NF Energy Saving CORP of America
Form 10-Q
August 13, 2008

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

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 30, 2008**

¨ **Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 for the Transition Period from _______ to _______**

Commission File Number: 000-50155

NF Energy Saving Corporation of America
(Exact name of registrant as specified in its charter)

Delaware	**02-0563302**
(State or Other Jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

21-Jia Bei Si Dong Road, Tie Xi Qu
Shenyang, P. R. China 110021
(Address of Principal Executive Offices)

(8624) 2560-9750
(Registrant's Telephone Number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer	¨	Smaller reporting company	**x**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes ¨ No **x**

As of August 12, 2008, the registrant had 39,872,704 shares of common stock, $0.001 par value, issued and outstanding.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

The discussion contained in this 10-Q under the Securities Exchange Act of 1934, as amended, contains forward-looking statements that involve risks and uncertainties. The issuer's actual results could differ significantly from those discussed herein. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "we believe," "the Company believes," "management believes" and similar language, including those set forth in the discussions under "Notes to Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations " as well as those discussed elsewhere in this Form 10-Q. We base our forward-looking statements on information currently available to us, and we assume no obligation to update them. Statements contained in this Form 10-Q that are not historical facts are forward-looking statements that are subject to the "safe harbor" created by the Private Securities Litigation Reform Act of 1995.

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NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND DECEMBER 31, 2007
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

		June 30, 2008 (Unaudited)		December 31, 2007 (Audited)
ASSETS				
Current assets:				
Cash and cash equivalents	$	4,761,252	$	2,240,901
Accounts receivable, trade		5,325,700		4,061,352
Inventories		1,437,880		1,448,386
Prepayments and other receivables		972,812		605,989
Total current assets		12,497,644		8,356,628
Plant and equipment, net		2,592,141		2,514,795
TOTAL ASSETS	$	15,089,785	$	10,871,423
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable, trade	$	1,229,217	$	1,259,081
Customer deposits		135,542		22,719
Value added tax payable		66,071		70,604
Other payables and accrued liabilities		165,410		355,390
Total current liabilities		1,596,240		1,707,794
Commitments and contingencies		268,825		-
Stockholders' equity:				
Common stock, $0.001 par value; 50,000,000 shares authorized; 39,872,704 and 33,227,328 shares issued and outstanding as of June 30, 2008 and December 31, 2007		39,872		33,227
Additional paid-in capital		7,706,587		5,713,232
Statutory reserve		517,774		517,774
Accumulated other comprehensive income		1,245,949		557,503
Retained earnings		3,983,363		2,341,893
Total stockholders' equity		13,493,545		9,163,629
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	15,089,785	$	10,871,423

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
REVENUE, NET				
Product	$ 3,036,313	$ 3,013,085	$ 5,279,366	$ 3,945,336
Services	837,555	1,015,812	1,168,936	1,086,047
Projects	422,659	-	713,182	-
Total operation revenues	4,296,527	4,028,897	7,161,484	5,031,383
COST OF REVENUES:				
Cost of products	2,092,071	2,266,486	3,752,218	3,007,717
Cost of services	582,581	258,510	792,101	294,734
Cost of projects	370,866	-	610,636	-
Total cost of revenues	3,045,518	2,524,996	5,154,955	3,302,451
GROSS PROFIT	1,251,009	1,503,901	2,006,529	1,728,932
OPERATING EXPENSES:				
Sales and marketing	48,921	14,709	62,280	14,709
Research and development	47,254	329,906	85,586	329,906
Stock-based compensation	-	255,000	-	510,000
General and administrative	113,401	71,759	241,824	129,229
Total operating expenses	209,576	671,374	389,690	983,844
INCOME FROM OPERATIONS	1,041,433	832,527	1,616,839	745,088
Other income:				
Interest income	8,813	342	8,813	342
Other income	12,141	4,867	16,123	11,519
Total other income	20,954	5,209	24,936	11,861
INCOME BEFORE INCOME TAXES	1,062,387	837,736	1,641,775	756,949
Income tax expense	(4)	-	(305)	-
NET INCOME	$ 1,062,383	$ 837,736	$ 1,641,470	$ 756,949
Other comprehensive income:				
- Foreign currency translation gain	275,802	35,254	688,446	71,852
COMPREHENSIVE INCOME	$ 1,338,185	$ 872,990	$ 2,329,916	$ 828,801

