elements of an acceptable practice that conforms to standard procedures that assure fair and equal treatment of prospective and current employees.

Any person nominated by a stockholder for election to the Board of Directors will be evaluated based on the same criteria as all other nominees. The committee also oversees our adherence to our corporate governance standards. The members of the committee are Sheldon B. Saidman, A. Carl Mudd, and Dongquan Zhang, with Dongquan Zhang as the chairman.

The Nominating and Corporate Governance Committee held one (1) meeting for year 2009 and the attendance rates for all committee members are 100%.

The Board’s Role in Risk Oversight. The Board has an active role in overseeing our risk management. The Board’s role in the Company’s risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal, regulatory, and strategic risks. The Board has formed a Risk Management Committee to coordinate with management to identify, assess and oversee remediation of high-level risks. The Risk Management Committee receives these reports from the appropriate senior manager within the organization to enable it to understand the Company’s risk identification, risk management and risk mitigation strategies. Upon receiving such reports, the Board, through the Risk Management Committee, provides such guidance as it deems necessary.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers, directors and beneficial owners of more than ten percent (10%) to report their beneficial ownership of equity interests in the company to the SEC. Their initial reports are required to be filed using the SEC's Form 3, and they are required to report subsequent purchases, sales, and other changes using the SEC's Form 4, which must be filed within two business days of most transactions. Officers, directors, and persons owning more than 10% of our capital shares are required by SEC regulations to furnish us with copies of all of reports they file pursuant to Section 16(a). There were no late reports pursuant to Section 16(a), transactions that were not reported on a timely basis, or known failure to file a required form pursuant to Section 16(a) in 2009.

Code of Ethics

We have adopted a Code of Ethics (as defined in Item 406 of Regulation S-K) that applies to our principal executive, financial and accounting officers. ShengdaTech, Inc. will provide a copy of its code of ethics, without charge, to any person that requests it. Requests should be addressed in writing to Mr. Andrew Chen, CFO, ShengdaTech, Inc., Unit 2003, East Tower, Zhong Rong Heng Rui International Plaza, 620 Zhang Yang Road, Pudong District, Shanghai 200122, People's Republic of China.

Item 11. Executive Compensation

Compensation Discussion and Analysis

The Company's executive compensation program is designed to pay key management personnel, including its "Named Executive Officers" (NEOs), competitive remuneration based on the authority, responsibility, and accountability of the position held by the individual. In addition, the Company also considers the competitive environment relative to compensation paid to senior management with comparable job scope by companies in related industries and of approximate size. The compensation program consists of two components, the base salary and a performance-based portion, which otherwise may be defined as a bonus. The performance-based portions of the compensation of our CEO, CFO and COO were implemented as of the 2009 fiscal year. The base salary considers seniority, past salary, competitive environment, responsibilities and contributions to the Company; the performance-based portion is the amount that may be earned by an employee according to their individual performance against pre-defined corporate objectives. The purpose is to effectively motivate the executives to achieve individual corporate goals, which ultimately contributes to the Company's overall success. The determination of the base salary and performance-based compensation is a calculation made on total compensation. The base salary is a fixed amount, accounting for 65% of the planned total compensation, while the performance-based compensation portion is designed to be variable based on performance and is targeted at 35% of the total compensation. In addition, the general managers of the three subsidiaries also received a production-related subsidy in 2009, which is listed as "All Other Compensation" in the Compensation Table below. The Company believes that its compensation program is both equitable and competitive, while providing a positive motivational element to the overall performance of the senior management of the Company.

The Compensation Committee researched a number of public companies to determine the competitiveness of the Company's compensation to its Chief Executive Officer. The following are companies with which the analyst Merriman Curhan Ford compared ShengdaTech on the basis that the operations of such companies are related to the chemical industry in a report dated May 8, 2008:

Name	Ticker symbol
Cabot Microelectronics Corporation	CCMP
Cabot Corporation	CBT
Martin Marietta Materials	MLM
Nanophase Technology Corp.	NANX
FEI Company	FEIC
Rockwood Holdings	ROC
Sinopec Shanghai Petrochemical Co.	SHI
Westlake Chemical Corp.	WLK

The compensation of the CEOs of the selected companies above was used for comparison purposes to weigh the CEO/Chairman's compensation against that of other CEOs/Chairpersons in a similar segment after our CEO/Chairman's compensation was determined. The CEO/Chairman's compensation was a fixed amount based on our executive compensation program's policies and local business practices at the time prior to the Company becoming public. In 2007, the Company's CEO/Chairman's compensation was approximately 6% to 23% of the compensation of the CEOs/Chairmen of the surveyed companies listed above, and based on the Board of Directors' Compensation Committee's estimates in 2009, his compensation remains lower than the CEOs/Chairmen of the surveyed companies. However, the revenue sizes of the surveyed companies were larger than that of ShengdaTech. The Compensation Committee also compared the compensation with certain Chinese companies with less revenue, including:

Name	Ticker symbol
American Lorain	ALRC
Sutor Technology Group Limited	SUTR
China Ritar Power Corp.	CRPT
China BAK Battery, Inc.	CBAK

The CEOs of the Chinese companies generally hold stock in their respective companies, which is the case with ShengdaTech's CEO/Chairman. This scenario made it difficult to determine the value of compensation packages of the CEOs of the Chinese companies surveyed since they included large equity holdings. The compensation of the CEOs of the selected Chinese companies above was used for comparison purposes after our CEO/Chairman's compensation was determined. The Compensation Committee's position on the CEO/Chairman's compensation is that it was equitable and competitive, particularly in consideration of his current stock holdings and interest in the Company. The Committee limited its survey to the CEO/Chairman level and relied on management to effectively determine competitiveness of other NEOs listed. Management determined the compensation of the COO of the Company and each of our subsidiary's general managers based on our executive compensation program's policies and the local market practices of Shandong Province, China, Shaanxi Province, China and Shanghai, China where each position is located. The compensation of our CFO was based on our executive compensation program's policies and market prices determined during our executive search process.

The Company's performance-based compensation plan promotes individual accomplishments as well as contributions to the overall operation. Judgment of performance and the consequential level of bonuses earned is based on achievements in executing job tasks and the general performance of the Company measured against the financial plan for the bonus year. The percentage of the performance-based portion is to be determined by the employee's immediate manager with the approval of the CEO. Ms. Anhui Guo, the Company's chief operating officer, is the immediate manager for all employees except Mr. Andrew Weiwen Chen, the Company's chief financial officer, whose immediate manager is Mr. Xiangzhi Chen, the Company's chief executive officer. The Compensation Committee is presented with the recommended compensation for each NEO and, after discussion and any adjustments made to the compensation, the Committee would approve accordingly. Mr. Xiangzhi Chen's bonus is determined by the Board of Directors on recommendation of the Compensation Committee. Based on the Company exceeding all financial objectives set in the budget year, including revenue, net earnings, and earnings per share, the board has awarded the full bonus payment to Mr. Xiangzhi Chen. All other bonuses will be decided at the end of the year after appropriate evaluation and assessment of success against set objectives are measured. All bonus money earned will be paid following audited results of Company financial statements.

Bonus payouts are based on achievement against budgeted goals, which are established during the budgeting process. The budget is approved by the Audit Committee and the compensation of NEOs is approved by the Compensation Committee. The payout for executives' 2009 bonus was based on the Company's satisfactory achievement of its performance goals for revenue and net income and result of evaluation of each against different criteria for each executive officer. Performance evaluation score is calculated by adding up all separate scores earned by an executive officer when his or her various responsibilities are assessed. Depending on the importance and significance of various responsibilities, different scores are applied and the aggregate of the scores equals 100%. Depending on the performance of an executive officer in fulfilling his or her responsibilities, he or she gets an evaluated score which may be equal to or less than the score applied to each particular responsibility. As a result, an executive officer can receive 100% or less than 100% for his or her overall performance evaluation score. Company performance goals for 2009 were $92 million to $95 million for revenue and $18 million to $19 million for net income. The actual results achieved by the Company in 2009 were $102.1 million of revenue and $23.1 million of net income. Depending on individual performance evaluation results, bonus payout ratios for each executive varied. After the establishment of the performance-based portion of the executive compensation program for the CEO, CFO and COO for the fiscal year 2009, a portion of our CEO's total compensation was designated as bonus and such bonus payout of our CEO was based on the Company's performance targets for 2009 of $92 million to $95 million in revenue and $18 million to $19 million in net income. In addition to the Company's performance targets, the performance evaluation of our CFO was also based on the evaluation of the performance of his duties, which include corporate and operational accounting, financial and managerial reporting, investor relations and communications, budgeting, strategic planning, and general business support and development. In addition to the Company's performance targets, the performance evaluation of our COO was also based on the evaluation of the performance of her duties, which included marketing strategy development, participation and oversight of operations programs, coordination of various departments and general business support and development.

The bonus payout of each subsidiary's general manager was determined by net income targets and the collection of the accounts receivable. In 2009, the bonus payout of the general manager of Shaanxi Haize Nanomaterials Co., Ltd. was primarily based on a net income target by Shaanxi Haize Nanomaterials Co., Ltd. of RMB 150 million (approximately $22.4 million) and a target of approximately RMB 260 million (approximately $38.8 million) in collection of accounts receivable of Shaanxi Haize Nanomaterials Co., Ltd. The bonus payout of the general manager of Shandong Haize Nanomaterials Co., Ltd. was primarily based on a net income target by Shandong Haize Nanomaterials Co., Ltd. of RMB 20 million (approximately $3.0 million) and a target of approximately RMB 78 million (approximately $11.6 million) in collection of accounts receivable of Shandong Haize Nanomaterials Co., Ltd. Total aggregate bonus payout for executives for 2009 was $217,482.

As an illustrative example, the 2009 bonus of Yong Zhao, the general manager of Shaanxi Haize Nanomaterials Co., Ltd., was calculated as follows:

Bonus = (Total Compensation - All Other Compensation) * 35% * performance evaluation score

= ($81,000 - $14,350) * 35% * 100%

= $23,327 (rounded to $23,350)

Compensation Policies and Practices as Related to Risk Management

Although the company is organized into separate and independent operating units, the "risk profile" itself rests with the Named Executive Officer group. Furthermore, the Company's compensation structure does not promote or reward risk taking by any single executive, or group of executives because all material decisions, by organizational structure and decision making processes, policies, and practices, are made by the executive team and implemented only with Board approval. Such decisions are made after careful evaluation and assessment of inherent risks, which could result from the execution of any one decision. As a result of the organizational structure, strict accountability, span of control, and the well-defined processes in place, it would be highly unlikely for decisions to be made that may possibly place the Company at risk.

Compensation Table

Name & Principal Position	Year	Salary	Bonus****	Non-Equity Incentive Plan Compensation	All other Compensation	Total
(a)	(b)	(c)	(d)	(g)	(i)	(j)
Xiangzhi Chen, CEO	2009	$ 195,000	105,000	$ 0	0	$ 300,000
	2008	$ 300,000		$ 0		$ 300,000*
	2007	$ 300,000		$ 0		$ 300,000*
Andrew Weiwen Chen, CFO (from April 15, 2009)	2009	$ 99,600	25,750	$ 0	17,000+	$ 142,350
Anhui Guo, COO	2009	$ 78,000	40,032	$ 0	0	$ 118,032
	2008	$ 120,000		$ 0		$ 120,000*
	2007	$ 100,000		$ 0		$ 100,000*
Lei Du, general manager of Shandong Haize	2009	$ 43,300	23,350	$ 0	14,350+	$ 81,000
	2008	$ 27,083	14,583	$ 0		$ 41,666
Yong Zhao, general manager of Shaanxi Haize	2009	$ 43,300	23,350	$ 0	14,350+	$ 81,000
	2008	$ 65,000	35,000	$ 0		$ 100,000
	2007	$ 65,000	35,000	$ 0		$ 100,000
Xukui Chen, general manager of Shandong Bangsheng	2009					**
	2008	$ 52,000	28,000	$ 0		$ 80,000
	2007	$ 52,000	28,000	$ 0		$ 80,000
Gongbo Wang, general manager Zibo Jiaze***	2009	$ 17,160			4,270+	$ 21,430

*The 2007 and 2008 compensation for Mr. Chen of $300,000 per year and for Ms. Guo of $100,000 and $120,000 per year, respectively, was paid directly by Shandong Shengda Technology Co., Ltd. for services provided to ShengdaTech, Inc.
** Mr. Xukui Chen's employment with the Company was terminated as of October, 2008.
*** Mr. Gongbo Wang was named general manager of Zibo Jiaze Nanomaterials Co., Ltd. in August 2009.
**** The amount of bonuses earned for 2009 was $217,482, and such amount was determined and paid on March 30, 2010.
+ All other compensation listed are non-performance based cost-of-living subsidies granted to the chief financial officer and the general managers of ShengdaTech, Inc.'s subsidiaries.

The Compensation Committee reviewed and approved the compensation paid, or to be paid, to the NEOs as listed in the Compensation Table above. Recommendations for annual increases in compensation to Named Executives are to be presented to the Compensation Committee and are subject to their approval. Pay increases for non-named employees will be at the discretion of the employee's supervisor, subject to senior management approval.

The regulations regarding employee pension and retirement plans governed by the Peoples Republic of China is the only program administered by the Company. No other supplemental plan exists.

The Company continues to work with the Compensation Committee in the development of an Employee Stock Option Plan (ESOP).

Grants of Plan-Based Awards

The Company currently does not have any award plans. No options were granted to any named executive officer in 2009.

