NF Energy Saving Corp
Form 10-Q
August 16, 2010

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

FORM 10-Q

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x Quarterly Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934

for the Quarterly Period Ended June 30, 2010

o Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

for the Transition Period from _______ to _______

Commission File Number: 000-50155

NF Energy Saving Corporation
(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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files).
o Yes o 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	o	Accelerated filer	o
Non-accelerated filer	o	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) o Yes x No

As of July 31, 2010, the registrant had 13,315,486 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

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(UNAUDITED)

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NF ENERGY SAVING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2010 AND DECEMBER 31, 2009
(Currency expressed in United States Dollars ("US$"), except for number of shares)

		June 30, 2010 (Unaudited)		December 31, 2009 (Audited)
ASSETS				
Current assets:				
Cash and cash equivalents	$	508,959	$	227,329
Accounts receivable, trade		9,392,115		12,510,875
Retention receivable		406,993		874,759
Inventories		1,968,930		638,775
Deferred tax assets		1,414		1,408
Prepayments and other receivables		2,062,607		603,456
Total current assets		14,341,018		14,856,602
Plant and equipment, net		2,048,661		2,169,740
Construction in progress		11,853,759		9,045,332
TOTAL ASSETS	$	28,243,438	$	26,071,674
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable, trade	$	1,882,319	$	2,055,839
Customer deposits		622,915		152,850
Income tax payable		246,914		201,480
Convertible promissory notes, net		369,299		-
Note payable		528,743		-
Current portion of obligation under finance lease		466,188		437,917
Other payables and accrued liabilities		565,751		1,928,494
Total current liabilities		4,682,129		4,776,580
Long-term liabilities:				
Obligation under finance lease		356,592		675,809
TOTAL LIABILITIES		5,038,721		5,452,389
Commitments and contingencies				
Stockholders' equity:				
Common stock, $0.001 par value; 50,000,000 shares authorized; 13,315,486 and 13,315,486 shares issued and outstanding as of June 30, 2010 and December 31, 2009		13,315		13,315
Additional paid-in capital		8,720,917		7,969,232
Statutory reserve		1,449,345		1,449,345
Accumulated other comprehensive income		1,444,627		1,348,382

Retained earnings		11,576,513		9,839,011
Total stockholders’ equity		23,204,717		20,619,285
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$	28,243,438	$	26,071,674

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF
OPERATIONS AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
REVENUES, NET				
Products	$ 3,650,612	$ 4,627,735	$ 6,164,844	$ 6,729,561
Services	3,192,200	590,969	3,518,451	908,975
Project	375,157	-	375,157	-
Total revenues, net	7,217,969	5,218,704	10,058,452	7,638,536
COST OF REVENUES:				
Cost of products	2,316,196	3,250,140	4,264,543	4,816,014
Cost of services	2,572,151	443,785	2,784,836	618,281
Cost of project	306,378	-	306,378	-
Total cost of revenues	5,194,725	3,693,925	7,355,757	5,434,295
GROSS PROFIT	2,023,244	1,524,779	2,702,695	2,204,241
OPERATING EXPENSES:				
Sales and marketing	14,905	25,628	32,652	74,453
General and administrative	198,770	194,053	353,510	339,246
Stock based compensation	-	349,000	-	349,000
Total operating expenses	213,675	568,681	386,162	762,699
INCOME FROM OPERATIONS	1,809,569	956,098	2,316,533	1,441,542
Other (expense) income:				
Interest income	351	1,148	594	9,005
Other income	-	5	-	10,164
Subsidy income	-	33,610	-	33,610
Interest expense	(154,136)	-	(234,780)	-
Total other (expense) income	(153,785)	34,763	(234,186)	52,779
INCOME BEFORE INCOME TAXES	1,655,784	990,861	2,082,347	1,494,321
Income tax expense	(285,465)	(181,912)	(344,845)	(243,460)
NET INCOME	$ 1,370,319	$ 808,949	$ 1,737,502	$ 1,250,861
Other comprehensive income:				
- Foreign currency translation gain	95,626	26,690	96,245	40,328
COMPREHENSIVE INCOME	$ 1,465,945	$ 835,639	$ 1,833,747	$ 1,291,189

Net income per share:				
– Basic	$ 0.10	$ 0.06	$ 0.13	$ 0.09
– Diluted	$ 0.10	$ 0.06	$ 0.13	$ 0.09
Weighted average common stock outstanding:				
– Basic	13,315,486	13,291,387	13,315,486	13,291,387
– Diluted	13,373,820	13,291,387	13,373,820	13,291,387

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Currency expressed in United States Dollars ("US$"))
(Unaudited)

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	$ 1,737,502	$ 1,250,861
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	145,395	148,963
Stock based compensation	-	349,000
Gain on disposal of plant and equipment	(223)	-
Interest expenses, non-cash	160,984	-
Change in operating assets and liabilities:		
Accounts receivable, trade	3,159,179	(540,094)
Retention receivable	469,637	-
Inventories	(1,322,393)	681,231
Prepayments and other receivables	(1,389,196)	7,781
Accounts payable, trade	(181,458)	658,202
Customer deposits	467,627	7,295
Income tax payable	44,417	181,825
Other payables and accrued liabilities	(1,368,916)	(61,891)
Net cash provided by operating activities	1,922,555	2,683,173
Cash flows from investing activities:		
Purchase of plant and equipment	(16,728)	(179,070)
Payments to construction in progress	(2,759,833)	(2,595,776)
Proceeds from disposal of plant and equipment	1,251	-
Net cash used in investing activities	(2,775,310)	(2,774,846)
Cash flows from financing activities:		
Payments on finance lease	(294,493)	(709,373)
Proceeds from note payable	526,720	-
Proceeds from convertible promissory notes	900,000	-
Net cash provided by (used in) financing activities	1,132,227	(709,373)
Effect on exchange rate change on cash and cash equivalents	2,158	22,345
NET CHANGE IN CASH AND CASH EQUIVALENTS	281,630	(778,701)
BEGINNING OF PERIOD	227,329	2,252,771
END OF PERIOD	$ 508,959	$ 1,474,070
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 49,871	$ 61,561
Cash paid for interest	$ 261,945	$ -

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Equipment purchased under finance leases	$ -	$ 1,381,579

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

	Common stock		Additional		Accumulated other		Total
	No. of shares	Amount	paid-in capital	Statutory reserve	comprehensive income	Retained earnings	stockholders' equity
Balance as of January 1, 2010	13,315,486	$ 13,315	$ 7,969,232	$ 1,449,345	$ 1,348,382	$ 9,839,011	$ 20,619,285
Beneficial conversion feature and warrants granted in connection with convertible promissory notes	-	-	751,685	-	-	-	751,685
Foreign currency translation adjustment	-	-	-	-	96,245	-	96,245
Net income for the period	-	-	-	-	-	1,737,502	1,737,502
Balance as of June 30, 2010	13,315,486	$ 13,315	$ 8,720,917	$ 1,449,345	$ 1,444,627	$ 11,576,513	$ 23,204,717

See accompanying notes to condensed consolidated financial statements.

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NF ENERGY SAVING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(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, 2009 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, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2010 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-K for the year ended December 31, 2009.

NOTE 2 ORGANIZATION AND BUSINESS BACKGROUND

NF Energy Saving Corporation (the "Company" or "NFEC") 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 changed its name to "NF Energy Saving Corporation of America." On August 24, 2009, the Company further changed its current name to "NF Energy Saving Corporation."

The Company, through its subsidiaries, mainly engages in the production of heavy industrial components and products such as valves and the provision of technical service and re-engineering projects in the energy saving related industry in the People's Republic of China (the "PRC"). All the customers are located in the PRC.

On May 27, 2010, the Company approved a reverse stock split of its common stock outstanding at a ratio resulting in a reduction of the aggregate number of shares of outstanding common stock from anywhere between 10% (i.e. 10:9) to 500% (i.e. 5:1), as decided by the Board of Directors in its discretion, to take effect at such time within three months of June 8, 2010 as determined by the Board of Directors in its discretion. As of the date hereof, the Board has not yet implemented the reverse stock split.

Description of subsidiaries

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/ registered share capital	Effective interest held
			US$2,770,895	100%

Liaoning Nengfa Weiye Energy Technology Co. Ltd ("Nengfa Energy")	The PRC, a limited liability company	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 in the PRC		
Liaoning Nengfa Weiye Tei Fa Sales Co., Ltd. ("Sales Company")	The PRC, a limited liability company	Sales and marketing of valves components and products in the PRC	RMB5,000,000	100%

NFEC and its subsidiaries are hereinafter referred to as (the "Company").

NF ENERGY SAVING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying condensed consolidated financial statements and notes.

- 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 periods reported. Actual results may differ from these estimates.

- Basis of consolidation

The condensed consolidated financial statements include the financial statements of NFEC and its subsidiaries. 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, which are due within contractual payment terms, generally 30 to 90 days from shipment. Credit is extended based on evaluation of a customer's financial condition, the customer's credit-worthiness and their payment history. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. At the end of each period, the Company specifically evaluates individual customer's financial condition, credit history, and the current economic conditions to monitor the progress of the collection of accounts receivables. The Company will consider an allowance for doubtful accounts for any estimated losses resulting from the inability of its customers to make required payments. For the receivables that are past due or not being paid according to payment terms, the appropriate actions are taken to exhaust all means of collection, including seeking legal resolution in a court of law. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

- Retention receivable

Retention receivable is the amount withheld by a customer based upon 5-10% of the contract value, until a product warranty is expired.

- Inventories

Inventories are stated at the lower of cost or market value (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, 2010, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

NF ENERGY SAVING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

- Plant and equipment

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%

Expenditure for repairs and maintenance is expensed as incurred. When assets have 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.

Depreciation expense for the three months ended June 30, 2010 and 2009 were $72,721 and $74,535 respectively.

Depreciation expense for the six months ended June 30, 2010 and 2009 were $145,395 and $148,963 respectively.

- Construction in progress

Construction in progress is stated at cost, which includes acquisition of land use rights, cost of construction, purchases of plant and equipment and other direct costs attributable to the construction of a new manufacturing facility in Yinzhou District Industrial Park, Tieling City, Liaoning Province, the PRC. Total estimated construction cost of a new manufacturing facility is approximately $16 million (including land use rights of approximately $3 million). The construction project is expected to be fully completed in late 2010. Construction in progress is not depreciated until such time as the assets are completed and put into operational use. No capitalized interest is incurred during the period of construction

- Finance leases

Leases that transfer substantially all the rewards and risks of ownership to the lessee, other than legal title, are accounted for as finance leases. Substantially all of the risks or benefits of ownership are deemed to have been transferred if any one of the four criteria is met: (i) transfer of ownership to the lessee at the end of the lease term, (ii) the lease containing a bargain purchase option, (iii) the lease term exceeding 75% of the estimated economic life of the leased asset, (iv) the present value of the minimum lease payments exceeding 90% of the fair value. At the inception of a finance lease, the Company as the lessee records an asset and an obligation at an amount equal to the present value of the minimum lease payments. The leased asset is amortized over the shorter of the lease term or its estimated useful life if title does not transfer to the Company, while the leased asset is depreciated in accordance with the Company's normal depreciation policy if the title is to eventually transfer to the Company. The periodic rent payments made during the lease term are allocated between a reduction in the obligation and interest element using the effective interest method in accordance with the provisions of Accounting Standards Codification ("ASC") Topic 835-30, "Imputation of Interest".