Net income per share – basic and diluted	$ 0.03	$ 0.03	$ 0.05	$ 0.02
Weighted average shares outstanding – basic and diluted	36,033,153	31,527,328	34,630,241	31,388,439

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

	Six months ended June 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 1,641,470	$ 756,949
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	170,415	113,254
Gain on disposal of plant and equipment	-	(10,533)
Stock-based compensation	-	510,000
Change in operating assets and liabilities:		
Accounts receivable	(974,464)	(288,838)
Inventories	100,786	192,661
Prepayments and other receivables	(330,241)	(1,142,062)
Accounts payable	(107,754)	50,319
Customer deposits	108,199	63,720
Income tax payable	-	(378,069)
Value added tax payables	2,324	139,235
Other payables and accrued liabilities	(132,019)	215,173
Net cash provided by operating activities	478,716	221,809
Cash flows from investing activities:		
Purchase of plant and equipment	(160,722)	(74,170)
Proceeds from disposal of plant and equipment	-	53,823
Net cash used in investing activities	(160,722)	(20,347)
Cash flows from financing activities:		
Proceeds from private sale of common stock	2,000,000	870,000
Net cash provided by financing activities	2,000,000	870,000
Effect on exchange rate change on cash and cash equivalents	202,357	71,852
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,520,351	1,143,314
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,240,901	796,944
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,761,252	$ 1,940,258
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 305	$ 378,069
Cash paid for interest expenses	$ -	$ -

See accompanying notes to condensed consolidated financial statements.

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NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

	Common stock No. of shares	Common stock Amount	Additional paid-in capital	Accumulated other comprehensive income	Statutory reserve	Retained earnings	Total stockholders' equity
Balance as of January 1, 2008	33,227,328	$ 33,227	$ 5,713,232	$ 557,503	$ 517,774	$ 2,341,893	$ 9,163,629
Private sale of common stock	6,645,376	6,645	1,993,355	-	-	-	2,000,000
Foreign currency translation adjustment	-	-	-	688,446	-	-	688,446
Net income for the period	-	-	-	-	-	1,641,470	1,641,470
Balance as of June 30, 2008	39,872,704	$ 39,872	$ 7,706,587	$ 1,245,949	$ 517,774	$ 3,983,363	$ 13,493,545

See accompanying notes to condensed consolidated financial statements.

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NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars (“US$”))
(Unaudited)

NOTE - 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with both accounting principles generally accepted in the United States (“GAAP”), and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

In the opinion of management, the consolidated balance sheet as of December 31, 2007 which has been derived from audited financial statements and these unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary to state fairly the results for the periods presented. The results for the period ended June 30, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2008 or for any future period.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Management’s Discussion and the audited financial statements and notes thereto included in the Annual Report on Form 10-KSB for the year ended December 31, 2007.

NOTE - 2 ORGANIZATION AND BUSINESS BACKGROUND

NF Energy Saving Corporation of America (the “Company” or “NFES”) was incorporated in the State of Delaware in the name of Galli Process, Inc. on October 31, 2000. On February 7, 2002, the Company changed its name to “Global Broadcast Group, Inc.” On November 12, 2004, the Company changed its name to “Diagnostic Corporation of America.” On March 15, 2007, the Company further changed to its existing name.

The Company, through its subsidiaries, mainly engages in the production of industrial valve components and products in The People’s Republic of China (the “PRC”). During 2007, the Company commenced a new business segment in the provision of technical service and re-engineering projects in the energy saving related industry in the PRC.

Liaoning Nengfa Weiye Energy Technology Co. Ltd. (“Nengfa Energy”) (formerly Neng Fa Weiye Pipe Network Construction and Operation Co., Ltd.) is a wholly-owned subsidiary of the Company. Nengfa Energy is a valves manufacturer and involves in the production of a variety of industrial valve components, which are widely used in water supply and sewage system, coal and gas fields, power generation stations, petroleum and chemical industries. All the customers are located in the PRC.