Outstanding Equity Awards at Fiscal Year End

The Company currently does not have an equity compensation plan. No options or other stock-based awards were granted to any named executive officer in 2009.

Option Exercises and Stock Vested

No options were exercised by and no shares of stock were vested in any named executive officer in 2009.

Pension Benefits

The Company does not have any pension plans for its officers.

Nonqualified Deferred Compensation

There was no nonqualified deferred compensation for the named executive officers in 2009.

Potential Payment Upon Termination or Change in Control

The Company currently does not have payment arrangements for its officers upon termination or change in control.

Directors Compensation

The following table sets forth information concerning all compensation paid to our independent directors for services rendered in all capacities for the year ended December 31, 2009.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)	Total ($)
A. Carl Mudd	126,772	20,173**	146,945
Sheldon B. Saidman	61,418	-	61,418
Dongquan Zhang	10,000	-	10,000*

* Mr. Zhang's compensation was reported in error and was overstated in 2007 and 2008.

** The value of option awards equals the fair value at the date of grant. The value is calculated in accordance with FASB ASC 718. The assumption used in determining the grant date fair value of these awards are set forth in Note 13 to our consolidated financial statements included in this Form 10-K/A for fiscal year 2009 filed with the SEC.

Independent directors receive compensation for their service on the board and board committees consisting of (i) an annual retainer of $35,000 for Messrs. Saidman and Mudd, and $10,000 for Mr. Zhang (ii) $1,000 for each telephone conference call meeting for Messrs. Saidman and Mudd and (iii) $5,000 for each in-person meeting for Messrs. Saidman and Mudd. We will also reimburse directors for travel and other out-of-pocket expenses incurred in connection with their board service. In addition, Mr. Mudd received $10,000 as compensation for the position of Chairman of the Audit Committee. Mr. Mudd also received compensation and reimbursement of expenses for additional time incurred attending investor conferences to assist management with presentations prior to the arrival of Mr. Andrew Chen, our CFO, and to review our financial reporting process and the adequacy of our internal control over financial reporting on behalf of the Board of Directors during 2009. Effective April 1, 2008, Mr. Mudd was selected by the board to serve as Lead Director and received quarterly $10,000 and 5,000 stock options for this service. Effective the fourth fiscal quarter of 2009, six quarters after Mr. Mudd was appointed as Lead Director, the board determined that the Lead Director position was no longer necessary as the requisite support was provided by the Company's bilingual CFO.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Messrs. Dongquan Zhang, A. Carl Mudd, and Sheldon B. Saidman. No member of our Compensation Committee was, or has been, an officer or employee of the Company. No member of our Compensation Committee has a relationship that would constitute an interlocking relationship with executive officers or directors of the Company or another entity.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Analysis and Discussion with the management of the Company. Based on the review and the discussions, the Compensation Committee recommended to Board of Directors that the Compensation Discussion and Analysis be included in the Company's annual report on Form 10-K. The members of the Compensation Committee are Messrs. Dongquan Zhang, A. Carl Mudd, and Sheldon B. Saidman, Chairman.

Item 12. Security Ownership Of Certain Beneficial Owners And Management And Related Shareholders Matters

The following table sets forth information as of March 15, 2010, regarding the beneficial ownership of our common stock by each person known by us to own 5% or more of the outstanding shares of common stock, each of our directors, each of our named executive officers, and our directors and executive officers as a group. The percentage of beneficial ownership is calculated based on 54,202,036 shares of common stock outstanding as of March 15, 2010.

Name and Address	Number of Shares	Percentage Owned
Goldman Sachs Asset Management +	3,160,867	5.8%
Xiangzhi Chen	22,902,912	42.3%
Fanying Kong*	1,998,816	3.7%
Anhui Guo	—	—
Xueyi Zhang	—	—
Dongquan Zhang	—	—
A. Carl Mudd	35,000**	—
Sheldon B. Saidman	6,400	—
Xiqing Xu	1,159,584	2.1%
Lei Du	—	—
Directors and executive officers as a group (8 persons)	26,087,712	48.1%

The address for all officers and directors is Unit 2003, East Tower, Zhong Rong Heng Rui International Plaza, 620 Zhang Yang Road, Pudong District, Shanghai 200122, People's Republic of China.
* Ms. Fanying Kong is the wife of Mr. Xiangzhi Chen.
**Represents the number of shares of common stock plus options to purchase 30,000 shares of common stock that is exercisable within 60 days from March 15, 2010.
+ Based on a Schedule 13G filed with the Securities and Exchange Commission on February 12, 2010. Consists of 3,160,867 shares held by Goldman Sachs Asset Management (which consists of Goldman Sachs Asset Management, L.P. and GS Investment Strategies, LLC). Goldman Sachs Asset Management has voting power over 3,154,427 shares of our common stock and dispositive power over 3,160,867 shares of our common stock shared by Goldman Sachs Asset Management, L.P. and GS Investment Strategies, LLC. The address of Goldman Sachs Asset Management is 32 Old Slip, New York, NY 10005.

Item 13. Certain Relationships And Related Transactions and Director Independence

As of December 31, 2009, the Company owed Shandong Shengda Technology Co., Ltd. $849,138 comprising primarily of facilities rent due from Shandong Haize, the Company's subsidiary and related party loans between Faith Bloom and Shandong Shengda Technology Co. Ltd., which is described in the Notes to our Financial Statements under the section Due to Related Parties. Mr. Xiangzhi Chen, Chairman and CEO of the Company, is the controlling shareholder and chairman of Shandong Shengda Technology Co., Ltd. The largest aggregate amount of principal due to the related party outstanding during the fiscal year ended December 31, 2009 was $849,138. The amount outstanding as of July 22, 2010, the amount of principal paid during the year ended December 31, 2009, and the amount of interest paid during the year ended December 31, 2009 were $706,306, $603,101 and $0, respectively.

All related party transactions require the prior approval of the Audit Committee. Recurring transactions are approved during our budget approval process and non-recurring transactions require specific prior approval of the Audit Committee. In addition, in approving our quarterly financial statements the Audit Committee reviews all related party transactions and end balances of such transactions.

Item 14. Principal Accounting Fees And Services

KPMG audited our financial statements for the fiscal years ended December 31, 2009 and 2008. Hansen, Barnett & Maxwell, P.C. ("Hansen") reviewed our financial statements included in the three Forms 10-Q for the quarters ended on March 31, June 30 and September 30, 2008. All of the services described below were approved by the Audit Committee prior to performance. The Audit Committee has determined that the payments made to the Company independent accountant for these services are compatible with maintaining such auditor's independence.

Audit Fees. The aggregate fees billed by KPMG, for professional services rendered for the audit of the Company's financial statements for the fiscal year ended December 31, 2009 and 2008 are $685,584 and $490,479, respectively. The aggregate fees billed by Hansen for audit of the Company's financial statements for the fiscal year ended December 31, 2007 and review of the Company's financial statements included in the three Form 10-Q's for the quarters ended on March 31, June 30 and September 30, 2008 are $340,375.

Audit-Related Fees. There were no fees for assurance and related services by KPMG or Hansen, for the fiscal year ended December 31, 2009 or 2008, respectively.

Tax Fees. We engaged Hansen to provide services for income tax returns in the U.S. for the fiscal year end December 31, 2009. The fees to be incurred is estimated to be $10,000. We engaged KPMG to provide services for income tax returns in the U.S. for the fiscal year ended December 31, 2008. The fee incurred was $24,850.

All Other Fees. We engaged KPMG to provide services for tax planning and financial due diligence on potential acquisition projects. For the fiscal years ended December 31, 2009, the service fees billed to us is $78,610. There are no other fees for either audit-related or non-audit services billed by KPMG, for the fiscal years ended December 31, 2008. We engaged Hansen to provide services for our tax accounting for the fiscal year ended December 31, 2009. The service fees incurred is $4,000. There are no other fees for either audit-related or non-audit services billed by Hansen, for the fiscal years ended December 31, 2008.

Annually, the Audit Committee discusses retention of the independent accounting firm and requests a proposal of work for the current firm and/or potential new firms the Company may be considering to perform an audit of the Company's consolidated financial statements and an audit of its internal control over financial reporting. The Audit Committee evaluates the proposal(s) and approves one firm's proposal. The Audit Committee then recommends engagement of the selected firm to the full board for approval.

Management communicates the need for independent accounting firm for special and/or nonrecurring work to the Audit Committee; the Audit Committee, through its chairman, discusses the scope of work required and requests a proposal from the Company's independent accounting firm or another independent accounting firm if deemed appropriate by the Audit Committee. The Audit Committee evaluates the proposed work scope, including fees and timing. After satisfactory discussions with the independent accounting firm(s), the Committee approves the proposal.

PART IV

Item 15. Exhibits And Financial Statement Schedules

(a) (1) Financial Statements

The following financial statements are included in this Annual Report on Form 10-K commencing on the page numbers specified below:

(2) Financial Statement Schedules

None

(3) Exhibits

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this annual report.

SHENGDATECH, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
ShengdaTech, Inc.:

We have audited the accompanying consolidated balance sheets of ShengdaTech, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ShengdaTech, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 3 and 11 to the consolidated financial statements, the Company retrospectively changed its method of accounting for convertible notes due to the adoption of a new accounting standard issued by the Financial Accounting Standards Board Accounting Standards Codification Subtopic 470-20*, Debt with Conversion and Other Options*, as of January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ShengdaTech Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG
Hong Kong, China
March 15, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
ShengdaTech, Inc.

We have audited the accompanying consolidated statements of income, shareholders' equity and comprehensive income, and cash flows of ShengdaTech, Inc. and subsidiaries (the Company) for the year ended December 31, 2007. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations of ShengdaTech, Inc. and subsidiaries and their cash flows for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
March 14, 2008, except for Note 17, Discontinued Operations for the year ended December 31, 2007, as to which the date is March 13, 2010

SHENGDATECH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2009	December 31, 2008 As adjusted (Note 3)
ASSETS			
Current assets:			
Cash		$115,978,763	$114,287,073
Accounts receivable		4,600,722	6,806,066
Inventories	(5)	2,018,283	2,310,995
Prepaid expenses and other receivables		3,947,086	510,825
Income tax refund receivable	(8)	1,455,906	-
Current assets of discontinued operations	(17)	801,983	962,942
Assets held for sale	(17)	1,718,475	-
Total current assets		**130,521,218**	**124,877,901**
Property, plant and equipment, net	(6)	123,099,860	98,344,722
Land use rights		15,432,743	15,710,333
Intangible assets		280,329	-
Debt issuance costs	(11)	1,720,209	3,096,073
Non-current assets of discontinued operations	(17)	-	1,777,800
Total assets		**$271,054,359**	**$243,806,829**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		$ 3,998,532	$ 4,493,551
Accrued expenses and other payables	(7)	4,737,356	4,342,006
Payable for acquisition	(4)	3,803,060	-
Income taxes payable	(8)	60,573	1,588,895
Due to related parties	(10)	1,572,427	1,737,404
Current liabilities of discontinued operations	(17)	42,068	14,912
Total current liabilities		**14,214,016**	**12,176,768**
Long-term convertible notes	(11)	79,298,539	77,926,310
Non-current income taxes payable	(8)	1,598,237	974,131
Note payable to related party	(10)	601,631	-
Deferred income tax liabilities	(8)	4,443,810	5,387,262
Non-current liabilities of discontinued operations	(17)	294,708	293,977
Total liabilities		**100,450,941**	**96,758,448**
Shareholders' equity:	(12)		
Preferred Stock, par value $0.00001 authorized:10,000,000 outstanding: Nil		-	-
Common Stock, par value $0.00001 authorized:100,000,000 issued and outstanding: 54,202,036		542	542
Additional paid-in capital		37,132,442	37,112,269
Statutory reserves		8,455,328	8,130,601
Retained earnings		111,197,045	88,417,165
Accumulated other comprehensive income		13,818,061	13,387,804
Total shareholders' equity		**170,603,418**	**147,048,381**
Commitments and contingencies	(9)		
Total liabilities and shareholders' equity		**$271,054,359**	**$243,806,829**

See accompanying notes to the consolidated financial statements

SHENGDATECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Note	For the Years Ended December 31, 2009	2008 As adjusted (Note 3)	2007
Net sales		$102,121,804	$ 82,419,689	$ 46,721,673
Cost of goods sold		60,218,310	48,316,242	26,812,587
Gross profit		**41,903,494**	**34,103,447**	**19,909,086**
Operating expenses:				
Selling		2,103,822	2,438,908	1,680,259
General and administrative		5,669,923	3,074,051	2,658,806
Total operating expenses		**7,773,745**	**5,512,959**	**4,339,065**
Operating income		**34,129,749**	**28,590,488**	**15,570,021**
Other income (expense):				
Interest income		685,858	132,423	94,643
Interest expense		(10,662,252)	(7,456,418)	-
Gain on extinguishment of long-term convertible notes	(11)	1,624,844	5,511,487	-
Gain on bargain purchase	(4)	619,466	-	-
Other expense, net		(121,976)	(51,604)	(12,094)
Other (expense) income , net		**(7,854,060)**	**(1,864,112)**	**82,549**
Income from continuing operations before income taxes		**26,275,689**	**26,726,376**	**15,652,570**
Income tax expense	(8)	2,721,532	3,705,669	450,347
Income from continuing operations		**23,554,157**	**23,020,707**	**15,202,223**
Discontinued operations	(17)			
(Loss) income from discontinued operations before income taxes		(449,550)	15,758,189	14,165,415
Income tax expense		-	2,750,594	2,337,293
(Loss) income from discontinued operations		(449,550)	13,007,595	11,828,122
Net income		**$ 23,104,607**	**$ 36,028,302**	**$ 27,030,345**
Basic earnings per share:	(14)			
Income from continuing operations		$ 0.43	$ 0.42	$ 0.28
(Loss) income from discontinued operations		$ (0.00)	$ 0.24	$ 0.22
Net income per share		$ 0.43	$ 0.66	$ 0.50
Diluted earnings per share:	(14)			
Income from continuing operations		$ 0.43	$ 0.39	$ 0.28
(Loss) income from discontinued operations		$ (0.00)	$ 0.21	$ 0.22
Net income per share		$ 0.43	$ 0.60	$ 0.50
Weighted-average shares outstanding:				
Basic		54,202,036	54,202,036	54,107,408
Diluted		54,204,923	62,205,660	54,188,410