- Impairment of long-lived assets

In accordance with the provisions of ASC Topic 360-10-5, “Impairment or Disposal of Long-Lived Assets”, all long-lived assets such as plant and equipment held and used by the Company and construction in progress 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, 2010.

NF ENERGY SAVING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

- Revenue recognition

The Company offers a number of products and service to its customers, which are:

(a) Sales of energy saving flow control equipment

(b) Provision of energy project management and sub-contracting service

(c) Provision of energy-saving construction projects

In accordance with the ASC Topic 605, "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 a majority of revenues from the sale of energy saving flow control equipment. Generally, these energy saving flow control equipment are manufactured and configured to customer requirements. The Company typically produces and builds the energy saving flow control equipment for customers in a period from 1 to 6 months. When the Company completes the production in accordance with the customer's specification, the customer is required to inspect the finished products for the quality and product conditions with the full satisfaction at the Company's plant. Once the product is accepted by the customer, the Company usually makes delivery to the customer, usually within a month.

The Company recognizes revenue from the sale of such finished products upon delivery to the customers, whereas the title and risk of loss are fully transferred to the customers. The Company records its revenues, net of 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. The Company experienced no product returns and has recorded no reserve for sales returns for the six months ended June 30, 2010 and 2009.

(b) Service revenue

Service revenue is primarily derived from energy-saving technical services or project management or sub-contracting 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, for a period of service time from 2 to 3 months. Revenue is recognized, net of business taxes when service is rendered and accepted by the customers.

(c) Project revenue

In February 2010, NFEC, through its subsidiary Nengfa Energy, entered into a cooperative arrangement with one of the biomass energy technology companies in Fuxin ("Fuxin") for the development of energy-related systems and facilities and the provision of an economic energy saving solutions to the farmers in Laoning Province, the PRC for a term of 1 year. Under this project arrangement, Nengfa Energy agreed to design, build and provide the energy-related equipments and components, as well as provide training to Fuxin to operate these energy-related facilities. Fuxin

agreed to operate the administration of this arrangement and provide on-site training to the farmers to operate these facilities. In consideration for this cooperative arrangement, both parties agreed to equally share in the sales of energy-related systems during the term of the project, in accordance with the agreed energy-saving milestone requirement. At the end of the project term, Nengfa agreed to transfer its ownership and proprietary right to the energy-related system and facility to Fuxin.

Under this cooperative arrangement, Nengfa Energy is entitled to total project income of $750,314 from the joint energy-saving project with total project cost of approximately $618,000 over the term of the project. For the six months ended June 30, 2010, Nengfa Energy recognized the project revenue of $375,157 in the statement of operations under the installment method.

NF ENERGY SAVING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(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.

- Comprehensive income

ASC Topic 220, "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 other comprehensive income, as presented in the accompanying condensed consolidated statement of stockholders' equity, 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.

- Income taxes

The provision for income taxes is determined in accordance with the provisions of ASC Topic 740, "Income Taxes " ("ASC 740"). Under this 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 basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

For the three and six months ended June 30, 2010 and 2009, the Company did not have any interest and penalties associated with tax positions. As of June 30, 2010, the Company did not have any significant unrecognized uncertain tax positions.

The Company conducts majority of its 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 foreign tax authority. For the six months ended June 30, 2010, the Company filed and cleared 2009 PRC tax return by its tax authority.

- Product warranty

Under the terms of the contracts, the Company offers the customers a free 12-months' product warranty on a case-by-case basis, depending upon the type of customers, nature and size of the infrastructure projects. Under such arrangements, a portion of the project contract balance (usually 5-10% of contract value) is withheld by a customer for 12 months, until the product warranty is expired. 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 three and six months ended June 30, 2010.

- Stock based compensation

The Company adopts ASC Topic 718, "Stock Compensation", ("ASC 718") using the fair value method. Under ASC 718, stock-based compensation is measured using the Black-Scholes Option-Pricing model on the date of grant.

For non-employee stock based compensation, the Company adopts ASC Topic 505-50, "Equity-Based Payments to Non-Employees", stock based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services on the grant date, whichever is more readily determinable in accordance with ASC 718.

NF ENERGY SAVING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars ("US$"), except for number of shares)
(Unaudited)

- Net income per share

The Company calculates net income per share in accordance with ASC Topic 260, "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.

- 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 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 their local currency, the Renminbi Yuan ("RMB"), which is the 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 ASC Topic 830-30 "Translation of Financial Statement", 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.

Translation of amounts from RMB into US$1 has been made at the following exchange rates for the respective period:

	June 30, 2010	June 30, 2009
Period-end RMB:US$1 exchange rate	6.8086	6.8432
Period average RMB:US$1 exchange rate	6.8348	6.8448

- Related parties

Parties, which can be a corporation or individual, are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

- Segment reporting

ASC Topic 280, "Segment Reporting" 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 financial statements. The Company operates in two reportable operating segments in the PRC.

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- Fair value measurement

ASC Topic 820 "Fair Value Measurements and Disclosures" ("ASC 820"), establishes a new framework for measuring fair value and expands related disclosures. Broadly, ASC 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 establishes a three-level valuation hierarchy based upon observable and non-observable inputs. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

For financial assets and liabilities, fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

- Financial instruments

Cash and cash equivalents, accounts and retention receivable, prepayments and other receivable, accounts payable, customer deposits, income tax payable, other payable and accrued liabilities are carried at cost which approximates fair value. The estimated fair value of convertible promissory note, note payable and obligation under finance lease was approximately $2.3 million as of June 30, 2010, based on current market prices or interest rates. Any changes in fair value of assets or liabilities carried at fair value are recognized in other comprehensive income for each period.

- Recent accounting pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does 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, as follows:

In September 2009, the Financial Accounting Standard Board ("FASB") issued certain amendments as codified in ASC Topic 605-25, "Revenue Recognition; Multiple-Element Arrangements." These amendments provide clarification on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. An entity is required to allocate revenue in an arrangement using estimated selling prices of deliverables in the absence of vendor-specific objective evidence or third-party evidence of selling price. These amendments also eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. The amendments significantly expand the disclosure requirements for multiple-deliverable revenue arrangements. These provisions are to be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. The Company will adopt the provisions of these amendments in its fiscal year 2011 and is currently evaluating the impact of these amendments to its consolidated financial statements.

In March 2010, the FASB issued Accounting Standards Update ("ASU") 2010-11, "Derivatives and Hedging (Topic 815) — Scope Exception Related to Embedded Credit Derivatives." ASU 2010-11 clarifies that the only form of an embedded credit derivative that is exempt from embedded derivative bifurcation requirements are those that relate to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The provisions of ASU 2010-11 will be effective on July 1, 2010 and are not expected to have a significant impact on the Company's consolidated financial statements.

In April 2010, the FASB issued ASU 2010-13, Compensation – Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. ASU 2010-13 provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010 and is not expected to have a significant impact on the Company's financial statements.

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In May 2010, the FASB issued ASU 2010-19, Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in ASU 2010-19 are effective as of the announcement date of March 18, 2010. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the financial position, results of operations or cash flows of the Company.

In July 2010, the FASB issued new accounting guidance that will require additional disclosures about the credit quality of loans, lease receivables and other long-term receivables and the related allowance for credit losses. Certain additional disclosures in this new accounting guidance will be effective for the Company on December 31, 2010 with certain other additional disclosures that will be effective on March 31, 2011. The Company does not expect the adoption of this new accounting guidance to have a material impact on its consolidated financial statements.

NOTE 4 INVENTORIES

Inventories consisted of the following:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Raw materials	$ 1,675,473	$ 512,903
Work-in-process	221,139	122,123
Finished goods	72,318	3,749
	$ 1,968,930	$ 638,775

For the three and six months ended June 30, 2010 and 2009, no allowance for obsolete inventories was recorded by the Company.

NOTE 5 PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consisted of the following:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Prepayment to vendors for raw materials	$ 1,959,785	$ 545,102
Prepayment to equipment vendors	6,609	7,115
Prepaid operating expenses	69,288	34,801
Other receivables	26,925	16,438
	$ 2,062,607	$ 603,456

The Company generally makes prepayments to vendors for raw materials in the normal course of business. Prepayments to vendors are recorded when payment is made by the Company and relieved against inventory when goods are received, which include provisions that set the purchase price and delivery date of raw materials.

NOTE 6 CONSTRUCTION IN PROGRESS

In 2008, the Company was approved by the local government to construct a new manufacturing facility for energy-saving products and equipment in Yingzhou District Industrial Park, Tieling City, Liaoning Province, the PRC. Total estimated construction cost of a new manufacturing facility is approximately $16 million (including land use rights of approximately $3 million). The construction project is expected to be fully completed in late 2010. As of June 30, 2010, the Company incurred and capitalized $11,853,759 as construction in progress.

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NOTE 7 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Rent payable	$ 18,359	$ 40,221
Payable to the PRC government for land use rights	-	1,018,682
Value added tax payable	83,860	263,834
Provision for contingent liability	200,000	200,000
Accrued operating expenses	253,900	372,324
Other payable	9,632	33,433
	$ 565,751	$ 1,928,494

NOTE 8 NOTE PAYABLE

On June 20, 2010, the Company received an unsecured note payable (the "Note") of $562,720 (equivalent to RMB3,600,000) from Liaoning Dongda Nengfa Weiye Energy Saving Technology Engineering Design & Research Institute. The Company intends to use the fund for capital expenditure purpose. The Note becomes repayable in full on June 19, 2011 and carries interest at 16.5% per annum payable at its due date

NOTE 9 CONVERTIBLE PROMISSORY NOTES

On February 24, 2010 and March 4, 2010, the Company sold, through a private placement to two accredited investors, ARC China Investment Funds and ARC Semper China Investment Funds, convertible promissory notes (the "Notes") in the aggregate principal amount of $960,000 and warrants (the "Warrants") to purchase 160,000 shares of its common stock, par value $0.001 per share ("Common Stock"). The Company intends to use the net proceeds of approximately $900,000 from the private placement for working capital and general corporate purposes.