Liaoning Nengfa Weiye Tie Fa Sales Co., Ltd. (“Sales Company”) is a wholly-owned subsidiary of Nengfa Energy in the PRC. Sales Company was incorporated as a limited liability company under the laws of the PRC with a registered capital of $683,620 (equivalent to RMB 5,000,000) on September 5, 2007. It is mainly engaged in the sales and marketing of valves components and products in the PRC.

NFES, Nengfa Energy and Sales Company are hereinafter referred to as (the “Company”).

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars (“US$”))
(Unaudited)

NOTE - 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

· Use of estimates

In preparing these condensed consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet and revenues and expenses during the period reported. Actual results may differ from these estimates.

· Basis of consolidation

The condensed consolidated financial statements include the financial statements of NFES and its subsidiaries, Nengfa Energy and Sales Company.

All significant inter-company balances and transactions within the Company have been eliminated upon consolidation.

· Cash and cash equivalents

Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.

· Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements’ assessment of known requirements, aging of receivables, payment history, the customer’s current credit worthiness and the economic environment. As of June 30, 2008, the Company has determined that no allowance for doubtful accounts is necessary.

· Inventories

Inventories are stated at the lower of cost or market (net realizable value), cost being determined on a weighted average method. Costs include material, labor and manufacturing overhead costs. The Company quarterly reviews historical sales activity to determine excess, slow moving items and potentially obsolete items and also evaluates the impact of any anticipated changes in future demand. The Company provides inventory allowances based on excess and obsolete inventories determined principally by customer demand. As of June 30, 2008, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

· Plant and equipment, net

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis over the following expected useful lives from the date on which they become fully operational and after taking into account their estimated residual values:

	Depreciable life	Residual value
Plant and machinery	3 – 20 years	5%
Furniture, fixture and equipment	5 – 8 years	5%

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NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

Expenditure for repairs and maintenance is expensed as incurred. When assets are retired or sold, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the results of operations.

· Impairment of long-lived assets

In accordance with the Statement of Financial Accounting Standard (SFAS) No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*, all long-lived assets such as plant and equipment held and used by the Company 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 evaluated by a comparison of the carrying amount of assets to estimated discounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. There has been no impairment as of June 30, 2008.

· Revenue recognition

In accordance with the SEC's Staff Accounting Bulletin No. 104, *"Revenue Recognition"*, the Company recognizes revenue when persuasive evidence of an arrangement exists, transfer of title has occurred or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured.

(a) Sale of products

The Company derives revenues from the sale of self-manufactured products and provision of engineering services. The Company recognizes its revenues net of related business taxes and value added taxes ("VAT"). The Company is subject to VAT which is levied on the majority of the products at the rate of 17% on the invoiced value of sales. Output VAT is borne by customers in addition to the invoiced value of sales and input VAT is borne by the Company in addition to the invoiced value of purchases to the extent not refunded for export sales.

The Company recognizes revenue from the sale of products upon delivery to the customers and the transfer of title and risk of loss. The Company experienced no product returns and has recorded no reserve for sales returns for the six months ended June 30, 2008.

(b) Service revenue

Service revenue is primarily derived from energy-saving technical services that are not an element of an arrangement for the sale of products. These services are generally billed on a time-cost plus basis. Revenue is recognized when service is rendered and accepted by the customers.

(c) Project revenue

The Company applies the percentage-of-completion method under SOP 81-1 "*Accounting for Performance of Construction-Type and Production-Type Contracts*", to recognize revenues for energy-saving re-engineering projects that require significant modification or customization or installation subject to the customers. The Company records a provision in those instances in which the Company believes a contract will probably generate a net loss and the

Company can reasonably estimate this loss. If the Company cannot reasonably estimate the loss, the Company limits the amount of revenue that the Company recognizes to the costs the Company has incurred, until the Company can estimate the total loss. Advance payments from customers and amounts billed to clients in excess of revenue recognized are recorded as receipt in advance.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Currency expressed in United States Dollars ("US$"))
(Unaudited)

(d) Interest income

Interest income is recognized on a time apportionment basis, taking into account the principal amounts outstanding and the interest rates applicable.

· Cost of revenues

Cost of revenues consists primarily of material costs, direct labor, depreciation and manufacturing overheads, which are directly attributable to the manufacture of products and the rendering of services.