See accompanying notes to the consolidated financial statements

SHENGDATECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock		Additional Paid-in	Statutory	Retained	Accumulated Other Comprehensive	Total Shareholders'	Comprehensive
	Shares	Amount	Capital	Reserves	Earnings	Income	Equity	Income
Balance as of December 31, 2006	**54,095,103**	**$ 541**	**$ 21,824,120**	**$ 3,301,379**	**$ 30,187,740**	**$ 1,815,484**	**$ 57,129,264**	
Net income	-	-	-	-	27,030,345	-	27,030,345	$ 27,030,345
Foreign currency translation adjustment, net of nil tax	-	-	-	-	-	5,051,227	5,051,227	5,051,227
								$ 32,081,572
Appropriation to statutory reserves	-	-	-	2,341,040	(2,341,040)	-	-	
Exercise of warrants	106,933	1	(1)	-	-	-	-	
Distribution to shareholders	-	-	(207,651)	-	-	-	(207,651)	
Balance as of December 31, 2007	**54,202,036**	**542**	**21,616,468**	**5,642,419**	**54,877,045**	**6,866,711**	**89,003,185**	
Net income	-	-	-	-	36,028,302	-	36,028,302	$ 36,028,302
Foreign currency translation adjustment, net of nil tax	-	-	-	-	-	6,521,093	6,521,093	6,521,093
								$ 42,549,395
Appropriation to statutory reserves	-	-	-	2,488,182	(2,488,182)	-	-	
Issuance of convertible notes, as adjusted (See Note 3)	-	-	15,214,953	-	-	-	15,214,953	
Share-based compensation	-	-	58,945	-	-	-	58,945	
Excess tax benefit from exercise of warrants	-	-	221,903	-	-	-	221,903	
Balance as of December 31, 2008	**54,202,036**	**542**	**37,112,269**	**8,130,601**	**88,417,165**	**13,387,804**	**147,048,381**	
Net income	-	-	-	-	23,104,607	-	23,104,607	$ 23,104,607
Foreign currency translation adjustment, net of nil tax	-	-	-	-	-	430,257	430,257	430,257
								$ 23,534,864
Appropriation to statutory reserves	-	-	-	324,727	(324,727)	-	-	
Share-based compensation	-	-	20,173	-	-	-	20,173	
Balance as of December 31, 2009	**54,202,036**	**$ 542**	**$ 37,132,442**	**$ 8,455,328**	**$ 111,197,045**	**$ 13,818,061**	**$ 170,603,418**	

See accompanying notes to the consolidated financial statements

SHENGDATECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2009	2008	2007
		As adjusted (Note 3)	
Cash flows from operating activities:			
Net income	$ 23,104,607	$ 36,028,302	$ 27,030,345
(Loss) income from discontinued operations	(449,550)	13,007,595	11,828,122
Income from continuing operations	23,554,157	23,020,707	15,202,223
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,519,020	3,406,738	1,775,691
Land use rights expense	319,771	108,539	990
Amortization of debt issuance costs	1,217,755	861,877	-
Amortization of debt discount	5,690,927	3,282,469	-
Gain on extinguishment of long-term convertible notes	(1,624,844)	(5,511,487)	-
Gain on bargain purchase	(619,466)	-	-
Loss on disposal of property, plant and equipment	-	-	1,845
Deferred income tax assets	(1,150,052)	(2,450,744)	-
Share-based compensation expense	20,173	58,945	-
Changes in operating assets and liabilities:			
Accounts receivable	2,221,071	(318,040)	(1,609,863)
Prepaid expenses and other receivables	(3,605,909)	(497,161)	144,247
Inventories	298,298	(1,145,991)	(98,643)
Income tax refund receivable	(1,455,906)	-	-
Due from related parties	-	1,798	-
Accounts payable	(324,615)	535,432	670,497
Accrued expenses and other payables	385,558	1,302,674	86,202
Income taxes payable	(907,599)	2,537,010	725,340
Due to related parties	(559,905)	312,439	(11,863)
Net cash provided by operating activities	**27,978,434**	**25,505,205**	**16,886,666**
Cash flows from investing activities:			
Purchase of property, plant and equipment, including interest capitalized	(24,290,530)	(36,898,310)	(37,737,972)
Purchase of land use rights	-	(15,446,573)	(120,083)
Distribution to shareholders	-	-	(207,651)
Net cash used in investing activities	**(24,290,530)**	**(52,344,883)**	**(38,065,706)**
Cash flows from financing activities:			
Proceeds from issuance of long-term convertible notes	-	115,000,000	-
Payment of debt issuance costs	-	(5,859,663)	-
Payment to extinguish long-term convertible notes	(2,535,745)	(9,890,000)	-
Proceeds from (Repayment of) note payable to related party	601,631	-	(1,995,105)
Excess tax benefit from exercise of warrant	-	221,903	-
Net cash (used in) provided by financing activities	**(1,934,114)**	**99,472,240**	**(1,995,105)**
Cash flows from discontinued operations:			
Net cash (used in) provided by operating activities	(195,468)	13,721,299	13,356,453
Net cash used in investing activities	-	-	(461,907)
Net cash provided by (used in) financing activities	-	-	-
Effects of exchange rate changes on cash in discontinued operations	54,036	1,037,021	1,190,667
Net cash (used in) provided by discontinued operations	**(141,432)**	**14,758,320**	**14,085,213**
Effect of exchange rate changes on cash	79,332	529,623	771,358
Net increase (decrease) in cash	**1,691,690**	**87,920,505**	**(8,317,574)**
Cash at beginning of year	114,287,073	26,366,568	34,684,142
Cash at end of year	**$ 115,978,763**	**$ 114,287,073**	**$ 26,366,568**
Non-cash investing activities:			
Accounts payable for purchase of property, plant and equipment	$ (181,621)	$ 740,951	$ 1,218,497

Due to related parties for purchase of property, plant and equipment	$ 391,819	$ 741,263	$ (354,316)
Payable for acquisition	$ 3,803,060	-	-
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	$ 6,536,138	$ 7,109,351	$ 2,088,364
Cash paid for interest, net of capitalized interest	$ 3,752,933	$ 2,835,822	-

See accompanying notes to the consolidated financial statements

NOTE 1 – Nature of business

Principal activities

ShengdaTech, Inc. ("ShengdaTech") and its subsidiaries (collectively, the "Company") are engaged primarily in developing, manufacturing and marketing nano precipitated calcium carbonate ("NPCC") products. The Company sells its products mainly through a direct sales force. The geographic markets cover several provinces, primarily Shandong and Shaanxi of the People's Republic of China ("PRC"). The NPCC sold by the Company is ultra fine precipitated calcium carbonate with an average particle diameter of under 100 nano-meters for application as an additive in various products, including paper, paints, rubber and plastic industries. The Company currently supplies NPCC products primarily to the tire and polyvinyl chloride ("PVC") building materials industries.

Prior to November 1, 2008, the Company's chemical segment manufactured and sold chemical products used in the chemical, pharmaceutical, lighting and textile industries. On June 20, 2008 the Company received a notice from the Tai'an City Government requiring Shandong Bangsheng Chemical Co., Ltd. ("Bangsheng Chemical"), which represented the Company's entire operations for its chemical segment, to cease production by October 31, 2008 due to the close proximity of the chemical facility to residential and non-manufacturing business properties. The Company considered alternatives in order to continue the Company's chemical operations and on August 11, 2008, the Company entered into an agreement with Shandong Shengda Technology Co. Ltd. ("Shandong Shengda"), a related party of which the Chief Executive Officer ("CEO") Mr. Xiang Zhi Chen ("Mr. Chen") of the Company is the major shareholder, to acquire a state-owned company, Jinan Fertilizer Co. Ltd. ("Jinan Fertilizer"), located in Jinan, Shandong Province. Jinan Fertilizer manufactures chemical products similar to those produced by Bangsheng Chemical and therefore the Company intended to consolidate the Bangsheng Chemical operations with Jinan Fertilizer. However, in March 2009, the Board of Directors decided that the Company would no longer pursue the acquisition of Jinan Fertilizer. The Company did not incur any liability or costs as a result of not consummating the acquisition of Jinan Fertilizer.

In December 2009, the Company committed to a plan to sell substantially all of the Bangsheng Chemical operating assets, primarily plant equipment, as well as satisfied all of the other criteria in order for a long-lived asset (disposal group) to be classified as held for sale in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 360-10-45, *Impairment or Disposal of Long-Lived Assets,* or ASC 360-10-45, and the criteria for reporting discontinued operations in accordance with FASB ASC Subtopic 205-20, *Discontinued Operations, or ASC 205-20,* as of December 31, 2009. As a result, the Company has presented the assets, liabilities, operating results and cash flows of Bangsheng Chemical as discontinued operations for all periods presented in the accompanying consolidated financial statements. In addition, Bangsheng Chemical plant equipment and inventory to be disposed of are classified as assets held for sale. As of December 31, 2009, the Company had ceased all operations at Bangsheng Chemical. Additional information on discontinued operations is disclosed in Note 17.

On December 11, 2009, Faith Bloom, a wholly-owned subsidiary of ShengdaTech, acquired 100% of the equity interest of Anhui Chaodong Nanomaterials Science and Technology, Co., Ltd ("Chaodong"). Chaodong was an inactive manufacturer of NPCC products.

Organization

ShengdaTech is incorporated in Nevada in the United States of America ("U.S."). ShengdaTech's wholly-owned subsidiaries, Chaodong, Shandong Haize Nano Co., Ltd. ("Shandong Haize Nano"), Bangsheng Chemical, Shaanxi Haize Nano Co., Ltd. ("Shaanxi Haize Nano"), and Zibo Jiaze Nano Material Ltd. ("Zibo Nano") and collectively the "PRC operating subsidiaries" are established under the laws of the PRC.

Mr. Chen, the Company's major shareholder and CEO, together with his wife, own 45.94% of the Company.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

NOTE 2 – Significant accounting policies

Principles of consolidation – The consolidated financial statements include the financial statements of ShengdaTech and its subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Use of estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allocation of the purchase price in business combinations, valuation of accounts receivable, realizable value of inventories, the useful lives and recoverability of the carrying value of long-lived assets, valuation of convertible notes, income tax uncertainties and other contingencies. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Foreign currency transactions and translation –The functional currency of ShengdaTech and Faith Bloom is the U.S. dollar. The functional currency of the PRC operating subsidiaries is the Renminbi ("RMB"). Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rates at each balance sheet date. The resulting exchange differences are recorded in other expense, net in the consolidated statements of income.

The Company's reporting currency is the U.S. dollar. Assets and liabilities of the PRC operating subsidiaries are translated into the U.S. dollar using the exchange rates at each balance sheet date. Revenues and expenses of the PRC operating subsidiaries are translated at average rates prevailing during the reporting period. Adjustments resulting from translating the financial statements of the PRC operating subsidiaries into the U.S. dollar are recorded as a separate component of accumulated other comprehensive income in the consolidated statements of shareholders' equity and comprehensive income.

Cash – Cash consists of cash on hand and cash at bank. As of December 31, 2009 and 2008, cash deposits of RMB 559,255,721 and RMB 315,092,101 (equivalent to $81,796,016 and $45,970,661), respectively, and U.S. dollar deposits of $33,741,126 and $67,589,228, respectively, were held at major financial institutions located in the PRC. The remaining balance is held primarily at major financial institutions located in the Hong Kong Special Administrative Region (the "HK SAR") and in the U.S. Management believes that these major financial institutions are of high credit quality.

Accounts receivable – Accounts receivable are recorded at the invoiced amount. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Management reviews accounts receivable on a periodic basis and records allowances when there is a doubt as to the collectibility of the balance. In evaluating the collectibility of accounts receivable balances, management considers various factors, including historical losses, current market conditions and customers' financial condition, the amount of accounts receivable in dispute, and the accounts receivable aging and payment patterns. The Company historically has not had any write-offs and all accounts receivable are current and due within 90 days as of each balance sheet date. As a result, no allowances for doubtful accounts has been recorded for any of the periods presented herein because management believes all accounts receivable are fully collectible. The Company does not have any off-balance-sheet credit exposure related to its customers.

Inventories – Inventories are stated at the lower of cost or market. Cost is determined using the weighted-average method. Cost of work-in-progress and finished goods comprise direct materials, direct production costs and an allocation of production overheads based on normal operating capacity.

Property, plant and equipment – Property, plant and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, taking into consideration the assets' estimated residual value. Depreciation is recorded in cost of goods sold or general and administrative expense based on the nature of the asset. Depreciation included in cost of goods sold for 2009, 2008 and 2007 were $4,201,480, $3,176,244, and $1,681,309, respectively. Depreciation included in general and administrative expenses for 2009, 2008 and 2007 were $317,540, $230,494, and $94,382, respectively.