The Notes bear an effective interest at the rate of 6% per annum, absent an "event of default," are payable in shares of the Company's Common Stock. Provided an "event of default" has not occurred and is not then continuing, the Notes will convert upon the earlier to occur of (i) the commencement of trading of the Company's Common Stock on a major US stock exchange, or (ii) one year after issuance. Upon conversion, the holders of the Notes shall receive such number of shares of Common Stock equal to the quotient obtained by dividing (a) the then-outstanding principal amount and accrued but unpaid interest on the Notes by (b) the then-current conversion price, which initially shall be $3.00 per share. The conversion price is subject to adjustment for stock dividends, splits, combinations and similar events. The Notes are secured by a security interest in and lien upon all of the Company's assets.

The Warrants, which are exercisable for shares of Common Stock at an initial exercise price of $4.00 per share, are not exercisable until six months after issuance and will terminate five years thereafter. The exercise price is subject to adjustment for stock dividends, splits, combinations and similar events. The Company has agreed to provide the investors with "piggy-back" registration rights with respect to the shares of Common Stock issuable upon conversion of

the Notes and exercise of the Warrants.

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The Company has engaged an independent valuer to perform the valuation of the Notes and the Company has determined that the Notes are recorded in accordance with ASC Topic 470-20, "Debt with conversion and other options", the warrants and related convertible notes should be accounted for as two separate instruments (equity and debt instruments). The accounting for these instruments reflects the notion that the consideration received upon issuance must be allocated between equity and debt components. Proceeds from the sale of a debt instrument with stock purchase warrants are allocated to the two elements, based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The portion of the proceeds allocated to the warrants is accounted for as paid-in capital. The remainder of the proceeds is allocated to the debt instrument portion of the transaction as debt discount.

	June 30, 2010
Notional amount of the convertible promissory notes payable, net of expenses	960,000
Less : warrant portion	(285,342)
Less: debt discount, unamortized	(305,359)
	$ 369,299

The Notes are discounted for the fair value of warrants on the grant date using Black-Scholes Option Pricing Model under ASC Topic 718, with the following assumptions. The discount is being amortized over the life of the debentures using the effective interest method. For the six months ended June 30, 2010, the Company recognized $160,984 as amortization of debt discount and recorded as interest expense in the statement of operations.

Expected life (in years)	5
Volatility	63.38%-65.46%
Risk free interest rate	0.32%
Dividend yield	0%
Weighted average fair value	1.76-1.89

NOTE 10 OBLIGATION UNDER FINANCE LEASE

The Company purchased certain equipment under finance lease agreements with an effective interest rate of 8.6% per annum, due through May 25, 2012, with principal and interest payable monthly.

The obligation under the finance lease is as follows:

	June 30, 2010
Finance lease	$ 822,780
Less: current portion	(466,188)
Non-current portion	$ 356,592

The maturities of the finance lease obligation for the next two years are as follows:

Year ending June 30:		
2011	$	526,565
2012		369,305
Total finance leases obligation		895,870
Less: interest		(73,090)
Present value of minimum obligation	$	822,780

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The obligation under finance leases were guaranteed by two of the Company's executive officers and directors, Mr. Gang Li and Ms. Li Hua Wang. Certain plant and machinery amounting to $2,073,250 held under finance leases are capitalized as construction in progress.

NOTE 11 INCOME TAXES

NFEC is registered in the State of Delaware and is subject to the tax laws of United States of America.

As of June 30, 2010, the operation in the United States of America incurred $1,603,931 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2030, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $545,336 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.

Effective from January 1, 2008, the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") is imposed. Under the New CIT Law, Nengfa Energy, as a foreign investment enterprise continues to enjoy the unexpired tax holiday of 50%-reduction on the unified income tax through 2011, subject to a transitional policy. Sales Company is a domestic company which is entitled to the unified statutory income tax rate of 25%.

The reconciliation of income tax rate to the effective income tax rate for the six months ended June 30, 2010 and 2009 is as follows:

	Six months ended June 30,	
	2010	2009
Income before income taxes from PRC operation	$ 2,383,855	$ 1,943,684
Statutory income tax rate	25%	25%
Income tax expense at statutory rate	595,963	485,921
Tax effect of non-deductible item	53,417	-
Tax effect from tax holiday	(304,535)	(242,461)
Income tax expense	$ 344,845	$ 243,460

The 2009 tax return was filed and finalized by the PRC tax authority with an additional tax payment of $39,145 in May 2010.

NOTE 12 WARRANTS

As of June 30, 2010, the Company has 58,334 shares of outstanding warrants at the weighted average exercise price of $1.8. There was no movement during the period ended June 30, 2010. The Company adopted ASC 718 using the Black-Scholes Option Pricing Model to measure the fair value of warrants on the grant date, with the following assumptions:

Expected life (in years)	5
Volatility	340.61%- 456.53%
Risk free interest rate	2.28% - 2.89%
Dividend yield	0%

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NOTE 13 SEGMENT INFORMATION

The Company's business units have been aggregated into two reportable segments, as defined by ASC Topic 280:

- Heavy manufacturing business – production of valves components and the provision of valve improvement and engineering services;

- Energy-saving related business – production of wind-energy equipment, provision of energy-saving related re-engineering and technical services and long-term construction project.

The Company operates these business 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 three and six months ended June 30, 2010 and 2009. 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. Summarized financial information concerning the Company's reportable segments is shown in the following table for the three and six months ended June 30, 2010 and 2009:

		Three months ended June 30, 2010	
	Valves manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$ 3,650,567	$ 45	$ 3,650,612
- Services	3,192,200	-	3,192,200
- Project	-	375,157	375,157
Total operating revenues	6,842,767	375,202	7,217,969
Cost of revenues	(4,888,304)	(306,421)	(5,194,725)
Gross profit	1,954,463	68,781	2,023,244
Depreciation	71,206	1,515	72,721
Total assets	26,378,711	1,864,727	28,243,438
Expenditure for long-lived assets	$ 541,814	-	541,814

		Six months ended June 30, 2010	
	Valves manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$ 5,925,091	$ 239,753	$ 6,164,844

- Services	3,518,451	-	3,518,451
- Project	-	375,157	375,157
Total operating revenues	9,443,542	614,910	10,058,452
Cost of revenues	(6,818,377)	(537,380)	(7,355,757)
Gross profit	2,625,165	77,530	2,702,695
Depreciation	135,732	9,663	145,395
Total assets	26,378,711	1,864,727	28,243,438
Expenditure for long-lived assets	$ 2,776,561	-	2,776,561

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	Three months ended June 30, 2009		
	Valves manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$ 4,627,683	$ 52	$ 4,627,735
- Services	590,969	-	590,969
Total operating revenues	5,218,652	52	5,218,704
Cost of revenues	(3,693,886)	(39)	(3,693,925)
Gross profit	1,524,766	$ 13	$ 1,524,779
Depreciation	74,746	211	74,957
Total assets	21,338,299	84,526	21,422,825
Expenditure for long-lived assets	$ 3,699,058	-	3,699,058

	Six months ended June 30, 2009		
	Valves manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$ 6,625,976	$ 103,585	$ 6,729,561
- Services	908,975	-	908,975
Total operating revenues	7,534,951	103,585	7,638,536
Cost of revenues	(5,355,523)	(78,772)	(5,434,295)
Gross profit	2,179,428	24,813	2,204,241
Depreciation	148,359	604	148,963
Total assets	21,338,299	84,526	21,422,825
Expenditure for long-lived assets	$ 4,155,773	-	4,155,773

NOTE 14 CONCENTRATIONS OF RISK

The Company is exposed to the following concentrations of risk:

(a) Major customers

For the three and six months ended June 30, 2010 and 2009, the customer who accounts for 10% or more of the Company's revenues and its outstanding balance as at period-end dates, are presented as follows:

	Three months ended June 30, 2010		June 30, 2010
	Revenues	Percentage	Accounts

Customer				of revenues			Receivable
Customer A		$	1,551,538	22%		$	4,177,157
Customer C			2,452,946	34%			384,127
Customer D			1,673,949	23%			203,566
	Total:	$	5,678,433	79%	Total:	$	4,764,850

			Six months ended June 30, 2010				June 30, 2010
Customer			Revenues	Percentage of revenues			Accounts Receivable
Customer A		$	1,599,444	16%		$	4,177,157
Customer C			2,452,946	24%			384,127
Customer D			1,673,949	17%			203,566
	Total:	$	5,726,339	57%	Total:	$	4,764,850

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		Three months ended June 30, 2009			June 30, 2009
Customer		Revenues	Percentage of revenues		Accounts Receivable
Customer A	$	3,403,588	65%	$	7,219,505
Customer B		549,735	11%		257,349
Total:	$	3,953,323	76%	Total: $	7,476,854

		Six months ended June 30, 2009			June 30, 2009
Customer		Revenues	Percentage of revenues		Accounts Receivable
Customer A	$	5,158,710	68%	$	7,219,505

(b) Major vendors

For the three and six months ended June 30, 2010 and 2009, the vendor who accounts for 10% or more of the Company's purchases and its outstanding balance as at period-end dates, are presented as follows:

		Three months ended June 30, 2010			June 30, 2010
Vendor		Purchases	Percentage of purchases		Accounts Payable
Vendors A	$	2,455,453	39%	$	-
Vendors B		713,395	11%		-
Total:	$	3,168,848	50%	Total: $	-

		Six months ended June 30, 2010			June 30, 2010
Vendor		Purchases	Percentage of purchases		Accounts Payable
Vendors A	$	3,435,468	40%	$	-
Total:	$	3,435,468	40%	Total: $	-

		Three months ended June 30, 2009			June 30, 2009
Vendor		Purchases	Percentage of purchases		Accounts payable
Vendors A	$	426,964	17%	$	348,160
Vendors C		543,491	22%		250,555

	Total:	$	970,455	39%	Total:	$ 598,715

Vendor			Six months ended June 30, 2009 Purchases	Percentage of purchases		June 30, 2009 Accounts payable
Vendors A		$	968,013	23%		$ 348,160
Vendors B			530,264	13%		121,292
Vendors C			543,491	13%		250,555
	Total:	$	2,041,768	49%	Total:	$ 720,007

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(c) Credit risk

Financial instruments that are potentially subject to credit risk consist principally of trade receivables. The Company believes the concentration of credit risk in its trade receivables is substantially mitigated by its ongoing credit evaluation process and relatively short collection terms. The Company does not generally require collateral from customers. The Company evaluates the need for an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

(d) Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest-rate risk arises from note payable, borrowings under promissory notes and finance lease. The Company manages interest rate risk by varying the issuance and maturity dates variable rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates. As of June 30, 2010, note payable, borrowings under promissory notes and finance lease was at fixed rates.