· Stock-based compensation

The Company adopts SFAS No. 123 (revised 2004), "*Share-Based Payment*" ("SFAS No. 123R") using the fair value method. Under SFAS No. 123(R), the stock-based compensation is measured using the Black-Scholes Option-Pricing model on the date of grant. The fair value of stock-based compensation that are expected to vest are recognized using the straight-line method over the requisite service period.

· Income taxes

The Company accounts for income tax using SFAS No. 109 *"Accounting for Income Taxes"*, which requires the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred income taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from loss carry-forwards and provisions, if any. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in the statements of operations and comprehensive income in the period of enactment. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Effective January 1, 2007, the Company also adopts the provisions of the Financial Accounting Standards Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes" ("*FIN 48*")*. FIN 48 prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. In connection with the adoption of FIN No. 48, the Company has analyzed the filing positions in all of the jurisdictions where the Company is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company also follows the policy of recognizing interest and penalties, if any, related to unrecognized tax positions as income tax expense. The Company did not have any unrecognized tax position and there was no effect on the financial condition or results of operations for the period ended June 30, 2008.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

The Company conducts its major businesses in the PRC and is subject to tax in this jurisdiction. As a result of its business activities, the Company files tax returns that are subject to examination by the local and foreign tax authority.

· Net income per share

The Company calculates net income per share in accordance with SFAS No. 128,*"Earnings per Share."* Basic income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed similar to basic income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive.

· Comprehensive income

SFAS No. 130, *"Reporting Comprehensive Income"*, establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated comprehensive income consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

· Product warranty

Under the terms of the contracts, the Company will provide a product warranty to its customers for a period of twelve months, free of charge and then at the discretion of the customers, enter into maintenance contracts. The Company has not experienced any material returns where it was under obligation to honor this standard warranty provision. As such, no reserve for product warranty has been provided in the result of operations for the six months ended June 30, 2008.

· Foreign currencies translation

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 currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the condensed consolidated statement of operations.

The reporting currency of the Company is the United States dollar ("US$"). The Company's subsidiaries in the PRC, Nengfa Energy and Sales Company maintain their books and records in its local currency, the Renminbi Yuan ("RMB"), which is functional currency as being the primary currency of the economic environment in which these entities operate.

In general, for consolidation purposes, assets and liabilities of its subsidiaries whose functional currency is not the US$ are translated into US$, in accordance with SFAS No. 52, "*Foreign Currency Translation"*, using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the period. The gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as a separate component of accumulated other comprehensive income within the statement of stockholders' equity.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

Translation of amounts from RMB into US$ has been made at the following exchange rates for the respective period:

	2008	2007
Months end RMB:US$ exchange rate	7.0726	7.3141
Average monthly RMB:US$ exchange rate	6.8718	7.5633

· Segment reporting

SFAS No. 131 *"Disclosures about Segments of an Enterprise and Related Information"* establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in the financial statements. The Company currently operates in two reportable business segments in Tieling City, Liaoning Province, the PRC: Valves manufacturing business and Energy-saving related business.

· Fair value of financial instruments

The Company values its financial instruments as required by SFAS No. 107, *"Disclosures about Fair Value of Financial Instruments"*. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of amounts that the Company could realize in a current market exchange.

The Company's financial instruments primarily include cash and cash equivalents, trade accounts receivable, prepayments and other receivables, accounts payable, customer deposits, value added tax payable and other payables and accrued liabilities.

As of the balance sheet date, the estimated fair values of financial instruments were not materially different from their carrying values as presented due to short maturities of these instruments.

· Recent accounting pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"* ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company believes that SFAS 159 should not have a material impact on the consolidated financial position or results of operations.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *"Business Combinations" (*"SFAS No. 141R"). SFAS No. 141R will change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until January 1, 2009. The Company expects SFAS No. 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time. The Company is still assessing the impact of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements--An Amendment of ARB No. 51, or SFAS No. 160"* ("SFAS No. 160"). SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company believes that SFAS 160 should not have a material impact on the consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"* ("SFAS No. 161"). SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 *"Accounting for Derivative Instruments and Hedging Activities"* and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's future financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *"The Hierarchy of Generally Accepted Accounting Principles"* ("SFAS No. 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *"The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles"*. The Company does not expect the adoption of SFAS No. 162 to have a material effect on the financial condition or results of operations of the Company.