The estimated useful lives of property, plant and equipment are as follows:

Asset	Life
Building	15 - 25
Stainless steel manufacturing equipment and containers	30
Other plant, machinery and equipment	10-15
Motor vehicle	5 - 10
Office equipment	3 - 5

Construction in progress is stated at cost. Cost comprises nonrefundable prepayments and direct costs of construction as well as interest costs capitalized during the period of construction of the plant or installation of equipment. Costs included in construction in progress are transferred into their respective asset categories when the assets are ready for their intended use, at which time depreciation commences.

When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and the proceeds received thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized.

Land use rights – Land use rights represent payments made to obtain the right to use land in the PRC, which are charged to general and administrative expense on a straight-line basis over the life of the rights of 50 years.

Impairment of long-lived assets – Long-lived assets, such as property, plant and equipment and land use rights, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of the asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Assets held for sale of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

The Bangsheng Chemical long-lived assets, primarily production equipment of approximately $1,718,475 met the criteria for classification as held for sale at December 31, 2009, therefore, in accordance with ASC 360-10-45, the amount is included in assets held for sale in the accompanying consolidated balance sheet.

Debt issuance costs – Costs incurred by the Company that are directly attributable to the issuance of the long-term convertible notes, are deferred and are charged to the consolidated statements of income on a straight-line basis, which approximate the effective interest rate method from the date the long-term convertible notes were issued to the earliest date the holders of the long-term convertible notes can demand payment, which is three years.

Income taxes – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of income.

Revenue recognition – The Company recognizes revenues, when the customer takes ownership and assumes risk of loss, collection of relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Written sales agreements or customer purchase orders, which specify price, product, and quantity, are used as evidence of an arrangement. For domestic sales, customer acceptance is evidenced by a carrier or customer signed shipment notification form. For export sales, products are considered delivered when the goods have reached the port of arrival. In the PRC, value added tax ("VAT") of approximately 6 - 17% on invoiced amount is collected on behalf of tax authorities. Revenue is recorded net of VAT. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability and included in "accrued expenses and other payables" in the consolidated balance sheets.

Sales incentives **–**Provisions for sales incentives such as sales rebates are recorded in the same period as the related revenues and are included in "accrued expenses and other payables" in the consolidated balance sheets until paid. The Company records sales rebates as a reduction of sales, which amounted to $693,658, $1,719,986 and $1,286,954 for the years ended December 31, 2009, 2008 and 2007, respectively.

Cost of goods sold **–** Cost of goods sold consists primarily of raw materials, packaging, utility and supply costs consumed in the manufacturing process, manufacturing labor, depreciation expense and direct overhead expenses necessary to manufacture finished goods as well as warehousing and distribution costs such as inbound freight charges, shipping and handling costs, purchasing and receiving costs, and inspection costs.

Selling, general and administrative expenses **–** Selling, general and administrative expenses consists primarily of personnel costs, including salaries, bonuses, commissions and employee benefits, office facility and equipment costs, amortization of land use rights, research and development costs, and other support costs including utilities, insurance, and professional fees.

Share-based compensation **–**The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period. The Company estimates grant-date fair value using the Black-Scholes option-pricing model.

Research and product development costs – Research and development costs are expensed as incurred and are included in general and administrative expenses in the consolidated statements of income. For the years ended December 31, 2009, 2008 and 2007, such expenses amounted to $576,737, $455,104 and $153,057, respectively.

Operating leases – The Company leases land, buildings and equipment under non-cancelable operating leases. Minimum lease payments are expensed on a straight-line basis over the term of the lease. The lease agreements do not contain free rent or escalating payment terms. Under the terms of the lease agreements, the Company has no legal or contractual asset retirement obligations at the end of the leases.

Commitments and contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Legal and other fees incurred in connection with loss contingencies are expensed as incurred and are included in general and administrative expenses in the consolidated statements of income.

Retirement benefit plans – As stipulated by the regulations of the PRC, the Company participates in various defined contribution plans organized by municipal and provincial governments for its employees. The Company is required to make annual contributions at rates prescribed by the related municipal and provincial governments. Under these plans, certain pension, medical and other welfare benefits are provided to the employees. Contributions to employee benefits associated with these plans are expensed as incurred. The Company has no other obligation for the payment of employee benefits associated with these plans beyond the contributions described above. For the years ended December 31, 2009, 2008 and 2007, contributions to the defined contribution plans were $348,952, $345,436 and $178,213, respectively.

Basic and diluted earnings per share – Basic earnings per share ("EPS") is computed by dividing net income by the weighted-average shares of common stock outstanding during the period. Diluted EPS is calculated by dividing net income as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Ordinary equivalent shares consist of convertible notes, using the if-converted method, and common stock issuable upon the exercise of outstanding share options and warrants (using the treasury stock method). Potential dilutive securities are not included in the calculation of diluted earnings per share if the effect is anti-dilutive.

Segment reporting **–** The Company's chief operating decision maker ("CODM") has been identified as its Chief Executive Officer. Prior to December 2009, the Company presented two segments, nano-materials and chemical segments. In connection with the reporting discontinued operations for Bangsheng Chemical, the operating results of the Bangsheng Chemical, which represented the Company's entire operations for its chemical segment are classified as discontinued operations. As a result, the Company is managed and operated as one segment as of December 31, 2009.

Recently issued and adopted accounting pronouncements

In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, *Measuring Liabilities at Fair Value*, or ASU 2009-05, which amends FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820 to provide clarification of circumstances in which a quoted price in an active market for an identical liability is not available. A reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities (or similar liabilities when traded as assets) and/or 2) a valuation technique that is consistent with the principles of ASC 820. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include inputs relating to the existence of transfer restrictions on that liability. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

On January 1, 2009, the Company adopted FASB ASC Topic 805, *Business Combinations,* or ASC 805. ASC 805 requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. ASC 805 also requires the capitalization of research and development assets acquired in a business combination at their acquisition date fair values, separately from goodwill. In addition, ASC 805 requires that any post-acquisition adjustments to deferred tax asset valuation allowances and liabilities related to uncertain tax positions be recognized in current period income tax expense. ASC 805 was effective for the Company beginning January 1, 2009. The Company accounted for the acquisition of Chaodong on December 11, 2009 in accordance with ASC 805 (See Note 4) and will account for future business combinations in accordance with its provisions.

On January 1, 2009, the Company adopted FASB ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The initial adoption of the provisions of this standard related to nonfinancial assets and nonfinancial liabilities did not have any impact on the Company's consolidated financial statements.

NOTE 3 – Accounting changes – adoption of FASB ASC Subtopic 470-20

On January 1, 2009, the Company adopted FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options,* or ASC 470-20, which specifies the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). ASC 470-20 requires separate accounting for the debt and equity components of convertible debt issuances that have a cash settlement feature permitting settlement partially or fully in cash upon conversion. A component of such debt issuances representative of the approximate fair value of the conversion feature at inception should be bifurcated and recorded to shareholders' equity, with the resulting debt discount amortized to interest expense in a manner that reflects the issuer's nonconvertible, unsecured debt borrowing rate. This standard also requires retrospective application to such convertible notes for all periods presented. This standard impacts the accounting for the Company's convertible notes issued in May 2008 which, upon conversion of the convertible notes by holders at any time before June 1, 2011, may result in the Company settling the make-whole interest payment in cash. As such, the convertible notes are deemed to have a partial cash settlement feature upon conversion.

As a result of the adoption of ASC 470-20, the accompanying financial statements reflects the retroactive adjustments to account for the debt and equity components of the 6% long-term convertible notes separately as of the date of issuance. The equity component (conversion option) of the long-term convertible notes was determined to be $24,290,655 at the issuance date and, accordingly, the initial carrying amount of the convertible notes was reduced to $90,709,345. The resulting debt discount of $24,290,655 is amortized and interest expense is recognized using an effective interest rate of 13.5%. Upon adoption, the Company also recognized a deferred tax liability of $8,258,823 at issuance due to a temporary difference between the retroactively adjusted financial statement carrying amount and tax basis of the convertible notes.

During November and December 2008, the Company repurchased, in privately negotiated transactions, part of the convertible notes with a principal amount of $19,750,000 from certain investors for cash of $9,890,000 plus accrued interest of $581,792. As such, the adjusted carrying amount of the convertible notes as of December 31, 2008, includes the effects of adopting ASC 470-20 and the repurchases in November and December 2008.

The adoption of ASC 470-20 has resulted in a reduction in the carrying value of the Company's convertible debt, debt issuance costs and an increase in deferred income taxes and capitalized interest. The adoption had no impact to the 2007 consolidated financial statements. The following table sets forth the effect of the retroactive application of ASC 470-20 on certain previously reported financial statement captions. In addition, certain prior year balance sheet amounts have been reclassified to conform to the current year presentation:

	December 31, 2008			
	As previously reported	Adjustments	Reclassification	As retroactively adjusted
Assets:				
Total current assets	$ 124,251,388	$ -	$ (336,429)	$ 123,914,959
Total current assets of discontinued operations	-	-	962,942	962,942
Property, plant and equipment, net	99,878,791	243,731	(1,777,800)	98,344,722
Land use rights	15,593,548	116,785	-	15,710,333
Debt issuance costs	3,925,157	(829,084)	-	3,096,073
Deferred income tax assets	260,056	-	(260,056)	-
Non-current assets of discontinued operations	-	-	1,777,800	1,777,800
Total assets	$ 243,908,940	$ (468,568)	$ 366,457	$ 243,806,829
Liabilities and shareholders' equity:				
Total current liabilities	$ 11,550,255	$ -	$ 611,601	$ 12,161,856
Total current liabilities of discontinued operations	-	-	14,912	14,912
Long-term convertible notes	95,250,000	(17,323,690)	-	77,926,310
Non-current income taxes payable	1,268,108	-	(293,977)	974,131
Deferred income tax liabilities	-	5,647,318	(260,056)	5,387,262
Non-current liabilities of discontinued operations	-	-	293,977	293,977
Total liabilities	108,068,363	(11,676,372)	366,457	96,758,448
Common stock	542	-	-	542
Additional paid-in capital	21,897,316	15,214,953	-	37,112,269
Retained earnings and statutory reserves	100,554,915	(4,007,149)	-	96,547,766
Accumulated other comprehensive income	13,387,804	-	-	13,387,804
Total shareholders' equity	135,840,577	11,207,804	-	147,048,381
Total liabilities and shareholders' equity	$ 243,908,940	$ (468,568)	$ 366,457	$ 243,806,829

	For the Year Ended December 31, 2008			
	As previously reported	Adjustments	Reclassification	As retroactively adjusted
Operating income	**$ 44,248,528**	$ (1,418)	$ (15,656,622)	**$ 28,590,488**
Other income (expense):				
Interest income	235,219	-	(102,796)	132,423
Interest expense	(4,766,681)	(2,689,737)	-	(7,456,418)
Gain on extinguishment of convertible notes	9,018,169	(3,506,682)	-	5,511,487
Other expense, net	(52,833)	-	1,229	(51,604)
Income before income taxes	48,682,402	(6,197,837)	(15,758,189)	26,726,376
Income tax expense	(8,646,951)	2,190,688	2,750,594	(3,705,669)
Net income as previously reported	40,035,451	(4,007,149)	(13,007,595)	23,020,707
Income from discontinued operations	-	-	13,007,595	13,007,595
Net income	$ 40,035,451	$ (4,007,149)	$ -	$ 36,028,302
Earnings per share from continuing operations:				
Basic	$ 0.74			$ 0.42
Diluted	$ 0.60			$ 0.39
Earnings per share from discontinued operations:				
Basic				$ 0.24
Diluted				$ 0.21

NOTE 4 - Acquisition

On December 11, 2009, the Company acquired 100% of the equity interest of Chaodong, a manufacturer of nano precipitated calcium carbonate, including mining rights to certain limestone reserves (with a remaining period of approximately two years for the mining rights) and existing buildings and equipment for cash consideration of RMB 26,000,000 (approximately $3.8 million). The Company did not assume any liabilities as of the date of the acquisition. In accordance with the acquisition agreement, the Company obtained control of Chaodong on December 11, 2009. The operating results of Chaodong are included in the Company's consolidated financial statements from the date of the acquisition.

The purchase price of $3.8 million was recorded as a liability to payable for acquisition on the date of acquisition and included in the accompanying consolidated balance sheet as of December 31, 2009. It was paid in full on January 20, 2010. The purchase price allocation resulted in the following amounts being allocated to the net assets acquired at the acquisition date based upon their respective fair values:

Mining rights	$ 111,774
Buildings	1,696,750
Plant, machinery and equipment	2,779,689
Motor vehicles	10,137
Office equipment	30,776
Deferred tax liability	(206,600)
Fair value of net assets acquired	4,422,526
Gain on bargain purchase	(619,466)
Purchase price	$ 3,803,060

The estimated fair value of the acquired net assets of the Chaodong dormant manufacturing facility exceeded the purchase price and accordingly, the Company recognized a gain of $619,466 on bargain purchase in the accompanying consolidated statement of income for the year ended December 31, 2009. The company was able to acquire Chaodong with a bargain purchase price due to the fact that the seller planned to focus on its core business of manufacturing cement and that the seller has experienced difficulty in selling the business in the market as all equipment used by the business was specifically built to fit ultra gravity technology system needs. The Company is one of the very few potential buyers that have the technology, human resources, research and development expertise, and sales and marketing capabilities to operate the business. Prior to recording a gain, the Company reassessed whether all acquired assets and all liabilities assumed have been identified and performed re-measurements to verify that the consideration paid and assets acquired have been properly valued and recorded based on information available to the Company. The Company incurred a total of $111,135 in expenses related to the acquisition, which has been included in general and administrative expenses in the accompanying consolidated statement of income for the year ended December 31, 2009. Chaodong did not generate any revenues and incurred a loss from continuing operations of $125,005 before taxes, comprised primarily of general and administrative expenses since the date of acquisition through December 31, 2009.