(e) Exchange rate risk

The reporting currency of the Company is US$, to date the majority of the revenues and costs are denominated in RMB and a significant portion of the assets and liabilities are denominated in RMB. As a result, the Company is exposed to foreign exchange risk as its revenues and results of operations may be affected by fluctuations in the exchange rate between US$ and RMB. If RMB depreciates against US$, the value of RMB revenues and assets as expressed in US$ financial statements will decline. The Company does not hold any derivative or other financial instruments that expose to substantial market risk.

(f) Economic and political risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation.

NOTE 15 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Company is committed under a non-cancelable operating lease with fixed monthly rentals, due through February 9, 2011.Costs incurred under the operating lease, which are considered equivalent to the market rate, are recorded as rental expense and totaled approximately $23,776 and $25,573 for the six months ended June 30, 2010 and 2009, respectively.

As of June 30, 2010, the future minimum rental payments due under this non-cancelable operating lease in the next twelve months is $26,621.

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(b) Capital commitments

In 2008, the Company was approved by the local government to construct a new manufacturing facility for energy-saving products and equipment in Yingzhou District Industrial Park, Tieling City, Liaoning Province, the PRC. Total estimated construction cost of a new manufacturing facility is approximately $16 million (including land use rights of approximately $3 million). The construction project is expected to be fully completed in late 2010.

As of June 30, 2010, the Company is committed to the future contingent payments of approximately $0.85 million on the purchase of new plant and equipment and third party contractors in the next twelve months.

(c) Litigation

On May 21, 2007, a civil complaint Robert Dawley vs NF Energy Saving Corp., et al. was filed in the United States District Court, Middle District of Florida, Orlando, Civil No. 6:07-cv-872-Orl-18DAB. The complaint accuses the defendants of breaching a contract for payment of money that was signed by Sam Winer, former Chief Executive Officer, before the commencement of the Company's reverse merger After being initially dismissed by the Court, the action was authorized to proceed on November 16, 2007. The trial was held in the United States District Court, Middle District of Florida, Orlando on October 16, 2008. The District Court issued a Judgment on December 11, 2008 awarding the plaintiff the sum of $400,000 against the Company, plus prejudgment interest in the amount of $132,822, with continuing interest of $132 per day on the $400,000 obligation until it is paid. The Court further adjudged that the plaintiff shall surrender his stock upon payment of the $400,000. In the event the plaintiff fails to surrender his stock after payment, the Company may cancel the stock. Any payments or collection under the Judgment shall be credited first to interest.

On January 6, 2009, the Company filed a notice of appeal 09-10140-B in the United States of Court of Appeals for the 11th Circuit from the District Court's judgment. The Company has engaged an attorney to prosecute its appeal of the above judgment. The Company has also accrued $200,000 for this contingent liability to the statement of operation in fiscal year 2008. The parties have completed briefing the appeal and are waiting for the court's decision on the appeal. In addition, two of the Company's executive officers and directors, Mr. Gang Li and Ms. Li Hua Wang have personally agreed to guarantee and bear all contingent liabilities and costs to be incurred from this litigation claim.

On April 1, 2010, the Eleventh Circuit issued a unanimous opinion reversing the District Court's Judgment on the grounds that Dawley was not entitled to the relief that he sought and that the law did not support the District Court's Judgment against NF Energy. The Eleventh Circuit, to the contrary, entered Judgment in NF Energy's favor. Subsequently, the United States District Court for the Middle District of Florida, acting upon instructions from the Court of Appeal, entered a Bill of Costs against Robert Dawley on June 24, 2010, totaling $2,088.

Mr. Dawley has orally advised the Company that he has filed a Petition for Writ of Certiorari of the Eleventh Circuit's Opinion and Judgment with the Supreme Court of the United States. However, to date, the Company has received no indication that the Supreme Court has accepted any filings by Mr. Dawley or has scheduled any response to his Petition. The Company therefore has not taken any action with respect to any such Petition.

On or about July 1, 2010, Mr. Dawley apparently commenced a second action before the United States District Court for the Middle District of Florida, entitled Robert Dawley v. NF Energy Corp. of America, et al. In addition to the

Company, Mr. Dawley has named as defendants Mr. Gang Li and the Company's litigation counsel. Mr. Dawley asserts, among other things, that Defendants committed fraud with respect to the same agreements as were the subject of the prior action. He also complains that he is entitled to have a restrictive legend removed from certain stock certificates that the predecessor company had issued to him in exchange for an additional capital contribution. Though he has served copies of the Complaint, he has yet to serve a Summons requiring the Defendants to respond to the Complaint.

The Company believes that the second action by Mr. Dawley has no merit, is barred by the Judgment entered by the Court of Appeals in the prior action and, in any event, fails to state fraud claims with the specificity required by law. Mr. Dawley has refused to withdraw the complaint, and so it is the Company's intention to ask the Court to strike the complaint and issue monetary sanctions against Mr. Dawley equivalent to the amount of the Company's attorneys' fees and costs incurred as a result of the second action.

NF ENERGY SAVING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Currency expressed in United States Dollars (“US$”), except for number of shares)
(Unaudited)

Though the Company believes that its contemplated motion has merit, the Company cannot predict with certainty that the Court will agree. Accordingly, the Company does not express any opinion as to the likelihood of its motion’s success. In the event that the Court does deny the motion, it is the Company’s intent to continue its efforts to prevail against Mr. Dawley on behalf of all the named Defendants to the second action.

NOTE 16 SUBSEQUENT EVENTS

On July 27, 2010, the Company announced that it has signed a two year unsecured credit facility with a domestic Chinese bank to borrow up to RMB 40 million (approximately $5.88 million based on current exchange rates).

Under the terms of the agreement, the Company will be able to draw up to a maximum of RMB 40 million over a 24 month period ending June 28, 2012. Outstanding balances under the facility will accrue interest at a rate of 1.3 times the Bank of China benchmark lending rate. Any amounts of principal repaid may be redrawn during the 24 month period. Drawings under the facility will be used to complete the Company’s new manufacturing plant and for general corporate purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL DESCRIPTION OF BUSINESS

As used herein the terms "we", "us", "our," the "Registrant," "NFEC" and the "Company" means, NF Energy Saving Corpora a Delaware corporation, formerly known as NF Energy Saving Corporation of America, Diagnostic Corporation of America, Global Broadcast Group, Inc., and Galli Process, Inc. These terms also refer to our subsidiary corporations, Liaoning Nengfa Weiye Energy Technology Corporation Ltd. ("Nengfa Energy"), formerly known as Liaoning Nengfa Weiye Pipe Network Construction and Operation Co. Ltd. ("Neng Fa"), a corporation organized and existing under the laws of the Peoples' Republic of China, which was acquired in November 2006, and Liaoning Nengfa Weiye Tie Fa Sales Co., Ltd. ("Sales Company"), a limited liability corporation organized and existing under the laws of the Peoples' Republic of China, which was established in September 2007.

NF Energy Saving Corporation was incorporated under the laws of the State of Delaware in the name of Galli Process, Inc. on October 31, 2000 for the purpose of seeking and consummating a merger or acquisition with a business entity organized as a private corporation, partnership, or sole proprietorship. On December 31, 2001, Galli Process, Inc. became a majority owned subsidiary of City View TV, Inc., a Florida corporation ("City View"). On February 7, 2002, Galli Process, Inc. changed its name to Global Broadcast Group, Inc. On March 1, 2002, City View merged into Global Broadcast Group, Inc., which was the surviving entity. On November 12, 2004, the Company changed its name to Diagnostic Corporation of America. On March 15, 2007, we changed our name to NF Energy Saving Corporation of America, and on August 24, 2009, the Company further changed its name to NF Energy Saving Corporation, in both instances to more accurately reflect our business after a stock exchange transaction with Neng Fa. Our principal place of business is 21-Jia Bei Si Dong Road, Tie Xi Qu, Shenyang, P. R. China 110021. Our telephone number is (8624) 2560-9750.

On November 15, 2006, we executed a Plan of Exchange ("Plan of Exchange"), among the Company, Neng Fa, the shareholders of Neng Fa (the "Neng Fa Shareholders") and Gang Li, our Chairman and Chief Executive Officer ("Mr. Li").

Pursuant to and at the closing of the Plan of Exchange, which occurred on November 30, 2006, we issued to the Neng Fa Shareholders 12,000,000 shares of our common stock, or 89.4% of our then outstanding common stock, in exchange for all of the shares of capital stock of Neng Fa owned by the Neng Fa Shareholders. Immediately upon the closing, Neng Fa became our 100% owned subsidiary, and the Company ceased all of its other operations and adopted and implemented the business plan of Neng Fa.

Nengfa Energy's area of business includes research and development, processing, manufacturing, marketing and distribution of energy saving flow control equipment; manufacturing, marketing and distribution of energy equipment, wind power equipment and fittings; energy saving technical reconstruction; and energy saving technology consulting services, providing comprehensive solutions for energy-saving emission reduction. The Sales Company, which is a subsidiary of Nenfa Energy, is 99% owned by Nengfa Energy. The Sales Company engages in the sales and marketing of flow control equipment and products in the PRC.

On August 26, 2009, the Company announced 3 to 1 reverse stock split. The total number of outstanding common shares changed from 39,872,704 pre-split to 13,291,387 post-split.

NFEC specializes in the energy technology business. We provide energy saving technology consulting, optimization design services, energy saving reconstruction of pipeline networks and contractual energy management services for China's electric power, petrochemical, coal, metallurgy, construction, municipal infrastructure development industries, and customized comprehensive solutions for energy-saving emission reduction. We also are engaged in the manufacturing and sales of the energy-saving flow control equipment. According to analysis of ESCO Committee of

China Energy Conservation Association, currently, our flow control equipment business holds a leading position in China. The Company has the Det Norske Veritas Management System Certificate which certifies that our products conform to the Management System Standard ISO9001:2000. We have been a member of the Chicago Climate Exchange since 2006. In 2007, Nengfa Energy received contracts for three sections of the prominent project "Redirect the water from the Rivers in the South to the North Middle Section Jingshi Section Water Supply Engineering Project". This project was completed and passed inspection in 2008. In 2008, the Company also received flow control equipment contracts from seven cities in Liaoning Province for their large water supply system. In 2009, the Company has received several flow control equipment supply contracts, such as Xijiang diversion project of Guandong Province, and Phase 1 of Guangdong Yuedian Huilai Power Plant. In 2010, the Company has commenced a new Biomass energy promotion project with Fuxin Inner Mongolia Autonomy Country.