NOTE - 4 ACCOUNTS RECEIVABLE, TRADE

The majority of the Company's sales are on open credit terms and in accordance with terms specified in the contracts governing the relevant transactions. The Company evaluates the need of an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required. Based upon the aforementioned criteria, management has determined that no allowance for doubtful accounts is required for the period ended June 30, 2008.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 30, 2008
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

NOTE - 5 INVENTORIES

Inventories consisted of the following:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Raw materials	$ 381,273	$ 310,040
Work-in-process	1,043,474	734,711
Finished goods	13,133	403,635
	$ 1,437,880	$ 1,448,386

For the three and six months ended June 30, 2008 and 2007, no allowance for obsolete inventories was recorded by the Company.

NOTE - 6 PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consisted of the following:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Prepayment to vendors for raw materials	$ 878,616	$ 558,047
Advance to employees	59,410	-
Deposits	23,284	-
Prepaid expenses	9,336	25,874
Value added tax receivable	1,875	12,537
Other receivables	291	9,531
	$ 972,812	$ 605,989

NOTE - 7 PLANT AND EQUIPMENT, NET

Plant and equipment, net, consisted of the following:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Plant and machinery	$ 2,798,838	$ 2,566,042
Furniture, fixture and equipment	40,142	33,968
Construction in progress	234,729	223,029
Foreign translation difference	194,828	162,460
	3,268,537	2,985,499

Less: accumulated depreciation		(641,119)		(448,981)
Less: foreign translation difference		(35,277)		(21,723)
	$	2,592,141	$	2,514,795

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Depreciation expenses for the three months ended June 30, 2008 and 2007 were $83,262 and $56,709 respectively.

Depreciation expenses for the six months ended June 30, 2008 and 2007 were $170,415 and $113,254, respectively.

NOTE - 8 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Rent payable	$ 18,190	$ 37,599
Welfare payable	87,203	108,125
Accrued expenses	36,005	74,576
Advance to staff	4,279	-
Payable to equipment vendors	19,733	135,090
	$ 165,410	$ 355,390

NOTE - 9 COMMON STOCK SUBSCRIPTIONS

In January 2008, the Company entered a loan agreement to borrow an aggregate of $2,000,000 from two independent investors namely, South World Ltd. and Oriental United Resources Ltd. (the "Investors"), which are established under the laws of the British Virgin Islands. The loans were unsecured, non-interest bearing and convertible into common stock in a term of 3 months from the drawdown date. The Company also had an option to repay the balance with interest charge at a rate of 36% per annum. The Company received the aggregate amount of $2,000,000 in January and March 2008, respectively.

On April 28, 2008, the Company entered into a Securities Purchase Agreement with two independent investors ("the Investors") to consummate a private placement of 6,645,376 shares of restricted common stock for an aggregate purchase price of $2,000,000 at a 50-trading days weighted average market quoted price of $0.30 per share. The Investors are South World Ltd. and Oriental United Resources Ltd., which are established under the laws of the British Virgin Islands, each of the Investors acquired one half of these common stock, or 3,322,688 shares. As a result of this transaction, each of the investors owns 8.33% of the issued and outstanding common stock of the Company. The proceeds were used to fund the working capital. The Company also entered into various covenants with the Investors, including its (i) obtaining a listing on a United States stock exchange not later than December 31, 2009, (ii) developing a step by step energy saving and emission reduction business plan as a products and service provider in consultation with the Investors, (iii) limiting business arrangements with affiliates, and (iv) establishing good corporate governance and seeking good financial development.

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As of June 30, 2008, the number of issued and outstanding shares of the Company's common stock was 39,872,704.

NOTE - 10 INCOME TAXES

NFES is registered in the State of Delaware and is subject to United States of America tax law.

As of June 30, 2008, the operation in the United States of America has incurred $642,414 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2029, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $224,845 on the expected future tax benefits from the net operating loss carryforwards as the management believes it is more likely than not that these assets will not be realized in the future.

The Company's subsidiaries operating in the PRC, Nengfa Energy and Sales Company are subject to the Corporate Income Tax governed by the Income Tax Law of the People's Republic of China.