The allocation of the purchase price is subject to finalization of management's analysis of certain local tax matters as of the acquisition date. The final allocation of the purchase price may result in additional adjustments to the recorded amounts of assets and may also result in adjustments to depreciation expenses. The final allocation is expected to be completed as soon as practicable but no later than 12 months after the acquisition date.

The following unaudited pro forma information summarizes the results of operations for the fiscal years ended December 31, 2009 and 2008, as if the Chaodong acquisition had occurred as of the beginning of each year presented. Adjustments for depreciation expense based on the fair value of the newly acquired property and equipment using the Company's depreciation policy and amortization of mining rights based on the Company's amortization policy have been applied retroactively. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the combined operations of the Company and Chaodong. Accordingly, these unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined companies that would have been achieved had the acquisition occurred at the beginning of each year presented, nor are they intended to represent or be indicative of future results of operations.

	Pro Forma (Unaudited) For the Years Ended December 31,	
	2009	**2008**
Net sales	$ 102,121,804	$ 82,419,689
Operating income	33,490,684	27,909,131
Income from continuing operations	22,921,086	22,339,385
(Loss) income from discontinued operations	(449,550)	13,007,595
Net income	$ 22,471,536	$ 35,346,980

NOTE 5 – Inventories

Inventories consist of the following:

	December 31,	
	2009	**2008**
Raw materials	$1,003,929	$ 821,413
Work-in-process	383,960	300,780
Finished goods	630,394	1,188,802
Total inventories	$2,018,283	$2,310,995

Raw materials consist primarily of limestone supplies used in the Company's production of NPCC products.

NOTE 6 – Property, plant and equipment, net

Property, plant and equipment consist of the following:

	December 31,	
	2009	2008
Buildings	$ 30,224,605	$ 14,815,418
Plant, machinery and equipment	104,836,652	74,687,129
Motor vehicles	150,843	140,358
Office equipment	592,456	499,973
Construction in progress	138,163	16,564,016
Total property, plant and equipment	135,942,719	106,706,894
Less: accumulated depreciation	(12,842,859)	(8,362,172)
Total property, plant and equipment, net	$123,099,860	$ 98,344,722

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was $4,519,020, $3,406,738 and $1,775,691, respectively.

A reconciliation of total interest cost incurred to "interest expense" as reported in the consolidated statements of income for the year ended December 31, 2009, 2008 and 2007 is as follows:

	For the Years Ended December 31,		
	2009	2008	2007
Total interest cost incurred	$ 12,383,083	$ 8,107,513	$ -
Interest cost capitalized	(1,720,831)	(651,095)	-
Interest expense	$ 10,662,252	$ 7,456,418	$ -

NOTE 7 – Accrued expenses and other payables

Accrued expenses and other payables consist of the following:

	December 31,	
	2009	2008
Accrued utilities	$1,240,719	$ 752,114
Accrued interest	527,832	476,250
Sales rebate payable	-	455,260
Professional service fee payable	594,823	629,409
Salaries and welfare payable	1,367,566	952,933
Other taxes payable	897,570	917,122
Other payables	108,846	158,918
Total accrued expenses and other payables	$4,737,356	$4,342,006

NOTE 8 – Income taxes

ShengdaTech and each of its subsidiaries file separate income tax returns.

The United States of America

ShengdaTech, is incorporated in Nevada in the U.S., and is subject to a gradual U.S. federal corporate income tax of 15% to 39%. The state of Nevada does not impose any corporate income tax.

British Virgin Islands

Under the current laws of the British Virgins Island, Faith Bloom is not subject to tax on income or capital gains. In addition, upon payment of dividends by Faith Bloom, no British Virgin Islands withholding tax will be imposed.

People's Republic of China

Prior to January 1, 2008, the PRC's statutory income tax rate was 33%. Shandong Haize Nano, Bangsheng Chemical and Shaanxi Haize Nano, which were considered production-oriented foreign investment enterprises, were each entitled to a tax holiday of a two-year 100% exemption followed by a three-year 50% exemption from the first profit making year after offsetting accumulated tax losses. Shandong Haize Nano, Bangsheng Chemical and Shaanxi Haize Nano's tax holidays were started in 2005, 2005 and 2006, respectively.

On March 16, 2007, the National People's Congress passed the new Corporate Income Tax law (the "new CIT law") which unify the income tax rate to 25% for all enterprises. The new CIT law was effective as of January 1, 2008. The new CIT law provides a grandfathering on tax holidays which were granted under the then effective tax laws and regulations.

Based on the above, the PRC subsidiaries are subject to the following tax rates:

- Shandong Haize Nano and Bangsheng Chemical are under tax holidays in 2006 and are subject to tax rates of 16.5%, 12.5% and 12.5% for 2007, 2008 and 2009, respectively. Commencing January 1, 2010, Shandong Haize Nano and Bangsheng Chemical are subject to a tax rate of 25%.

- Shaanxi Haize Nano is under tax holidays in 2006 and 2007, and is subject to a tax rate of 12.5% in 2008 through 2010. Commencing January 1, 2011, Shaanxi Haize Nano is subject to a tax rate of 25%.

- Zibo Nano and Chaodong are subject to a tax rate of 25%.

Income (losses) from continuing operations before income taxes of the Company consists of the following:

	For the Years Ended December 31,		
	2009	**2008**	**2007**
PRC	$ 36,171,751	$ 29,387,577	$ 16,051,837
Non-PRC	(9,896,062)	(2,661,201)	(399,267)
Total income from continuing operations before income taxes	**$ 26,275,689**	**$ 26,726,376**	**$ 15,652,570**

Income tax expense (benefit) attributable to income from continuing operations, consists of:

	For the Years Ended December 31,		
	2009	2008	2007
United States:			
Current taxes			
Federal	$ (1,283,951)	$ 1,505,854	$ -
Deferred income taxes	(1,150,052)	(2,450,744)	-
Total U.S. tax benefit	**(2,434,003)**	**(944,890)**	**-**
PRC			
Current taxes	5,155,535	4,650,559	450,347
Total PRC tax expense	**5,155,535**	**4,650,559**	**450,347**
Total income tax expense	$ **2,721,532**	$ **3,705,669**	$ **450,347**

Total income taxes are allocated as follows:

	For the Years Ended December 31,		
	2009	2008	2007
Continuing operations	$ 2,721,532	$ 3,705,669	$ 450,347
Discontinued operations	-	2,750,594	2,337,293
	$ 2,721,532	**$ 6,456,263**	**$ 2,787,640**

Reconciliation of the actual income tax expense compared to the amounts computed by applying the PRC statutory tax rates to income from continuing operations before income taxes is as follows:

	For the Years Ended December 31,					
	2009		2008		2007	
Computed income tax expense	$ 6,568,922	25.0%	$ 6,681,948	25.0%	$ 5,165,348	33.0%
Change in valuation allowance	-	0.0%	(504,529)	-1.9%	380,396	2.4%
Effect of unrecognized tax benefit	621,349	2.4%	959,013	3.6%	-	0.0%
Entity not subject to income tax	321,587	1.2%	438,512	1.6%	-	0.0%
Effect of non-taxable income	(154,867)	-0.6%	-	0.0%	-	0.0%
Tax rate differential on United States income	(774,874)	-2.9%	(81,644)	-0.3%	(3,993)	0.0%
Tax holiday	(4,385,137)	-16.9%	(3,673,625)	-13.7%	(4,846,759)	-30.9%
Underprovision in respect of prior year	171,955	0.7%	-	0.0%	-	0.0%
Interest rate change due to the adoption of ASC 470-20	123,057	0.5%	-	0.0%	-	0.0%
Other	229,540	0.9%	(114,006)	-0.4%	(244,645)	-1.6%
Actual income tax expense	**$ 2,721,532**	10.3%	**$ 3,705,669**	13.9%	**$ 450,347**	2.9%

The PRC tax rates have been used because the majority of the Company's earnings before income taxes and taxable income arise in the PRC. The effect of the tax holiday amounted to $4,385,137, $3,673,625, and $4,846,759 for the years ended December 31, 2009, 2008 and 2007, equivalent to basic earnings per share from continuing operations, amount of $0.08, $0.07 and $0.09, respectively and diluted earnings per share amount of $0.08, $0.06 and $0.09, for the years ended December 31, 2009, 2008 and 2007, respectively.

The tax effects of the Company's temporary differences that give rise to significant portions of deferred tax assets and liabilities are as follows:

	For the Years Ended December 31, 2009	2008
Deferred income tax assets:		
Net operating loss carry forward	$ 419,611	$ -
Debt issuance costs	729,327	502,793
Impairment of property, plant and equipment	982,813	982,813
Total gross deferred income tax assets	2,131,751	1,485,606
Less: valuation allowance	(1,095,201)	(982,813)
Deferred income tax assets	$ 1,036,550	$ 502,793
Deferred income tax liabilities:		
Gain on repurchase	$ 829,882	$ -
Debt discount	3,647,677	5,890,055
Capitalized interest	796,201	-
Acquisition basis difference, non-U.S. entity	206,600	-
Deferred income tax liabilities	$ 5,480,360	$ 5,890,055
Net deferred income tax liabilities	**$ (4,443,810)**	**$ (5,387,262)**

As of December 31, 2009, the Company has net operating loss from discontinued operations for the PRC income tax purposes of $449,550 which are available to offset future taxable income, if any, through 2014.

As of December 31, 2009, the Company has net operating loss from continuing operations for United States federal income tax purposes of $5,185,673 which are available to carry back five years or offset future taxable income, if any, through 2029. The carry back amounted to $4,282,076, which creates a refund of $1,455,906 which was included in income tax refund receivable as of December 31, 2009.

At December 31, 2009 and 2008, deferred tax assets and liabilities were classified on the Company's balance sheet as follows:

	For the Years Ended December 31, 2009	2008
Non-current deferred income tax assets (liabilities):		
Non-current deferred income tax assets	$ 1,036,550	$ 502,793
Non-current deferred income tax liabilities	(5,480,360)	(5,890,055)
Net non-current deferred income tax liabilities	**$ (4,443,810)**	**$ (5,387,262)**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible or tax loss carry forwards are utilized. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon an assessment of the level of historical taxable income and projections for future taxable income over the periods on which the deferred tax assets are deductible or can be utilized, management believes it is more likely than not that the Company will realize a portion of the benefits of the deferred tax assets as of December 31, 2009. The amount of the deferred tax assets considered realizable; however, could be reduced in the near term if estimates of future taxable income are reduced.

The new CIT law and its implementation rules impose a withholding tax of 10% unless reduced by a tax treaty, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on January 1, 2008 and undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. The Company has not provided for income taxes on accumulated earnings amounting $35,401,200 and $66,125,300 that are subject to the PRC withholding tax as of December 31, 2008 and 2009, respectively, since these earnings are intended to be permanently reinvested. The amounts of unrecognized deferred tax liabilities are approximately $3,540,120 and $6,612,530 as of December 31, 2008 and 2009, respectively.

Unrecognized tax benefits, generally represented by liabilities on the balance sheet, arise when the estimated benefit recorded in the financial statements differs from the amounts taken or expected to be taken in a tax return because of the uncertain tax positions that the Company currently does not believe meet the more likely than not recognition threshold to be sustained upon examination. Reconciliation of unrecognized tax benefits for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Balance as at January 1	**$ 1,268,108**	**$ -**	**$ -**
Increases related to prior year tax positions	-	492,759	-
Decreases related to prior year tax positions	-	-	-
Increases related to current year tax positions	621,349	755,668	-
Settlements	-	-	-
Lapse of statute	-	-	-
Foreign currency translation adjustment	3,488	19,681	-
Balance as at December 31	**$ 1,892,945**	**$ 1,268,108**	**$ -**

As of January 1, 2007 and for the year ended December 31, 2007, the Company did not have any unrecognized tax benefits relating to uncertain tax positions.

Included in the balance of unrecognized tax benefits for continuing operations at December 31, 2009 and December 31, 2008 are potential benefits of $1,598,237 and $974,131 respectively that if recognized, would affect the Company's effective tax rate. Unrecognized tax benefits for discontinued operations at December 31, 2009 and December 31, 2008 are $294,708 and $293,977 respectively. No material interest and penalty have been recorded for the year ended December 31, 2009. The Company does not expect that the nature of unrecognized tax benefits will change significantly within the next 12 months.

ShengdaTech and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the PRC. ShengdaTech could be subject to U.S. federal income tax examinations by tax authorities for years starting March 31, 2006. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations extends to five year under special circumstances where the underpayment of taxes is more than RMB 100,000 ($15,000). In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. Accordingly, the income tax returns of the Company's PRC operating subsidiaries for the years ended December 31, 2004 through 2009 are open to examination by the PRC state and local tax authorities.

NOTE 9 – Commitments and contingencies

Project Investment Contract – On August 28, 2009, Faith Bloom entered into a Project Investment Contract (the "Investment Agreement") with the local government of Hanshan County, Anhui Province, PRC (the "local government"). Pursuant to the Investment Agreement, the Company will invest RMB 1,200,000,000 (approximately $175.70 million) in several phases by 2013, which includes an investment in a new NPCC project with capacity to manufacture 200,000 tons of NPCC per year and the purchase of approximately 341,335 square meters (approximately 84.35 acres) of land-use rights. The local government has also agreed to grant the Company mining rights to certain limestone reserves. In addition, land-use rights and mining rights grants are also subject to further local government administrative processes.