Our principal future development focus is to complete the construction of our new energy manufacturing facility which will enhance the Company's productivity and expand its manufacturing capacity. The new facility will be completed by no later than the end of 2010.In conjunction with the planned facility expansion, we also will undertake efforts on by developing technology to optimize the business revenue structure of the Company, and promote energy-saving technologies efficiency as part of our sales efforts. We are aiming to become a main supplier of new energy equipment, energy-saving equipment and flow control devices; become a major operator of energy-saving technological transformation projects and comprehensive management of energy-saving emission reduction projects; and become the general contractor of energy-saving technological transformation projects.

FORWARD LOOKING STATEMENTS

Certain statements in this report, including statements of our expectations, intentions, plans and beliefs, including those contained in or implied by "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Notes to Consolidated Financial Statements, are "forward-looking statements", within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are subject to certain events, risks and uncertainties that may be outside our control. The words "believe", "expect", "anticipate", "optimistic" "intend", "will", and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statements. These forward-looking statements include statements of management's plans and objectives for our future operations and statements of future economic performance, information regarding our expansion and possible results from expansion, our expected growth, our capital budget and future capital requirements, the availability of funds and our ability to meet future capital needs, the realization of our deferred tax assets, and the assumptions described in this report underlying such forward-looking statements. Actual results and developments could differ materially from those expressed in or implied by such statements due to a number of factors, including, without limitation, those described in the context of such forward-looking statements, our expansion and acquisition strategy, our ability to achieve operating efficiencies, , industry pricing and technology trends, evolving industry standards, domestic and international regulatory matters, general economic and business conditions, the strength and financial resources of our competitors, our ability to find and retain skilled personnel, the political and economic climate in which we conduct operations and the risk factors described from time to time in our other documents and reports filed with the Securities and Exchange Commission (the "Commission"). Additional factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to: 1) our ability to successfully develop, manufacture and deliver our products on a timely basis and in compliance with our contract terms; 2) our ability to compete effectively with other companies in our industry segments; 3) our ability to raise capital or generate sufficient working capital in order to effectuate our business plan; 4) our ability to retain our key executives; and 5) our ability to win and perform significant construction and infrastructure projects.

CRITICAL ACCOUNTING POLICIES

An appreciation of our critical accounting policies is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. We applied our critical accounting policies and estimation methods consistently in all periods presented.

Revenue recognition

In accordance with the ASC Topic 605, "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 collectability is reasonably assured.

The Company's revenue is principally derived from three primary sources: Sales of energy saving flow control equipment, provision of energy project management and sub-contracting services, and provision of energy-saving reconstruction projects.

(a) Sale of products

The Company derives a majority of its revenues from the sale of energy saving flow control equipment. Generally, the energy saving flow control equipment is manufactured and configured to customer requirements. The Company typically produces the energy saving flow control equipment for customers during a period from one to six months. When the Company completes production in accordance with the customer's specification, the customer is required to inspect the finished products at the Company's plant to approve quality and conformity and final acceptance. Once the product is accepted by the customer, the Company undertakes delivery to the customer, usually within a month.

The Company recognizes revenue from the sale of such finished products upon delivery to the customers, when the title and risk of loss are fully transferred to the customers. The Company records its revenues, net of value added taxes ("VAT"). The Company is subject to VAT which is levied on the majority of the products it sells at the rate of 17% on the invoiced value. The Company experienced no product returns and has recorded no reserve for returns for the three months ended June 30, 2010 and 2009.

(b) Service revenue

Service revenue is derived from energy-saving technical services, project management or sub-contracting services that are not an element of the arrangement for the sale of products. These services are generally billed on a time-cost plus basis, for the period of service provided, which is generally from two to three months.

Revenue is recognized, net of business taxes, when the service is rendered and accepted by the customer.

(c) Project revenue

In February 2010, NFEC, through its subsidiary Nengfa Energy, entered into a cooperative arrangement with one of the biomass energy technology companies in Fuxin ("Fuxin") for the development to energy-related systems and facilities and the provision of an economic energy saving solutions to the farmers in LaoNing Province, the PRC for a term of 1 year. Under this project arrangement, Nengfa Energy agreed to design, build and provide the energy-related equipments and components, as well as provide training to Fuxin to operate these energy-related facilities. Fuxin agreed to operate the administration of this arrangement and provide on-site training to the farmers to operate these facilities. In consideration for this cooperative arrangement, both parties agreed to equally share in the sales of energy-related systems during the term of the project, in accordance with the agreed energy-saving milestone requirement. At the end of the project term, Nengfa agreed to transfer its ownership and proprietary right of the energy-related system and facility to Fuxin.

For the six months ended June 30, 2010, Nengfa Energy is recalled project income of $375,157 from the cooperative arrangement which it recognized as project revenue in the statement of operations under the installment method.

(d) Interest income

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

Accounts receivable

Accounts receivable are recorded at the invoiced amount, do not bear interest and are due within the contractual payment terms, generally 30 to 90 days from shipment. Credit is extended based on evaluation of a customer’s financial condition, the customer’s credit-worthiness and their payment history. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. At the end of each period, the Company specifically evaluates each individual customer’s financial condition, credit history, and the current economic conditions to monitor the progress of the collection of accounts receivable. The Company will consider an allowance for doubtful accounts for any estimated losses resulting from the inability of its customers to make required payments. For the receivables that are past due or not being paid according to payment terms, the appropriate actions are taken to exhaust all means of collection, including seeking legal resolution in a court of law.

The payment terms for our accounts receivable from each source of revenue is set forth below:

Revenue items	General payment terms:
1. Sales of products	(a) 10% of the contract value will be paid by the customer upon signing the contract. (b) 50% of the contract value will be paid by the customer after the physical inspection (with a credit term from 30 to 90 days). (c) 30 to 35% of the contract value will be paid upon the delivery to the customer (with a credit term from 30 to 90 days). (d) 5 to 10% of the contract value will be paid within 12 months (from the delivery date) as warranty retention for the product.
2. Services	(a) 10 to 15 % of the contract value will be paid by the customer upon signing the contract. (b) The remaining contract value will be paid by the customer upon the completion of the service (with a credit term from 30 to 90 days).
3. Projects	Payments based on the achievement of certain milestones to be made over the term of the project.

In general, accounts receivables with aging within 90 days, between 91 and 180 days, and between 181 and 360 days represent approximately 30-40%, 50-60%, and 5%-15%, respectively, of the total accounts receivable. The Company is highly aware the risk of default, and as a result, we actively monitor accounts receivable with aging above 1 year and accounting for at least 1% of the total accounts receivable.

For most of our contracts, our customers are generally large or stated-owned construction contractors or developers mainly engaged in government-sponsored infrastructure projects such as large hydraulic/aqua-engineering projects, power plants and urban sewage network projects in the PRC. Usually, these infrastructure projects are undertaken in a number of phrases over a certain period of time. Our flow control equipment components are generally considered as major or significant components in the development phase of these infrastructure projects. In our industry practice, we are paid by these construction contractors and/or developers when they have been paid by the local government or state-owned enterprises after the full inspection of each milestone during the construction phrase. Given that the construction of these infrastructure projects are very large in size and complex and requires a high quality level in completion, the inspection process may take a considerable amount of time. Therefore, we may not collect the accounts receivable on a timely manner or only after a period longer than our agreed payment terms.

We have a high level of assurance on the recoverability of these accounts receivable, based on our ongoing assessment of the customer's credit-worthiness and their payment history. These customers are usually large state-owned corporations with good credit ratings. At the end of each period, we specifically evaluate the structure and collectability of accounts receivable and for receivables that are past due or not being paid according to the payment terms, we take appropriate action to exhaust all means of collection, including seeking legal resolution in a court of law. For customers with large amounts of accounts receivable, we may take other steps, such as limiting sales and changing payment terms and requesting forms of security. We will consider an adjustment to the allowance for doubtful accounts for any estimated losses resulting from the inability of our customers to make required payments.

Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet

credit exposure related to its customers.

Product warranty

Under the terms of the contracts, the Company offers its customers a free 12-months of product warranty on a case-by–case basis, depending upon the type of customer, and the nature and size of the infrastructure project. Under such arrangements, a portion of the project contract balance (usually 5-10% of contract value) is withheld by a customer for 12 months, until the product warranty has expired. The Company has not experienced any material returns under this warranty provision. As such, no reserve for product warranty has been provided for the three months and six months ended June 30, 2010.

Inventories

Inventories are stated at the lower of cost or market (net realizable value), with the cost being determined on a weighted average method. Costs include material, labor and manufacturing overhead costs. Quarterly, the Company 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, 2010, 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%

Expenditure for repairs and maintenance is expensed as incurred. When assets have been 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.

Finance leases

Leases that transfer substantially all the rewards and risks of ownership to the lessee, other than legal title, are accounted for as finance leases. Substantially all of the risks or benefits of ownership are deemed to have been transferred if any one of the four criteria is met: (i) transfer of ownership to the lessee at the end of the lease term, (ii) the lease containing a bargain purchase option, (iii) the lease term exceeding 75% of the estimated economic life of the leased asset, and (iv) the present value of the minimum lease payments exceeding 90% of the fair value. At the inception of a finance lease, the Company as the lessee records an asset and an obligation at an amount equal to the present value of the minimum lease payments. The leased asset is amortized over the shorter of the lease term or its estimated useful life if title does not transfer to the Company, while the leased asset is depreciated in accordance with the Company’s normal depreciation policy if the title is to eventually transfer to the Company. The periodic lease payments made during the lease term are allocated between a reduction in the obligation and interest element using the effective interest method in accordance with the provisions of Accounting Standards Codification (“ASC”) Subtopic 835-30, “Imputation of Interest”.

Stock-based compensation

The Company adopts ASC Topic 718, “Stock Compensation”, (“ASC 718”) using the fair value method. Under ASC Topic 718, the stock-based compensation is measured using the Black-Scholes Option-Pricing model on the date of grant.

For non-employee stock-based compensation, the Company adopts ASC Subtopic 505-50, “Equity-Based Payments to Non-Employees” Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services on the grant date, whichever is more readily determinable in accordance with ASC 718.

In accordance with ASC Topic 470-20 “Debt with conversion and other options”, the warrants and related convertible notes should be accounted for as two separate instruments (equity and debt instruments). The accounting for these instruments reflects the notion that the consideration received upon issuance must be allocated between equity and debt components. Proceeds from the sale of a debt instrument with stock purchase warrants are allocated to the two elements, based on the relative fair values of the debt instruments without the warrants themselves at time of issuance. The portion of the proceeds allocated to the warrants is accounted for as paid-in capital. The remainder of the proceeds is allocated to the debt instruments portion of the transaction This usually results in a discount, which is to be amortized over the period of debt using the interest method.