Effective from January 1, 2008, the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") is followed. Under the New CIT Law, Nengfa Energy, as a foreign investment enterprise continues to enjoy the unexpired tax holidays for a full exemption of income tax for the first two profit making years with a 15% exemption of income tax for the next three years. Sales Company is a domestic company which is entitled to the tax rate reduction from 33% to 25%.

The Company's effective income tax rates for the six months ended June 30, 2008 and 2007 were 0%, and 0%.

The Company adopted the provisions of FIN 48 on January 1, 2007. This interpretation prescribes a recognition threshold and measurement attribute for the tax positions taken, or expected to be taken, on a tax return. The Company files tax returns in the various tax jurisdictions in which its subsidiaries operate in the PRC. The United States tax returns of its tax years 2002 to 2007 remain open to examination by IRS. The PRC 2007 tax return has been filed and cleared.

NOTE - 11 SEGMENT INFORMATION

The Company's business units have been aggregated into two reportable segments: Valves manufacturing business and Energy-saving related business. Valves manufacturing business included the production of valves components and provision of valve improvement and engineering services. Energy-saving related business included the provision of energy-saving related re-engineering and technical services and long-term construction project. The Company operates these segments in the PRC and all of the identifiable assets of the Company are located in the PRC during the periods presented.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 3). The Company had no inter-segment sales for the periods ended June 30, 2008 and 2007. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

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Summarized financial information concerning the Company's reportable segments is shown in the following table for the three and six months ended June 30, 2008:

Three months ended June 30, 2008:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	$ 3,036,313	$ -	$ 3,036,313
- Services	-	837,555	837,555
- Projects	-	422,659	422,659
Total operating revenues	3,036,313	1,260,214	4,296,527
Cost of revenues	2,092,071	953,447	3,045,518
Gross profit	944,242	306,767	1,251,009
Depreciation	58,840	24,422	83,262
Net income	750,774	311,609	1,062,383
Expenditure for long-lived assets	$ 32,171	$ 13,353	$ 45,524

Six months ended June 30, 2008:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	$ 5,279,366	$ -	$ 5,279,366
- Services	-	1,168,936	1,168,936
- Projects	-	713,182	713,182
Total operating revenues	5,279,366	1,882,118	7,161,484
Cost of revenues	3,752,218	1,402,737	5,154,955
Gross profit	1,527,148	479,381	2,006,529
Depreciation	125,616	44,799	170,415
Net income	1,226,306	415,164	1,641,470
Expenditure for long-lived assets	$ 118,482	42,240	160,722

Summarized financial information concerning the Company's reportable segments is shown in the following table for the three and six months ended June 30, 2007:

Three months ended June 30, 2007:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	$ 3,013,085	-	3,013,085

- Services	-	1,015,812	1,015,812
Total operating revenues	3,013,085	1,015,812	4,028,897
Cost of revenues	2,266,486	258,510	2,524,996
Gross profit	746,599	757,302	1,503,901
Depreciation	44,415	12,294	56,709
Net income	351,261	486,475	837,736
Expenditure for long-lived assets	$ 61,294	$ 12,876	$ 74,170

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Six months ended June 30, 2007:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	$ 3,945,336	$ -	$ 3,945,336
- Services	-	1,086,047	1,086,047
Total operating revenues	3,945,336	1,086,047	5,031,383
Cost of revenues	3,007,717	294,734	3,302,451
Gross profit	937,619	791,313	1,728,932
Depreciation	100,995	12,259	113,254
Net income	270,474	486,475	756,949
Expenditure for long-lived assets	$ 61,294	$ 12,876	$ 74,170

NOTE - 12 CONCENTRATION AND RISK

For the six months ended June 30, 2008, 100% of the Company's assets were located in the PRC and 100% of the Company's revenues and purchases were derived from customers and vendors located in the PRC.

(a) Major customers

For the three and six months ended June 30, 2008, customers who account for 10% or more of revenues are presented as follows:

Customers	Three months ended June 30, 2008 Revenues	Percentage of revenues	June 30, 2008 Accounts receivable, trade
Customer A	$ 426,724	10%	$ 837,481
Customer B	648,623	15%	592,747
Customer C	2,455,184	56%	2,720,899
Total:	$ 3,530,531	81%	Total: $ 4,151,127

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	Six months ended June 30, 2008		June 30, 2008
Customers	Revenues	Percentage of revenues	Accounts receivable, trade