In addition, on August 28, 2009, the Company entered into an agreement with the local government to purchase the land-use rights for approximately 66,767 square meters (16.50 acres) of land (the "Land Use Right Agreement") for use in the operations of Chaodong. The Land Use Right Agreement is subject to the local government approval after the completion of certain local administrative processes.

Leases – The Company leases land, buildings and certain equipment from Shandong Shengda, a related party. The lease was entered into by the Company's subsidiary, Shandong Haize Nano for a 20-year term up to 2024. These leases are classified as operating leases.

Total rent expense under these leases for the years ended December 31, 2009, 2008 and 2007 was $190,677, $187,353 and $366,403, respectively.

Future minimum lease payments under the Company's lease agreement as of December 31, 2009 are as follows:

	Operating Leases
2010	$ 190,677
2011	190,677
2012	190,677
2013	190,677
2014	190,677
Thereafter	1,898,827
Minimum lease payments	**$ 2,852,212**

Capital commitments – The Company has contractual obligations related to the purchase of property and equipment amounting to $386,792 as of December 31, 2009.

NOTE 10 – Related party transactions

Due to related parties – As of December 31, 2009, the amount due to Shandong Shengda of $212,034 comprised primarily rent expense for land and buildings. During 2009, the Company issued an unsecured note payable to Shandong Shengda bearing interest at a rate of 3.0% in exchange for certain Company expenses paid by Shandong Shengda. Principal and accrued interest were $574,878 and $26,753, respectively, as of December 31, 2009.

In 2009, the Company’s total rent expense to related party for land and building amounted to $190,677. In addition, general and administrative expenses of $323,980 were paid by Shandong Shengda on behalf of the Company.

As of December 31, 2008, the amount due to Shandong Shengda of $771,442, comprised primarily of rent expense for land and buildings and other general and administrative expenses paid by Shandong Shengda on behalf of the Company.

In 2008, the Company’s total rent expense to related party amounted to $669,159 for land, building and equipment. In addition, general and administrative expenses of $201,852 were paid by Shandong Shengda on behalf of the Company.

In 2008 the Company purchased $17,662,846 equipment from Shandong Haiqing Chemical Co., Ltd. (“Shandong Haiqing”). Mr. Chen, the President and CEO of the Company, was also the CEO of Shandong Haiqing during 2008. Mr. Chen’s contract with Shandong Haiqing expired as of January 1, 2009. Shandong Haiqing has appointed a new CEO and as a result, effective January 1, 2009, Shandong Haiqing is no longer considered a related party to the Company. As of December 31, 2008, the Company had $8,003,223 advance payment to Shandong Haiqing for equipment purchases, included in the property, plant and equipment, net. Amount due to Shandong Haiqing related to these purchases for contracts entered into prior to January 1, 2009 amounted to $1,360,393 and $965,962 as of December 31, 2009 and December 31, 2008, respectively.

NOTE 11 – Long-term convertible notes

On May 28, 2008, the Company issued $100,000,000 of 6% long-term convertible notes due June 1, 2018 (the “Notes”) in a private placement. On June 25, 2008, the Company issued an additional $15,000,000 of the Notes to cover over allotments. Proceeds from the issuance of the Notes were $115,000,000. The Notes bear interest at 6.0 % per annum, payable semiannually on June 1 and December 1, and have a maturity date of June 1, 2018. At maturity, subject to certain exceptions, the Company will be required to repay the principal amount of the Notes.

The Notes are convertible at the option of the holders, at any time prior to maturity, into common shares at an initial conversion rate of 100.6036 shares per $ 1,000 principal amount of the Notes (at approximately $9.94 per common share) subject to adjustment. Holders who convert their Notes at any time prior to June 1, 2011 are entitled to additional interest in cash or, at the Company's option, in shares of the Company's common shares. The additional interest shall be equal to the interest due and payable from the date of issuance until and including June 1, 2011, less any interest actually paid or provided for prior to the date of such conversion (such additional interest is referred to as the "make-whole interest payment"). Upon conversion of a convertible note, if the Company chooses to pay the make-whole interest payment in shares, the aggregate make-whole interest to such noteholder shall not exceed $68.21 per each $1,000 original principal amount of Notes.

The Company adopted ASC 470-20 as of January 1, 2009 and retrospectively applied this change in accounting to all prior periods presented for which the convertible notes that may be settled in cash upon conversion (including partial conversion) were outstanding, as required by the new standard. Under this new method of accounting, the debt and equity components of the 6% long-term convertible notes were bifurcated and accounted for separately and interest expense is computed using an effective interest rate of 13.5% as the convertible notes are accreted to the face value.

The long-term convertible notes as of December 31, 2009 and 2008 are summarized in the following table:

	December 31, 2009	December 31, 2008
Principal amount of long-term convertible notes	$ 90,027,000	$ 95,250,000
Conversion option subject to cash settlement	(10,728,461)	(17,323,690)
Net carrying amount	$ 79,298,539	$ 77,926,310
Carrying amount of additional paid-in capital	$ 15,214,953	$ 15,214,953

Conversion option subject to cash settlement or debt discount is amortized as interest expense through June 1, 2011, the earliest date the holders of the long-term convertible notes can demand payment. In addition, prior to such date, holders of the Notes can convert their Notes and receive an additional interest in cash or, at the Company's option, in common shares of the Company. Debt issuance costs of $4,621,967 as of May 28, 2008, have been capitalized and are being amortized on a straight-line basis, which approximate the effective interest rate method from the date the convertible notes were issued to June 1, 2011.

Interest relating to the convertible notes was recognized as follows:

	For the Years Ended December 31,		
	2009	2008	2007
Contractual coupon interest on convertible notes	$ 5,447,649	$ 3,963,167	$ -
Amortization of debt discount	5,690,927	3,282,469	-
Amortization of debt issuance costs	1,217,755	861,877	-
Interest cost capitalized	(1,720,831)	(651,095)	-
Interest expense	**$ 10,635,500**	**$ 7,456,418**	**$ -**

The Company cannot redeem the Notes prior to June 1, 2011. Beginning on or after June 1, 2011 and up to May 31, 2013, the Company may redeem the Notes for cash, in whole or part, at a price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest to, but excluding, the redemption date, if the last trading price of the Company's shares of common stock, subject to certain qualifications, is at least 150% of the conversion price then in effect on the trading date. On or after June 1, 2013, the Company may redeem the Notes for cash in whole or in part, at a price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

On June 1, 2011 and June 1, 2013, holders of the Notes may require the Company to purchase all or a portion of the Notes at a purchase price in cash equal to 100% of the principal amount of the Notes being repurchased plus accrued and unpaid interest to, but excluding, the repurchase date, subject to certain conditions.

The Company evaluated the accounting for embedded call and put and determined that such call and put options are clearly and closely related to the Notes because the amount paid upon settlement is fixed at a price equal to the principal amount plus accrued and unpaid interest, and as such would not be accounted for separately.

At maturity, subject to certain exceptions, the Company will be required to repay the principal amount of the Notes.

The Notes require the Company not incur any secured indebtedness and it will not permit any of its subsidiaries to directly or indirectly incur any indebtedness. The Company will be permitted to incur additional indebtedness which ranks equal in right of payment to the Notes in an amount not to exceed $15,000,000; provided that such indebtedness does not require any repayment prior to the next purchase date as set forth in the Notes. The Company will be permitted to issue equity securities, including common stock and preferred stock (in the case of preferred stock, which shall not be redeemable or otherwise repayable prior to the stated maturity date of the Notes so long as 25% or more of the initial aggregate principal amount of Notes issued, including any Notes issued pursuant to the over-allotment option, is outstanding), and any securities which rank junior in right of payment to the Notes.

The Company was required to use reasonable efforts to have a shelf registration statement declared effective no later than December 27, 2008, the 185th day after the latest date of original issuance of the Notes of June 25, 2008. However, the Company was not obligated to file, have declared effective or maintain an effective registration statement to the extent and during the period that the Notes and any shares of common stock issuable upon conversion of the Notes are eligible to be sold by a person who is not an affiliate of the Company pursuant to Rule 144 (or any other similar provision then in force (other than Rule 144A)) under the Securities Act.

If there had been a Registration Default pursuant to the registration rights agreement, the Company was obligated to pay a penalty to the holders of the Notes for each day of default additional interest at a rate per annum equal to 0.25% of the aggregate principal amount of the Notes for the first 90 days of such default period and a rate per annum equal to 0.50% of the aggregate principal amount of the Notes thereafter.

The Company did not file a registration statement because the Notes met the requirements of Rule 144 and have satisfied the six-month holding period requirement prior to the filing date under the registration rights agreement. The Company evaluated the registration obligation separately from the Notes to determine the need to accrue for any probable or estimable payments to be made under the registration rights agreement and concluded that any payments were considered remote and therefore no accrual has been made for potential penalties for not filing the registration statement at December 31, 2009 and 2008."

According to the terms of the Notes, the Company can repurchase the Notes in the open market any time. During February 2009, the Company repurchased, in privately negotiated transactions, part of the Notes with a principal amount of $5,223,000 from certain investors for cash of $2,535,745 plus accrued interest of $72,144. In conjunction with the repurchases, the Company recognized a pre-tax gain of $1,624,844, net of unamortized debt issuance costs and discount of $158,109 and $904,302, respectively, for the year ended December 31, 2009. During November and December 2008, the Company repurchased, in privately negotiated transactions, part of the Notes with a principal amount of $19,750,000 from certain investors for cash of $9,890,000 plus accrued interest of $581,792. In conjunction with the repurchases, the Company recognized a pre-tax gain of $5,511,487, net of unamortized debt issuance costs and discount of $664,017 and $3,684,496, respectively, for the year ended December 31, 2008.

No portion of the consideration paid by the Company is deemed to represent reacquisition of the equity component at the time of the settlement based on the Company's fair value considerations of the liability component of the convertible notes immediately prior to the extinguishment.

NOTE 12 - Shareholders' equity

Common and preferred shares – In January 2007, the shareholders of the Company amended and restated the Company's articles of incorporation and thereby: 1) changed the name of the Company from Zeolite Exploration Company to ShengdaTech, Inc.; 2) increased the authorized number of shares of common stock to 100,000,000, $0.00001 par value; and 3) increased the authorized number of shares of preferred stock to 10,000,000, $0.00001 par value. The shares of preferred stock may be issued in one or more series and may be granted voting rights, at the discretion of the Company's Board of Directors.

Statutory reserves – Under the Law of the PRC on Enterprises with Wholly Owned Foreign Investment, the Company's subsidiaries in the PRC are required to allocate at least 10% of their after tax profits, after making good of accumulated losses as reported in their PRC statutory financial statements, to the general reserve fund and have the right to discontinue appropriations to the general reserve fund if the balance of such reserve has reached 50% of their registered capital. A transfer of $324,727, $2,488,182, and $2,341,040 from retained earnings to statutory reserves was recorded for the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 13 – Share-based compensation

Options – On January 1, April 1 and July 1, 2009, respectively, the Company issued options to a director to purchase 5,000 shares of common stock under each grant at an exercise price of $3.52, $3.10 and $3.75 per share with a contractual term of three years and vesting immediately. The fair value of each option grant was estimated at $1.35, $1.20 and $1.48, respectively.

On April 1, July 1, and October 1, 2008, respectively, the Company issued a three-year option to a director to purchase 5,000 shares of common stock under each grant at an exercise price of $8.50, $9.93, and $7.00 per share with a contractual term of three years and vesting immediately. The fair value of each option grant was estimated at $4.22, $4.55, and $3.02, respectively.

The related share-based payments were recognized as compensation expense on the date of the grant and included in general and administrative expenses in an amount of $20,173 and $58,945 for the year ended December 31, 2009 and 2008, respectively. The Company estimated the fair value of options granted using a Black-Scholes option-pricing model with the following assumptions:

	2009	**2008**
Expected life	1.50 years	1.50 years
Expected volatility	80.81%-81.99%	72.07%-74.23%
Risk-free interest rate	1.14% - 1.57%	1.94% - 2.90%
Dividend yield	0%	0%

The risk-free interest rate is based on the U.S. Treasury zero-coupon rate. Expected volatility of stock option awards is estimated based on the Company's historical stock price using the expected life of the grant. Expected life is based upon the short-cut method.

Stock option transactions for the years ended December 31, 2009 and 2008 are as follows. No options were granted prior to January 1, 2008.

	Number	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2008	-	-	-	-
Granted	15,000	$ 8.48		
Exercised	-	-		
Outstanding at December 31, 2008	**15,000**	**$ 8.48**	**2.50**	-
Granted	15,000	3.46		
Exercised	-	-		
Outstanding at December 31, 2009	**30,000**	**$ 5.97**	**1.87**	**$ 40,100**
Vested at December 31, 2009	**30,000**	**$ 5.97**	**1.87**	**$ 40,100**

Warrants – On April 1, 2006, the Company issued a warrant to purchase 162,285 shares of common stock to a vendor for services provided. The warrant was exercisable at $2.57 per share through March 31, 2008. The value of the services of $153,619 was recognized as an expense on the date the warrant was issued and was based upon the fair value of the warrant using the Black-Scholes option-pricing model. Under the terms of the warrant, the vendor was permitted to pay the exercise price by having the Company repurchase a portion of the shares from the vendor at the 30-day average closing price of the Company's common shares ending three days prior to the exercise date. The vendor exercised the warrant on November 19, 2007 when the 30-day average closing price was $7.54 per share which resulted in the issuance of 106,933 shares of common shares to the vendor. No tax benefit was realized from the exercise of the warrant in 2007. In 2008, the Company recognized an excess tax benefit in the amount of $221,903 as a component of additional paid-in capital.