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Income Taxes

The Company adopts ASC Topic 740, "Income Taxes" regarding accounting for uncertainty in income taxes which prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. In addition, the guidance requires the determination of whether the benefits of tax positions will be more likely than not sustained upon an audit based upon the technical merits of the tax position. For tax positions that are determined to be more likely sustainable than not upon audit, the Company recognizes the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not determined to be more likely sustainable than not upon audit, the Company does not recognize any portion of the benefit in the financial statements. The guidance provides for de-recognition, classification, penalties and interest, accounting in interim periods and disclosure.

For the three months and six months ended June 30, 2010 and 2009, the Company did not have any interest and penalties associated with tax positions. As of June 30, 2010, the Company did not have any significant unrecognized uncertain tax positions.

The Company conducts its majority of business in the PRC and is subject to tax in that jurisdiction. As a result of its business activities, the Company files tax returns that are subject to examination by a foreign tax authority. For the period ended June 30, 2010, the Company filed and cleared its 2009 PRC tax return by such tax authority.

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 the local currency of the PRC, Renminbi ("RMB"), which is 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 ASC Topic 830-30, "Translation of Financial Statement", 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.

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

	June 30, 2010	June 30, 2009
Period-end RMB:US$1 exchange rate	6.8086	6.8432
Average monthly RMB:US$1 exchange rate	6.8348	6.8448

RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009

The following discussion should be read in conjunction with the financial statements included in this report and is qualified in its entirety by the foregoing.

REVENUES

Total revenues were $7,217,969 and $10,058,452 for the three months and six months ended June 30, 2010, respectively, as compared to $ 5,218,704 and $7,638,536 for the corresponding period in 2009. Total revenues increased by $1,999,265 and $2,419,916, a 38% and 32% increase for the three and six months ended June 30, 2010, respectively, as compared to total revenues for the three and six months ended June 30, 2009. These increase were due to a significant increases in service and project revenue.

2010 is the last year of the "Eleventh Five-Year" emission reduction targets. It is also the first year for China to put forward its 40-45% emission reduction target, which is a point of emphasis for the Chinese government. Mr. Zhang Shaochun, the Vice Minister of Finance for the central government, has stated that the special funding for the energy-saving emission reduction industry will be up to 500 billion RMB, 70% more than the prior year. The government intends to promote large-scaled energy-saving and efficiency products and will support key energy-saving emission reduction projects.

In a 2010 government report from the office of the Chinese Premier, Wen Jiabao, it was stated that: "We shall put greater efforts on development of low-carbon technologies, promotion of efficient energy-saving technologies, and actively develop new energy and renewable energy…." The report further stated that the country "…should attempt to engage in construction characterized by industrial carbon emissions system and consumption patterns." This indicates that in 2010 and thereafter low carbon initiatives "…will become a new impetus and engine for economic development, and it will become a new weathervane for construction of leading industrial systems and consumption patterns."

The Ministry of Finance is increasing investment in the development of a low-carbon economy. The government see promotion of energy-efficiency resulting in economic benefits and promoting growth in higher value technologies and industries. Therefore the expectation is that government support for energy saving projects will be widespread and touch on many aspects of the economy, including geo-water sources, energy management contracts, efficient motors and other energy-saving elements in the industry. This will promote the development of energy efficiency, industrial energy efficiency and energy-efficient power transmission and distribution.

On April 6, 2010, the State Council of China approved the "Opinion on Accelerating the Implementation of Energy Management Contract to Promote the Development of Energy Service Industry," ("the Opinion") which was proposed by the National Development and Reform Commission, the Ministry of Finance, People's Bank of China and the State Taxation Administration. A series of new tax benefits will stimulate China's domestic energy conservation projects and services development. NF Energy will further develop its energy conservation projects by using "Energy Management Contract" ("EMC") and "Energy Performance Certificate" models.

On June 3, 2010, the Ministry of Finance of the Peoples' Republic of China and the National Development and Reform Commission jointly released a notice policy "Interim measurements to manage financial incentive funding on Energy Management Contract". The policy states that the Ministry of Finance will reward the energy conservation companies who process industrial energy conservation projects by using the EMC model and sharing the energy efficiency benefit, with an annual energy saved between 500 tons of standard coal and 1,000 tons of standard coal. The reward standard is 240 RMB per ton of standard coal save. The policies should stimulate the willingness of industrial companies to undertake energy conservation projects, and should greatly benefit Nengfa Energy's energy saving business which fits within the government stimulus policies for building energy saving infrastructure projects for municipalities and industrial companies. We expect significant growth in all our lines of business in 2010.

The Company plans to restructure its business mix during 2010. The Company expects increasing revenue from higher margin energy conservation projects and services as this segment grows to 30% of total revenues by 2010 from 15% of revenues in 2009, while having steady revenue growth from the sale of our products. Due to market demand, we expect to increase delivery of our flow control equipment in third and fourth quarter of 2010, the increase of project revenue has shown that the Company is undertaking a good development as planned.

Product Revenues

Product revenues are derived principally from the sale of self-manufactured products relating to energy- saving flow control equipment and new energy related equipment. Product revenues were $3,650,612 and $6,915,157, respectively, or 51% and 61% of total revenues for the three and six months ended June 30, 2010, as compared to $4,627,735 and $6,164,844, respectively or 89% and 88% of total revenues, for the corresponding period in 2009.

Product revenues decreased by $977,123 and $564,717, respectively, a 21% and 8% decrease, over the corresponding periods in 2009. This decrease is primarily due to most of the Company's orders are being delivered in third and fourth quarters of 2010. The Company's total revenue for the whole year is following a steady upward trend.

Service Revenues

Service revenues are derived principally from energy-saving technical services and product collaboration processing services. These services are generally billed on a time-cost plus basis. Revenue is recognized, net of business taxes when service is rendered and accepted by the customers. Service revenues were $3,192,200 and $3,518,451, respectively, or 44% and 35%of total revenues, for the three and six months ended June 30, 2010, as compared to $590,969 and $908,975, respectively, or 11% and 12% of total revenues, for the corresponding period in 2009. Service revenues increased by $2,601,231 and $2,609,476, respectively, a 440% and 287% increase over the same period in 2009. This increase is primarily due to the increase in service contracts.

Project Revenues

Project revenues are derived principally from energy-saving, re-engineering projects that require significant modification, customization and installation. The Company applies the percentage-of-completion method to recognize project revenues. Project revenues were $375, 157, or 5% and 4% of the total revenues for the three and six months ended June 30, 2010. For the same period ended in 2009, there was no project revenue. The Company has been continuously conducting energy-saving projects' developments; actively developing energy conservation and energy saving projects and restructuring the Company's business mix. In February 2010, NFEC, through its subsidiary Nengfa Energy, entered into a cooperative arrangement with one of the biomass energy technology companies in Fuxin ("Fuxin") for the development to energy-related systems and facilities and the provision of an economic energy saving solutions to the farmers in LaoNing Province, the PRC for a term of 1 year. Under this project arrangement, Nengfa Energy agreed to design, build and provide the energy-related equipments and components, as well as provide training to Fuxin to operate these energy-related facilities. Fuxin agreed to operate the administration of this arrangement and provide on-site training to the farmers to operate these facilities. In consideration for this cooperative arrangement, both parties agreed to equally share in the sales of energy-related system during the term of the project, in accordance with the agreed energy-saving milestone requirement. At the end of the project term, Nengfa Energy agreed to transfer its ownership and proprietary right to the energy-related system and facility to Fuxin.

For the six months ended June 30, 2010, Nengfa Energy is recognized $375,157 as project revenue from the cooperative arrangement in the statement of operation under the installment method.

COSTS AND EXPENSES

Cost of Revenues

Cost of revenues consists primarily of material costs, direct labor, depreciation and manufacturing overhead, which are directly attributable to the manufacture of products and the rendering of services. Total cost of revenues was $5,194,725 and $7,355,757, respectively, for the three and six months ended June 30, 2010, as compared to $3,693,925 and $5,434,295, respectively, for the corresponding three month period in 2009, an increase of $1,500,800 and $1,921,462, or approximately 41% and 35%. This increase was primarily due to the increase services provided and projects commenced during this period.

The overall gross profit for the Company was $2,023,244 (28% margin) and $2,702,695 (27% margin), respectively, for the three and six months ended June 30, 2010, as compared to $1,524,779 (29% margin) and $2,204,241 (29% margin), respectively, for the corresponding three and six month period in 2009, a increase of $498,465 and $498,454, respectively. The reason for the increase in gross profit was due to an increase of product sold gross profit. Because the steel structured casting processes for some of the service contracts are simpler than others, the related gross margin for these contracts is lower. Therefore the average overall gross margin decreased 1% and 2%, respectively, for three and six month ended June 30, 2010, compare to the corresponding period in 2009.

Cost of Products

Total cost of products was $2,315,196 and $4,264,543, respectively, for the three and six months ended June 30, 2010, as compared to $3,250,140 and $4,816,014, respectively, for the corresponding three and six month period in 2009, a decrease of $933,944 and $551,471, respectively, or approximately 29% and 11%. This decrease is primarily due to the decrease in the number of products delivered in this period. In addition, for some contracts with regular product orders, the raw material waste is less. Therefore, the cost was relatively low.

The gross profit for products was $1,334,416 (37% margin and 65% of total gross profit) and $1,900,301 (31% margin and 70% of total gross profit), respectively, for the three and six months ended June 30, 2010, as compared to, $1,377,595 (30% margin and 90% of total gross profit) and $1,913,547 (28% margin and 87% of total gross profit), respectively, for the corresponding three and six month period in 2009, a decrease of $43,179 and $13,246 or approximately 3% and 1%. This decrease is primarily due to the decrease in product revenues being greater than the decrease in cost of products.

Cost of Services

The cost of services was $2,572,151 and $2,784,836, respectively for the three and six months ended June 30, 2010, as compared to $443,785 and $618,281, respectively, for the corresponding three and six month period in 2009, an increase of $2,128,366 and $2,166,555 or approximately 480% and 350%. This increase is primarily due to an increase in service contracts.

The gross profit for services was $620,049 (19% margin and 31% of the total gross profit) and $733,615(21% margin and 27% of the total gross profit), respectively, for the three and six months ended June 30, 2010., as compared to $147,184 (25% margin and 10% of total gross profit) and $290,694 (32% margin and 13% of total gross profit) for the corresponding period in 2009, an increase of $472,865 and $442,921, respectively, or approximately 321% and 152%. This increase is primarily due to the significant increase in service contract revenue. The gross margin decreased due to a relative high percentage of production collaboration processing service contracts compare to the total service revenue. These contracts have lower gross margin, which led the overall decrease in service gross margin.

Cost of Projects

In 2007, the Company began contracting for energy-saving re-engineering projects that require significant modification, customization and/or complex installation. The cost of projects was $306,378 for the three and six months ended June 30, 2010. There was no project implemented in the same period accordingly in 2009. Therefore the cost was zero.