NOTE 14 - Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

	For the Years Ended December 31, 2009	2008	2007
Income from continuing operations	$ 23,554,157	$ 23,020,707	$ 15,202,223
Interest expense on long-term convertible notes, net of tax of $ 2,535,182	-	4,921,236	-
Gain on extinguishment of long-term convertible notes, net of tax of $ 1,873,906	-	(3,637,581)	-
Adjusted income from continuing operations	$ 23,554,157	$ 24,304,362	$ 15,202,223
(Loss) income from discontinued operations	$ (449,550)	$ 13,007,595	$ 11,828,122
Adjusted net income	$ 23,104,607	$ 37,311,957	$ 27,030,345
Weighted average shares:			
Basic	54,202,036	54,202,036	54,107,408
Effect of dilutive securities:			
Long-term convertible notes	-	8,003,624	-
Warrants and options	2,887	-	81,002
Diluted	54,204,923	62,205,660	54,188,410
Basic earnings per share:			
Income from continuing operations	$ 0.43	$ 0.42	$ 0.28
(Loss) income from discontinued operations	$ (0.00)	$ 0.24	$ 0.22
Net income per share	$ 0.43	$ 0.66	$ 0.50
Diluted earnings per share:			
Income from continuing operations	$ 0.43	$ 0.39	$ 0.28
(Loss) income from discontinued operations	$ (0.00)	$ 0.21	$ 0.22
Net income per share	$ 0.43	$ 0.60	$ 0.50

The potential common shares of 12,390,730 related to the convertible notes were anti-dilutive and were excluded from the diluted earnings per share computation for 2009.

The total number of potential common shares excluded from the diluted earnings per share computation because the exercise price of the stock options exceeded the average price of the Company's common stock was 15,000 shares and 15,000 shares in 2009 and 2008, respectively. There were no options issued in 2007.

NOTE 15 – Significant Concentrations, Risks and Uncertainties

Financial instruments that potentially subject the Company to significant concentrations of credit risk primarily consist of cash and accounts receivable included in the consolidated balance sheets. The Company deposits its cash in banks primarily in the PRC. Historically, deposits in the PRC banks have been secure due to the state policy on protecting depositors' interests.

The Company sells its products primarily in the PRC. The Company continuously monitors the creditworthiness of its customers and has internal policies regarding customer credit limits. The Company has no customer that individually comprised of 10% or more of the Company's consolidated sales or accounts receivable.

The Company is dependent on certain suppliers for major materials used in manufacturing of its products. If the supply of certain materials were interrupted, the Company's own manufacturing process could be delayed and could cause a possible loss of sales, which would adversely affect operating results. Purchases (net of VAT) made from two (2) local suppliers for soft coal, limestone, and modification agents for the years ended December 31, 2009, 2008 and 2007 were $15,560,635, $14,507,099 and $10,527,490, respectively.

NOTE 16 – Fair Value Measurements

Effective January 1, 2008, the Company adopted FASB ASC 820, *Fair Value Measurements and Disclosures*, or ASC 820, with the exception for nonrecurring, nonfinancial assets and liabilities where adoption has been deferred and will be effective on the first day of fiscal year 2010. The adoption of ASC 820 did not impact the Company's financial position, results of operations or cash flows. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

As of December 31, 2009, the estimated fair value of the outstanding convertible notes was approximately $86,425,920 based on the level 3 valuation which compared to a carrying value of $79,298,539. As of December 31, 2008, the estimated fair value of the outstanding convertible notes was $86,152,840 which compared to a carrying value of $77,926,310. The estimated fair value of the convertible notes is based on a mark-to-model valuation model. Due to the fact that there is no active market for this instrument, the fair value of the convertible notes was estimated using a discounted cash flow analysis based on current borrowing rates for instruments with similar terms. In addition, the Company utilized other sources of information for the relevant market parameters in order to develop its fair value.

The Company's other financial instruments, including cash, accounts receivable, accounts payable, accrued expenses and other receivable/payable have net carrying values that approximate their fair values due to the short-term nature of these instruments.

NOTE 17 – Discontinued Operations

The Bangsheng Chemical had ceased all operations since October 31, 2008. In December 2009, the Company committed to a plan to sell the Bangsheng Chemical's assets, excluding certain tax receivables, accrued expenses, and non-current income taxes payable. As such the Bangsheng Chemical plant equipment and inventory were classified as assets held for sale. The remaining assets and liabilities associated with the Bangsheng Chemical segment have been classified as assets and liabilities of discontinued operations as of December 31, 2009 and have been reclassified as of December 31, 2008 for comparative purpose.

Assets and liabilities of the Bangsheng Chemical are comprised of the following:

	December 31, 2009	December 31, 2008
Inventory	$ -	$ 336,429
Income taxes receivable	801,983	496,779
Other taxes receivable	-	129,734
Current assets of discontinued operations	$ 801,983	$ 962,942
Assets held for sale	$ 1,718,475	$ -
Non-current assets of discontinued operations	$ -	$ 1,777,800
Accrued expenses	$ 42,068	$ 14,912
Non-current income taxes payable	$ 294,708	$ 293,977

The non-current assets of discontinued operations represent assets plant equipment held for use as of December 31, 2008.

The operating results of the Bangsheng Chemical for the years ended December 31, 2009, 2008 and 2007 are as follows:

	For the Years Ended December 31,		
	2009	**2008**	**2007**
Net sales	$ 295,899	$ 67,007,450	$ 53,933,120
Cost of goods sold	295,899	45,986,499	39,282,251
Gross profit	**-**	**21,020,951**	**14,650,869**
Operating expenses:			
Selling	-	110,813	90,909
General and administrative	367,937	1,322,263	574,105
Impairment of property, plant and equipment	-	3,931,253	-
Total operating expenses	**367,937**	**5,364,329**	**665,014**
Operating (loss) income	**(367,937)**	**15,656,622**	**13,985,855**
Other income (expense):			
Interest income	78,442	102,796	179,560
Other expense, net	(160,055)	(1,229)	-
Other (expense) income , net	**(81,613)**	**101,567**	**179,560**
(Loss) income from discontinued operations before income taxes	**(449,550)**	**15,758,189**	**14,165,415**
Income tax expense	-	2,750,594	2,337,293
(Loss) income from discontinued operations	**$ (449,550)**	**$ 13,007,595**	**$ 11,828,122**

NOTE 18 – Geographic information

The following summarizes the Company’s revenue, based on the geographic location of the customers:

	For the Years Ended December 31,					
	2009		**2008**		**2007**	
	2009	**% of sales**	**2008**	**% of sales**	**2007**	**% of sales**
PRC	$ 94,893,019	*93%*	$ 74,479,275	*90%*	$ 46,520,075	*100%*
Others	7,228,785	*7%*	7,940,414	*10%*	201,598	*0%*
Total net sales	**$102,121,804**	**100%**	**$ 82,419,689**	**100%**	**$ 46,721,673**	**100%**

All tangible long-lived assets for continuing operations are located in three provinces in the PRC, which amounted to $123,099,860 and $98,344,722, respectively, as of December 31, 2009 and December 31, 2008.

The following summarizes the Company's revenue, based on the product applications:

	For the Years Ended December 31,		
	2009	**2008**	**2007**
Rubber	$ 35,019,991	$ 35,727,730	$ 21,337,188
Plastic	46,276,567	30,303,950	17,333,224
Adhesive	12,122,941	8,599,392	3,642,528
Paper	1,377,526	1,357,589	2,356
Paint and Ink	3,099,474	3,079,100	2,054,040
Latex	4,225,305	3,351,928	2,352,337
	$102,121,804	$ 82,419,689	$ 46,721,673

NOTE 19 – ShengdaTech, Inc. (Parent Company)

Relevant PRC statutory laws and regulations permit payments of dividends by the Company's subsidiaries in the PRC only out of their retained earnings, if any, as determined in accordance with the PRC accounting standards and regulations. Under the Law of the PRC on Enterprises with Wholly Owned Foreign Investment, the Company's subsidiaries in the PRC are required to allocate at least 10% of their after tax profits, after making good of accumulated losses as reported in their PRC statutory financial statements, to the general reserve fund and have the right to discontinue allocations to the general reserve fund if the balance of such reserve has reached 50% of their registered capital. These statutory reserves are not available for distribution to the shareholders (except in liquidation) and may not be transferred in the form of loans, advances or cash dividends.

For the years ended December 31, 2009 and 2008, $324,727 and $2,488,182 were appropriated from retained earnings and set aside for the statutory reserve by the Company's subsidiaries in the PRC.

As a result of these PRC laws and regulations, the Company's subsidiaries in the PRC are restricted in its ability to transfer a portion of their net assets to either in the form of dividends, loans or advances, which consisted of paid-up capital and statutory reserves amounting to $89,523,152 and $69,870,366, respectively, as of December 31, 2009 and December 31, 2008.

The following represents condensed unconsolidated financial information of the Parent Company only:

Condensed Balance Sheets

	December 31, 2009	December 31, 2008
		As adjusted
Cash	$ 11,262	$ -
Prepaid expenses	19,983	-
Inter-company loan receivable	27,557,001	55,882,911
Income tax refund receivable	1,455,906	-
Due from inter-company	2,371,927	651,095
Investment in unconsolidated subsidiaries	221,530,711	172,492,075
Debt issuance costs	1,720,209	3,096,073
Total assets	**$ 254,666,999**	**$ 232,122,154**
Accrued expenses	$ 527,832	$ 476,250
Income taxes payable	-	1,283,951
Long-term convertible notes	79,298,539	77,926,310
Deferred income tax liabilities	4,237,210	5,387,262
Total shareholders' equity	170,603,418	147,048,381
Total liabilities and shareholders' equity	**$ 254,666,999**	**$ 232,122,154**

	For the Years Ended December 31,		
	2009	2008	2007
		As adjusted	
Equity in earnings of unconsolidated subsidiaries	$ 29,280,321	$ 35,990,567	$ 27,429,612
Operating expenses	(1,096,257)	(715,024)	(399,267)
Interest expense	(10,635,500)	(7,456,418)	-
Interest income	1,497,196	1,752,800	-
Gain on extinguishment of long-term convertible notes	1,624,844	5,511,487	-
Earnings before income taxes	20,670,604	35,083,412	27,030,345
Income taxes	(2,434,003)	(944,890)	-
Net income	**$ 23,104,607**	**$ 36,028,302**	**$ 27,030,345**

Condensed Statements of Cash Flows

	For the Years Ended December 31,		
	2009	2008	2007
Net cash used in operating activities	$ (711,882)	$ (2,867,631)	$ (143,735)
Net cash (used in) provided by investing activities	-	(40,724,800)	136,257
Net cash provided by financing activities	723,144	43,589,329	-
Net increase (decrease) in cash	11,262	(3,102)	(7,478)
Cash at beginning of year	-	3,102	10,580
Cash at end of year	$ 11,262	$ -	$ 3,102

The adoption of ASC 470-20 as discussed in Note 3 has resulted in a reduction in the carrying value of the Company's convertible notes and debt issuance costs, an increase in deferred taxes and due from intercompany related to capitalized interest. The adoption had no impact on the 2007 condensed parent company's financial statements. The following table sets forth the effect of the retroactive application of ASC 470-20 on certain previously reported financial statement captions for the condensed balance sheets and condensed statements of income:

	December 31, 2008			
	As previously reported	Adjustments	Reclassification	As retroactively adjusted
Intercompany loan receivable	$ 55,882,911	$ -	$ -	$ 55,882,911
Due from inter-company	289,161	361,934	-	651,095
Investment in unconsolidated subsidiaries	172,493,493	(1,418)	-	172,492,075
Debt issuance cost, net	3,925,157	(829,084)	-	3,096,073
Deferred income tax assets	260,056		(260,056)	-
Total assets	**$232,850,778**	**$ (468,568)**	**$ (260,056)**	**$ 232,122,154**
Accrued expenses	$ 476,250	$ -	$ -	$ 476,250
Income taxes payable	1,283,951	-	-	1,283,951
Long-term convertible notes, net	95,250,000	(17,323,690)	-	77,926,310
Deferred income tax liabilities	-	5,647,318	(260,056)	5,387,262
Total shareholder's equity	135,840,577	11,207,804	-	147,048,381
Total liabilities and shareholder's equity	**$232,850,778**	**$ (468,568)**	**$ (260,056)**	**$ 232,122,154**

	For the Year Ended December 31, 2008		
	As previously reported	Adjustments	As retroactively adjusted
Equity in earnings of unconsolidated subsidiaries	$ 35,991,985	$ (1,418)	$ 35,990,567
Operating expenses	(715,024)	-	(715,024)
Interest expense	(4,766,681)	(2,689,737)	(7,456,418)
Interest income	1,752,800	-	1,752,800
Gain on repurchase of long-term convertible notes	9,018,169	(3,506,682)	5,511,487
Earnings before income taxes	41,281,249	(6,197,837)	35,083,412
Income taxes	1,245,798	(2,190,688)	(944,890)
Net income	**$ 40,035,451**	**$ (4,007,149)**	**$ 36,028,302**

There was no effect on the condensed statement of cash flows for the year ended December 31, 2008.