The gross profit for projects was $68,779 (18% margin and 3% of total gross margin) and $68,779 (18% margin and 3% of total gross margin) for the three and six months ended June 30, 2010, respectively. This increase is primarily due to an increase in project revenue. The cost of the project in this period was primarily the equipment purchasing cost. In China, the benefit sharing period for energy saving or energy conservation projects are usually 5 to 10 years, with a gross margin between 35%-40%. The project we had in this period only shares 50% of the first year energy saving benefit, although the gross margin is relatively lower than general energy conservation projects, the return and payment are stable. The Company continuously develops other energy-saving projects, to ensure a steady growth in project revenue.

Operating Expenses

Total operating expenses were $213,675 and $386,162 for the three month and six month ended June 30, 2010, as compared to $568,681 and $762,699 for the corresponding three month and six month period in 2009, respectively, a decrease of $355,006 and $376,537, or approximately 62% and 49%. This decrease is primarily due to there being no stock based compensation incurred during this period, and relatively lower sales and marketing expenses.

Selling and Marketing Expenses

Sales and marketing expenses were $14,905 and $32,652 for the three and six month ended June 30, 2010, as compared to $25,628 and $74,453 for the corresponding three and six month period in 2009, respectively, a decrease of $10,723 and $41,801 or approximately 42% and 56%. This decrease is primarily due to an increased number of

contracts with lower gross margin during this period. These contracts have relative lower selling and marketing expenses, and therefore reduced the total amount of selling and marketing expenses. While the Company's products sold, and projects' revenue increasing through the rest of year 2010, the selling and marketing expenses will increase accordingly.

General and Administrative Expenses

General and administrative expenses were $198,770 and $353,510 for the three months and six months ended June 30, 2010, as compared to $194,053 and $339,246 for the corresponding three and six month period in 2009, respectively, an increase of $4,717 and $14,264 or approximately 2% and 4%. The reason of this increase was due to, the Company issuing $0.96 million of convertible notes to two qualified investors in February and March 2010. During the three and six month ended June 30, 2010, the Company amortized $14,959 cost of financing. Additionally, due to a general increase in prices in this period, the Company's transaction costs increased as well, the Company also paid a director remuneration amounting 62,000 for six month period.

INCOME FROM OPERATIONS

Income from operations was $1,809,569 and $2,316,533, for the three and six months ended June 30, 2010, respectively, as compared to $956,098 and $1,441,542 for the corresponding three and six month period in 2009, respectively, an increase of $853,471 and $874,991, respectively, or approximately 89%and 61%. This increase is primarily due to the 33% increase in gross revenue and the 62% decrease in operating expenses. The decrease for the six months ended June 30, 2010, from the corresponding period in 2009 primarily consists of a zero expense in stock based compensation expense incurred for the six months ended 2009 for a commitment to issue warrants to purchase up to 450,000 shares of common stock to several investors relations firms for their work on behalf of the Company in the coming years. The number of shares subject to these warrants was adjusted to 150,000 as the result of a 3 to 1 reverse stock split effective on August 26, 2009. Subsequent to the ended by September 30, 2009, warrants for the exercise of 47,222 shares of common stock (on a post-share split basis) were cancelled by mutual agreement with the warrant holders. By June, 2010, the Company's previous Investor Relation contract has expired, all issued service warrants has been calculated by using Black-Scholes model, and amortized in previous quarters. Therefore, there was no stock based compensation in this period.

Other (expense) Income

Other expense for the three and six months ended June 30, 2010 was $153,785 and $234,186, respectively , as compared to other income of $34,763 and $52,779, respectively, for the corresponding three and six month period in 2009, an absolute difference of $188,548 and $286,965. This difference is primarily due to accumulated $181,696 in interest expense, resulting from the issuance of $960,000 convertible promissory notes during the first quarter of 2010, as well as $49,679 in interest expense, resulting from a financial lease for two machines used in the production of our products, incurred during the first quarter 2010, compared to $33,610 of subsidy income recognized in the in the first quarter of 2009, and a decrease in interest income as bank saving interest was lower than financial transaction cost.

Income Tax Expense

For the three and six months ended June 30, 2010, income tax expense was $285,465 and $344,845, respectively, as compare to $181,912 and $243,460 for the corresponding three and six month period in 2009,respectively. The Company continues to enjoy the tax holiday in the PRC due to Nengfa Energy's foreign company status. During 2007, the Tieling City local government tax bureau in the PRC approved Nengfa Energy as a foreign investment enterprise. Hence, retroactively effective from January 1, 2007, Nengfa Energy is entitled to a two-year exemption from corporate income tax and a reduced corporate income tax rate of 12.5% for the following three years.

As of June 30, 2010, the operations in the United States of America have resulted in $1,603,931 of cumulative net operating losses, which can be carried forward to offset future taxable income. The net operating loss carry forward will begin to expire in 2030, if not utilized. The Company has provided for a valuation allowance against the deferred tax assets of $545,336 on the expected future tax benefits from the net operating loss carry forward as management believes it is more likely than not that these assets will not be realized in the future.

Effective from January 1, 2008, the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") became operative. Under the New CIT Law, Nengfa Energy, as a foreign investment enterprise, continues to enjoy the unexpired tax holiday of 50%-reduction on the unified income tax through 2011, subject to a transitional policy. The Sales Company is a domestic company, which is subject to the unified statutory income tax rate of 25%.

The Company's effective income tax rates for the three months and six months ended June 30, 2010 were 12.5%.

NET INCOME

Net income for the three and six months ended June 30, 2010 was $1,370,319 and $1,737,502, approximately 19% and 17% of the total revenue, respectively, as compared to $808,949 and $1,250,861, approximately 16% and 16% of the total revenue, respectively, for the corresponding three and six month period in 2009, an increase of $561,370 and $486,641 or approximately 69% and 39%. This increase is primarily due to a restructured business mix in the Company's whole business, resulting in service and project revenue increasing significantly, as well as the Company has improved its internal control such that its costs and expenses have decreased.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended June 30, 2010, net cash provided by operating activities was $1,922,555. This was attributable primarily to net income of 1,737,502, adjusted by non-cash items of depreciation of $145,395, non-cash interest expense of $160,984 and a $121,103 decrease in working capital. The decrease in working capital in the first six months of 2010 was due primarily to the decrease in accounts receivable by $3,159,179 and decrease in retention receivable by $469,637, a increase in customer deposits by $467,627, an increase in income tax payable by $44,417, which was offset by an increase in inventories by $1,322,393, the increase in prepayment $1,389,196 and increase in other receivable by $1,013,717, a decrease in the accounts payable by $181,458, and a decrease in other payables and accrued liabilities by $1,368,916 in this period.

By June 30, 2010, the account receivable was $9,392,115, which had decreased by $3,159,179, from $12,510,875 at the beginning of 2010. By the December 31, 2010, the outstanding account receivable was due to a number of large State owned projects experienced delayed installation of the systems in which our products are used and therefore the whole system's operating tests were not completed, and as a result, the payment for the products which we provided to these projects was also delayed. According to our contract, we recognize revenue once a customer has inspected and has accepted the products and we have delivered the products to the customer. One of our customers is one of the contractors to the large state owned infrastructure projects, and our products are a small part of these projects' installation. The Company's receipt of payment schedule was impacted, not due to the Company's products, but due to the customer of the Company meeting its project installation schedule and completion of the whole system operating test. Although the delayed payment represents a customer breach of contract, we are willing to coordinate with the contractor to resolve this issue. Although the account receivable has decreased by June 30, 2010, with an expected increase in the Company's revenue though out of the year, the account receivable may increase according to the contracts' terms.

Most of our customers make payments in accordance with the agreed payment terms in a timely manner. In rare cases, we may offer extended payment terms to certain customers for equipment sales. These customers are usually large state-owned corporations with good credit ratings. At the end of each period, we evaluate the structure and collectability of accounts receivable and for those receivables that are past due or not being paid according to the payment terms, we takes appropriate actions to exhaust all means of collection, including seeking legal resolution in a court of law, for its collection efforts.

At June 30, 2010, the Company had accounts receivable of $9,392,115, 86%, 9%and 5% of the accounts receivable are product revenue accounts receivable, service revenue account receivable and project revenue account receivable, respectively. The accounts receivable with aging within 90 days, between 91 and 180 days, and between 181 and 365 days, and above 365 days are $4,871,701, $1,677,790, $2,643,937 and $198,687, respectively, representing 52%, 18%, 28% and 2% of the total account receivables, respectively, as of June 30, 2010. The Company restricted the accounts receivable with aging above 1 year within 1% of the total account receivables. The Company does not have any off-balance-sheet credit exposure related to its customers. The detailed account receivable aging, starting from the

invoice date, by June 30, 2010 is as following:

Revenue Sources:	Account Receivables	Aging of 1-90 days	Aging of 91-180 days	Aging of 181-365 days	Above 365 days
Products	8,107,111	3,628,001	1,667,790	2,633,888	167,432
Services	844,385	803,081	-	10,049	31,255
Projects	440,619	440,619	-	-	
Total	9,392,115	4,871,701	1,667,790	2,643,937	198,687

We offer the customers a free 12-months of product warranty on a case-by-case basis, depending upon the type of customers, nature and size of the infrastructure projects. Under such arrangements, a portion of the project contract balance (usually 5-10% of contract value) is withheld by a customer for 12 months, until the product warranty has expired. On June 30 2010, the retention receivables were $406,993.
In addition, it is the Company practice to build up a larger inventory to be able to fulfill its contracts during the installation of the large infrastructure projects. The increase in inventories of $1,322,393 reflects a reasonable inventory level which corresponds to pre-purchased raw materials to be able to fulfill manufacturing requirement in third and fourth quarter; and a number of contracts for products which have not been delivered or recognized as revenue by June 30, 2010. The reason for the large increase in the prepayments and other receivables of $1,389,196 as compared to year end December 31, 2009, is due to increases in prepayments to vendors for raw materials, and prepayment to projects. During this period, an increase in customer deposits of $467,627 was due to increase in contracts.

For the six months ended June 30, 2009, net cash provided by operating activities was $2,683,173. This was primarily attributable to our net income of $1,250,861, adjusted by non-cash items of depreciation of $148,963 and stock based compensation of $349,000, and a $934,349 increase in working capital. The increase in working capital in the first six months of 2009 were due primarily to the decrease in inventories by $681,231, the increase in accounts payable by $658,202, customer deposits by $7,295, and income tax payable by 181,825, partially offset by the increase in accounts receivable by $540,094, prepayments, and other receivables by $7,781, and other payables and accrued liabilities by $61,891 in this period.

The large increase in accounts receivable of $540,094, an increase of 6% over the accounts receivables balances of $8,907,497 at December 31, 2008, is mainly due to several large contracts. For these large contracts, the construction and installation period is much longer. The collection period for receivables is also longer. In addition, we have to produce a larger inventory in order to prepare for the installation anticipated for these large projects. The decrease in inventories of $681,231 reflects the lower inventory level the company maintains for the current sales level. The reason for the large increase in the prepayments and other receivables of $263,154, a 40.3% increase over the prepayments and other receivables balance of $652,842 at December 31, 2008 is due to increases in prepayment to vendors for raw materials, prepayment to equipment vendors and prepaid operating expense. The increase in accounts payable of $658,202 corresponds to the increased purchase of materials required for the production for several large contracts. The increase in customer deposits of $7,295 is due to the increase in sales this period. The increase in income tax payable of $181,825 is because the Company started to pay a reduced income tax rate in PRC in 2009 whereas the Company enjoyed tax holidays in 2008. The decrease of $61,891 in other payables and accrued liabilities is due to the decrease in welfare payable and other accrued expenses.

Investing activities

In 2008, the Company was approved by the local government to construct a new manufacturing facility for energy-saving products and equipment in Yingzhou District Industrial Park, Tieling City, Liaoning Province, in the PRC. Total estimated construction cost of the new manufacturing facility is approximately $16 million (including land use rights for approximately $3 million). The construction project is expected to be fully completed in late 2010.

For the six months ended June 30, 2010, net cash used in investing activities was $2,775,310, and was primarily attributable to the purchase of plant and equipment for $16,728 and the payments for construction in progress of $2,759,833. There were proceeds of $1,251 from the disposal of plant and equipment.

As of June 30, 2010, the Company has incurred and capitalized $11,853,759 as construction in progress.

The Company currently rents its manufacturing facility from a third party. The current facility has a designed capacity of approximately 6,000 tons per year. During the months ended December 31, 2009, the Company utilized

approximately average of 70% of its capacity. The new energy equipment manufacturing facility currently under construction will have two high standard numerical control machines installed, plus the current equipment, which will be moved to the new facility. If fully operated, the new facility will have a designed capacity to manufacture approximately 20,000 tons of flow control equipments on a yearly basis, and will also be able to manufacture 300 sets of key components of wind power equipment or other new energy related equipments annually. Upon completion, the estimated manufacturing capacity of the new facility will be more than three times the capacity of the Company's current facility.

The new facility and the installation of new and high quality machines should enhance the Company's equipment manufacturing capacity and improve the productivity and precision level of its products. Furthermore, the Company will have the ability to expand the sale of its flow control equipment products into other markets.

Financing activities

For the three months ended June 30, 2010, net cash provided by financing activities was $1,132,227, of which $294,493 was attributable to the payments on finance lease and $900,000 was generated by a private placement financing of convertible promissory notes. The Company also received $526,720 note payable from Liaoning Dongda Nengfa Weiye Energy Saving Technology Engineering Design & Research Institute

During the first quarter of 2010, the Company sold, through a private placement to two accredited investors, convertible promissory notes in the aggregate principal amount of $960,000 and warrants to purchase 160,000 shares of its common stock, par value $0.001 per share. The notes bear simple interest at the rate of 6% per year and, absent an "event of default," are payable in shares of the Company's common stock. Provided an "event of default" has not occurred and is not then continuing, the notes will convert upon the earlier to occur of (i) the commencement of trading of the Company's common stock on a major US stock exchange, or (ii) one year after issuance. Upon conversion, the holders of the notes shall receive such number of shares of common stock equal to the quotient obtained by dividing (a) the then-outstanding principal amount and accrued but unpaid interest on the note by (b) the then-current conversion price, which initially shall be $3.00 per share. The conversion price is subject to adjustment for stock dividends, splits, combinations and similar events. The notes are secured by a security interest in and lien upon all of the Company's assets. The warrants, which are exercisable for shares of common stock at an initial exercise price of $4.00 per share, are not exercisable until three months after issuance and will terminate five years thereafter. The exercise price is subject to adjustment for stock dividends, splits, combinations and similar events. The Company has agreed to provide the investors with "piggy-back" registration rights with respect to the shares of common stock issuable upon conversion of the notes and exercise of the warrants

As the Company adopts ASC Topic 470-20 " Debt with conversion and other options", the convertible notes are recorded in accordance with this topic. Although this accounting treatment has affected our balance sheet and income statement by increasing the stock based compensation and non-cash interest expense, it will not affect our cash flow.

On July 27, 2010, the Company signed a two year unsecured credit facility with a domestic bank to borrow up to RMB 40 million (approximately $5.88 million based upon current exchange rates).Under the agreement, NF Energy will be able to draw up to a maximum of RMB 40 million ($5.88 million) over a 24 month period ending June 28, 2012. Outstanding balances under the facility will accrue interest at a rate of 1.3 times the Bank of China benchmark lending rate. Any amounts of principal repaid may be redrawn during the 24 month period. Drawings under the facility will be used to complete NF Energy's new manufacturing plant, increasing capacity from 6,000 tons to 20,000 tons per year, and for general corporate purposes. The Company has not yet drawn down on this facility.

We anticipate we will need additional working capital in 2010 and beyond to fund the Company's new business plans to establish a manufacturing base for new energy equipment and to develop comprehensive energy saving infrastructure projects for municipalities and energy conservation projects that include blast furnace power generation, low concentration coal bed methane power generation and bio-mass power generation. Furthermore, we may consider expanding the Company's business lines. In order to maintain our lead position in energy- efficient flow control equipment manufacturing, we anticipate a continued and steady growth of the manufacture and sale of our flow control equipment. We may decide to pursue additional investments through the sale of equity or equity linked securities or debt financing to obtain the additional cash resources to fund our business and other future developments; however, there can be no assurance that we will be able to obtain additional funds on terms acceptable to the Company or at all. If we cannot obtain debt or equity financing to fund our working capital needs, our business development plan may be delayed and we may not be able to achieve the estimated revenue growth from service and

projects or we may not be able to achieve our total revenues projections for this year.

Inflation

We believe that the relatively moderate rate of inflation over the past few years has not had a significant impact on our results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any material off-balance sheet arrangements.

IMPACT OF RECENTLY ISSUED NEW ACCOUNTING STANDARDS

We do not expect adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position or cash flow.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2010. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2010, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Controls

No change in our internal control over financial reporting occurred during the quarter covered by this report that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On May 21, 2007, a civil complaint Robert Dawley v. NF Energy Saving Corp. of America, et al. was filed in the United States District Court, Middle District of Florida, Orlando, Civil No. 6:07-cv-872-Orl-18DAB. The complaint accused the defendant of breaching a contract for payment of money that was signed by Sam Winer, former Chief Executive Officer of the Company, before the commencement of the Company’s reverse merger. After being initially dismissed by the court, the action was authorized to proceed on November 16, 2007. A trial was held in the United States District Court, Middle District of Florida, Orlando on October 16, 2008. The District Court issued a judgment on December 11, 2008, awarding the plaintiff the sum of $400,000 against the Company, plus prejudgment interest in the amount of $132,821.92, with continuing interest of $131.51 per day on the $400,000 obligation until it is paid. The Court further adjudged that the plaintiff shall surrender certain shares of common stock he holds in the Company upon payment of the $400,000. In the event the plaintiff fails to surrender the specified shares of stock after payment, the Company may cancel the stock. Any payments or collection under the judgment shall be credited first to interest.

On January 6, 2009, the Company filed a notice of appeal 09-10140-B in the United States Court of Appeals for the 11th Circuit from the District Court’s judgment. The Company has also accrued $200,000 for this contingent liability to the statement of operation in 2008. In addition, two of the Company’s executive officers and directors, Mr. Gang Li and Ms. Li Hua Wang have personally agreed to guarantee and bear all contingent liabilities and costs to be incurred from this litigation claim.

On April 1, 2010, the Eleventh Circuit issued a unanimous opinion reversing the District Court’s Judgment on the grounds that Dawley was not entitled to the relief that he sought and that the law did not support the District Court’s Judgment against NF Energy. The Eleventh Circuit, to the contrary entered Judgment in NF Energy’s favor. Subsequently, the United States District Court for the Middle District of Florida, acting upon instructions from the Court of Appeal, entered a Bill of Costs against Robert Dawley on June 24, 2010, totaling $2,088.

Mr. Dawley has orally advised the Company that he has filed a Petition for Writ of Certiorari of the Eleventh Circuit’s Opinion and Judgment with the Supreme Court of the United States. However, to date, the Company has received no indication that the Supreme Court has accepted any filings by Mr. Dawley or has scheduled any response to his Petition. The Company therefore has not taken any action with respect to any such Petition.

On or about July 1, 2010, Mr. Dawley apparently commenced a second action before the United States District Court for the Middle District of Florida, entitled Robert Dawley v. NF Energy Corp. of America, et al. In addition to the Company, Mr. Dawley has named as defendants Mr. Gang Li and the Company’s litigation counsel. Mr. Dawley asserts, among other things, that Defendants committed fraud with respect to the same agreements as were the subject of the prior action. He also complains that he is entitled to have a restrictive legend removed from certain stock certificates that the predecessor company had issued to him in exchange for an additional capital contribution. Though he has served copies of the Complaint, he has yet to serve a Summons requiring the Defendants to respond to the Complaint.

The Company believes that the second action by Mr. Dawley has no merit, is barred by the Judgment entered by the Court of Appeal in the prior action and, in any event, fails to state fraud claims with the specificity required by law. Mr. Dawley has refused to withdraw the complaint, and so it is the Company’s intention to ask the Court to strike the

complaint and issue monetary sanctions against Mr. Dawley equivalent to the amount of the Company's attorneys' fees and costs incurred as a result of the second action.

Though the Company believes that its contemplated motion has merit, the Company cannot predict with certainty that the Court will agree. Accordingly, the Company does not express any opinion as to the likelihood of its motion's success. In the event that the Court does deny the motion, it is the Company's intent to continue its efforts to prevail against Mr. Dawley on behalf of all the named Defendants to the second action.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not Applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Reserved]

Item 5. Other Information.

None.

Item 6. Exhibits.

The list of Exhibits , required by Item 601 of Regulation S-K to be filed as a part of this Form 10-Q are set forth on the Exhibit Index immediately preceding such Exhibits and is incorporated herein by this reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

NF Energy Saving Corporation
(Registrant)

Date: August 16, 2010

By: /s/ Gang Li
Gang Li
Chairman, Chief Executive Officer and President

Date: August 16 2010

By: /s/ Li Hua Wang
Li Hua Wang
Chief Financial Officer
(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14 of the Securities Exchange Act of 1934, 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