EXHIBIT INDEX

3.1	Articles of Incorporation of the Registrant filed with the Nevada Secretary of State on May 11, 2001, as amended by Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on February 13, 2006. (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 (SEC File No. 333-132906) filed on December 18, 2006
3.2	Certificate of Amendment and Restatement of Articles of Incorporation filed with the Nevada Secretary of State on January 3, 2007 (incorporated by reference to Exhibit 3.2 to Pre-Effective Amendment No. 3 to the Registration Statement on Form S-1 (SEC File No. 333-132906) filed on January 9, 2007.
3.3	Amended and Restated Bylaws of the Registrant incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on March 1, 2007.
4.1	Indenture of convertible senior notes between ShengdaTech, Inc. and the Bank of New York dated as of May 28, 2008 (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed on June 3, 2008).
5.1	Opinion of Preston Gates Ellis, LLP (incorporated by reference to Exhibit 5.1 to Registrant's Registration Statement on Form SB-2 filed on March 31, 2006).
10.1	Financial Advisory Agreement between Eastern Nanomaterials Pte Co., Ltd. and HFG International Co., Ltd., dated as of September 26, 2005, as amended and supplemented on March 29, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.2	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of December 10, 2002 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.3	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of December 12, 2002 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.4	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of December 15, 2002 (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.5	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of December 16, 2002 (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.6	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of December 20, 2002 (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.7	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of December 20, 2002 (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.8	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of December 26, 2002 (incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.9	Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co. Ltd. and Shandong Shengda Chemicals Co. Ltd., dated as of December 26, 2002 (incorporated by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.10 Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co. Ltd. and Shandong Shengda Chemicals Co. Ltd., dated as of December 26, 2002 (incorporated by reference to Exhibit 10.10 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.11 Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of January 10, 2003 (incorporated by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.12 Industrial Product Sales Agreement between Shandong Shengda Chemical Machinery Co., Ltd. and Shandong Shengda Chemicals Co., Ltd., dated as of January 12, 2003 (incorporated by reference to Exhibit 10.12 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.13 Industrial Product Sales Contract between Feicheng Longxin Material Storage & Transportation Co., Ltd. and Shandong Shengda Chemical Co., Ltd. dated as of January 15, 2003 (incorporated by reference to Exhibit 10.13 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.14 Industrial Product Sales Contract between Xintai Quangou Coal Mine and Shandong Shengda Chemical Co., Ltd. dated as of January 15, 2003 (incorporated by reference to Exhibit 10.14 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.15 Industrial Product Sales Contract between Xintai Zhaizhen Coal Mine and Shandong Shengda Chemicals Co., Ltd. dated as of January 19, 2003 (incorporated by reference to Exhibit 10.15 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.16 Industrial Product Sales Contract between Shandong Shengda Chemical Machinery Co., Ltd and Shandong Shengda Chemicals Co., Ltd. dated as of July 5, 2004 (incorporated by reference to Exhibit 10.16 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.17 Joint Research and Development Agreement between Shandong Shengda Technology Co., Ltd and Qingdao University of Science and Technology dated as of September 28, 2004 (incorporated by reference to Exhibit 10.17 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.18 Asset Purchase Agreement between Shandong Shengda Chemical Co., Ltd. and Dongfang Nanomaterials Pte., Ltd. dated as of November 24 2004, as amended and supplemented on February 20, 2005 (incorporated by reference to Exhibit 10.18 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.19 Asset Purchase Agreement between Shandong Shengda Nanomaterials Co., Ltd. and Dongfang Nanomaterials Pte., Ltd. dated as of November 24 2004, as amended and supplemented on February 20, 2005 (incorporated by reference to Exhibit 10.19 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.20 Joint Technology Development Contract between Shandong Haize Nanomaterials Co., Ltd. and Tsinghua University dated as of January 12, 2005, as supplemented on May 10, 2005 (incorporated by reference to Exhibit 10.20 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.21 Contract on the Joint Development & Application of NPCC by and among Shandong Shengda Technology Co., Ltd, Polymer Modification Research Lab of Qingdao University of Science and Technology and Tsingdao Siwei Chemicals Co., Ltd. dated as of March 4, 2003, as amended on January 31, 2005 to designate Shandong Haize Nanomaterials Co., Ltd as the assignee of Shandong Shengda Technology Co., Ltd. (incorporated by reference to Exhibit 10.21 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.22 Nano Technology License & Transfer Agreement between Shandong Shengda Technology Co., Ltd. and Shandong Haize Nanomaterials Co., Ltd. dated as of January 6, 2005 (incorporated by reference to Exhibit 10.22 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.23 Equipment Leasing Agreement between Shandong Shengda Technology Co., Ltd and Shandong Bangsheng Chemicals Co., Ltd. dated as of February 20, 2005 (incorporated by reference to Exhibit 10.23 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.24 Trademark Transfer Agreement between Shandong Shengda Technology Co., Ltd and Shandong Haize Nanomaterials Co., Ltd. dated as of February 22, 2005 (incorporated by reference to Exhibit 10.24 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.25 Trademark Transfer Agreement between Shandong Shengda Chemicals Co., Ltd. and Shandong Bangsheng Chemical Co., Ltd. dated as of February 22, 2005 (incorporated by reference to Exhibit 10.25 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.26 Land-use Right and Building Leasing Agreement between Shandong Haize Nanomaterials Co., Ltd. and Shandong Shengda Technology Co., Ltd, Ltd. dated as of February 22, 2005, as amended and supplemented on March 21, 2006 (incorporated by reference to Exhibit 10.26 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.27 Land-use Right and Building Leasing Agreement between Shandong Bangsheng Chemical Co., Ltd. and Shandong Shengda Technology Co., Ltd. dated as of February 22, 2005, as amended and supplemented on March 21, 2006 (incorporated by reference to Exhibit 10.27 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.28 Industrial Product Sales Contract between Shandong Shengda Chemical Machinery Co., Ltd and Shandong Bangsheng Chemicals Co., Ltd. dated as of March 2, 2005 (incorporated by reference to Exhibit 10.28 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.29 Industrial Product Sales Contract between Shandong Taifeng Mining Co., Ltd. and Shandong Bangsheng Chemicals Co., Ltd. dated as of March 5, 2005 (incorporated by reference to Exhibit 10.29 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.30 Anthracite Supply Contract between Shandong Bangsheng Chemicals Co., Ltd. and Jincheng Yapeng Trading Co., Ltd. dated as of March 6, 2005 (incorporated by reference to Exhibit 10.30 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.31 Construction Contract between Shandong Bangsheng Chemicals Co., Ltd. and Chen Houzhi dated as of March 1, 2005 (incorporated by reference to Exhibit 10.31 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.32 Construction Contract between Shandong Bangsheng Chemicals Co., Ltd. and Chen Houzhi dated as of April 1, 2005 (incorporated by reference to Exhibit 10.32 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.33 Urea Supply Contract between Shandong Feida Chemical Technology Co., Ltd. and Shandong Bangsheng Chemical Co., Ltd. dated as of May 26, 2005 (incorporated by reference to Exhibit 10.33 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.34 Anthracite Supply Contract between Shandong Haize Nanomaterials Co., Ltd. and Feicheng Longxin Material Storage & Transportation Co., Ltd. dated as of June 1, 2005 (incorporated by reference to Exhibit 10.34 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.35 Industrial Product Sales Contract between Shandong Taifeng Mining Co., Ltd. and Shandong Haize Nanomaterials Co., Ltd. dated as of June 13, 2005 (incorporated by reference to Exhibit 10.35 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.36 Industrial Product Sales Contract between Shandong Haize Nanomaterials Co., Ltd. and Dalian Jinyuan Construction Plastics Co. dated as of June 19, 2005 (incorporated by reference to Exhibit 10.36 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.37 Industrial Product Sales Contract between Shandong Haize Nanomaterials Co., Ltd. and Zhaoyuan LiAo Rubber Products Co. dated as of August 8, 2005 (incorporated by reference to Exhibit 10.37 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.38 Industrial Product Sales Contract between Shandong Haize Nanomaterials Co., Ltd. and Triangle Tire Co., Ltd dated as of August 10, 2005 (incorporated by reference to Exhibit 10.38 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.39 Share Transfer Agreement between Singapore Dongfang Nanomaterials Pte., Ltd. and Faith Bloom Limited dated as of December 31, 2005 (incorporated by reference to Exhibit 10.39 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.40 Share Transfer Agreement between Singapore Dongfang Nanomaterials Pte., Ltd. and Faith Bloom Limited dated as of December 31, 2005 (incorporated by reference to Exhibit 10.40 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.41 Lime Stone Supply Contract between Shandong Haize Nanomaterials Co., Ltd. and Laiwu Yujie Stone Materials Factory dated as of March 27, 2005 (incorporated by reference to Exhibit 10.41 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.42 Employment Contract between Shandong Haize Nanomaterials Co., Ltd. and Zhaowei Ma dated as of January 1, 2005 (incorporated by reference to Exhibit 10.42 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.43 Employment Contract between Shandong Bangsheng Chemicals Co., Ltd. and Xiqing Xu dated as of January 1, 2005 (incorporated by reference to Exhibit 10.43 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.44 Loan Agreement among Eastern Nano-Materials Holdings Pte. Ltd., Value Monetization Ltd. and International Factors (Singapore) Ltd. dated as of May 6, 2005, as terminated by two letters from Value Monetization and International Factors (Singapore) Ltd, dated December 30, 2005 and December 29, 2005, respectively (incorporated by reference to Exhibit 10.44 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.45 Employment Contract between Shandong Haize Nanomaterials Co., Ltd. and Xukui Chen dated as of January 1, 2005 (incorporated by reference to Exhibit 10.45 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.46 Financing Agreement between HFG International and Eastern Nanomaterials Pte. Co., Ltd., dated as of September 26, 2005, as amended and supplemented on March 29, 2006 to designate Faith Bloom as the assignee for Eastern Nanomaterials Pte. Co., Ltd. (incorporated by reference to Exhibit 10.46 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.47 Short Term Loan Agreement between Shandong Shengda Chemicals Co., Ltd. and Bank of China Taian Branch, dated as of February 1, 2003 (incorporated by reference to Exhibit 10.47 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.48 Short Term Loan Agreement between Shandong Shengda Nanomaterials Co., Ltd. and Bank of China, Taian Branch, dated as of January 9, 2003 (incorporated by reference to Exhibit 10.48 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).

10.49	Memorandum of Understanding between Faith Bloom Limited and Shandong Shengda Technology Co., Ltd. dated as of March 21, 2006 (incorporated by reference to Exhibit 10.49 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.50	Engagement Letter of Sterne Agee & Leach, Inc., as managing placement agent, and Global Hunter Securities, as co-placement agent, of up to $15,000,000 of common stock of Faith Bloom Limited, dated as of March 16, 2006 (incorporated by reference to Exhibit 10.50 to the Registrant's Current Report on Form 8-K filed on April 6, 2006).
10.51	Purchase Agreement of senior convertible notes between ShengdaTech, Inc. and Oppenheimer & Co. Inc. dated as May 22, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 3, 2008).
10.52	Registration Rights Agreement between ShengdaTech, Inc. and Oppenheimer & Co. Inc. dated as of May 28, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 3, 2008).
10.53	Form of Lock Up Agreement dated as of May 22, 2008 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on June 3, 2008).
10.54	Translation of NPCC Project Investment Contract between Zibo Hi-Tech Industry Development Zone Administration Committee and Faith Bloom Ltd. dated June 19, 2008. (incorporated by reference to Exhibit 10.54 to the Registrant's Annual Report on Form 10-K filed on March 15, 2010)
10.55	Project Investment Contract dated August 28, 2009 by and between the Company and the local government of Hanshan County, Anhui Province, People's Republic of China (incorporate by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 3, 2009).
16.1	Letter from John Geib, Chartered Accountant (incorporated by reference to Exhibit 16.1 to the Registrant's Current Report on Form 8-K filed on March 18, 2005)
16.2	Letter from Swartz Levitsky Feldman LLP, Chartered Accountants (incorporated by reference to Exhibit 16.2 to the Registrant's Current Report on Form 8-K filed on March 18, 2005)
16.3	Letter from Rotenberg & Co., LLP (incorporated by reference to Exhibit 16.1 to the Registrant's Current Report on Form 8-K filed on May 17, 2006)
16.4	Letter from HANSEN, BARNETT & MAXWELL, P.C. (incorporated by reference to Exhibit 16.1 to the Registrant's Current Report on Form 8-K/A filed on November 18, 2008)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the Registrant's Annual Report on Form 10-K filed March 15, 2010)
31.1*	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*.
31.2*	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*.
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*.
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*.

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* Filed herewith.

** Furnished herewith

SIGNATURES

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

SHENGDATECH, INC.

Date: September 15, 2010

By: /s/ XIANGZHI CHEN
Name: Xiangzhi Chen
Title: Chairman, Director and Chief Executive Officer

By: /s/ Andrew Weiwen Chen
Name: Andrew Weiwen Chen
Title: Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Xiangzhi Chen (Xiangzhi Chen)	Chairman, Director and Chief Executive Officer (Principal Executive Officer)	September 15, 2010
/s/ Anhui Guo (Anhui Guo)	Director and Chief Operating Officer	September 15, 2010
/s/ Andrew Weiwen Chen (Andrew Weiwen Chen)	Chief Financial Officer (Principal Financial Officer)	September 15, 2010
/s/A. Carl Mudd (A. Carl Mudd)	Director	September 15, 2010
/s/ Sheldon B. Saidman (Sheldon B. Saidman)	Director	September 15, 2010
/s/ Dongquan Zhang (Dongquan Zhang)	Director	September 15, 2010