NF Energy Saving Corp
Form 10-K
March 29, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2012

¨ 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 of Incorporation)	(I.R.S. Employer ID Number)
3106, Tower C, 390 Qingnian Avenue, Heping District **Shenyang, P. R. China** (Address of Principal Executive Offices)	**110015** (Zip Code)

(8624) 8563-1159

(Issuer's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $0.001 par value	The NASDAQ Stock Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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

Indicate by check mark whether the registrant 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.).

Yes ¨ No x

As of June 29, 2012, the aggregate market value of the common equity held by non-affiliates of the registrant was $3,204,340 based on the price of $1.15 per share which the registrant’s common stock was last sold.

As of March 11, 2012 there were 5,459,147 shares of the registrant’s common stock outstanding.

NF ENERGY SAVING CORPORATION

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

Certain statements in this Annual Report on Form 10-K ("Form 10-K") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements of our expectations, intentions, plans and beliefs, including those contained in or implied by "Management's Discussion and Analysis" and the Notes to Consolidated Financial Statements, are "forward-looking statements", within the meaning of Section 21E of 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. The Company undertakes 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, our expansion and acquisition strategy, our ability to achieve operating efficiencies, industry pricing and technology trends, evolving industry standards, 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 the prescribed condition; 2) our ability to compete effectively with other companies in the same industry; 3) our ability to raise sufficient capital in order to effectuate our business plan; and 4) our ability to retain our key executives.

Except as may be required by applicable law, we do not undertake or intend to update or revise our forward-looking statements, and we assume no obligation to update any forward-looking statements contained in this report as a result of new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements. You should carefully review and consider the various disclosures we make in this report and our other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business.

For further information about these and other risks, uncertainties and factors, please review the disclosure included in this report under "Part I, Item 1A - Risk Factors."

PART I

ITEM 1. BUSINESS

The Company

As used herein the terms “we”, “us”, “our,” “NFEC” and the “Company” means, NF Energy Saving Corporation, 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 include our subsidiaries, Liaoning Nengfa Weiye Energy Technology Company Ltd., a corporation organized and existing under the laws of the Peoples’ Republic of China (“PRC”), and Liaoning Nengfa Weiye Tie Fa Sales Co., Ltd., a limited liability corporation organized and existing under the laws of the PRC.

NF Energy Saving Corporation was incorporated under the laws of the State of Delaware under 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 the Plan of Exchange (see below). Our principal place of business is 3106, Tower C, 390 Qingnian Avenue, Heping District, Shenyang, P. R. China 110015. Our telephone number is (8624) 8563-1159.

On November 15, 2006, we executed a Plan of Exchange (“Plan of Exchange”), among the Company, Liaoning Nengfa Weiye Pipe Network Construction and Operation Co. Ltd. (“Nengfa”), the shareholders of Nengfa (the "Nengfa Shareholders") and Gang Li, our Chairman and Chief Executive Officer (“Mr. Li”). At the closing of the Plan of Exchange, which occurred on November 30, 2006, we issued to the Nengfa 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 Nengfa owned by the Nengfa Shareholders. Immediately upon the closing, Nengfa became our 100% owned subsidiary, and the Company adopted and implemented the business plan of Nengfa.

On September 5, 2007, we established a new sales company, Liaoning Nengfa Weiye TieFa Sales Co., Ltd. (“Sales Company”). Sales Company is a subsidiary, which is 99% owned by Liaoning Nengfa Weiye Energy Technology Company Ltd. Sales Company engages in the sales and marketing of flow control equipment and products in PRC.

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On January 31, 2008, to better reflect our energy technology business, we changed the name of Nengfa to Liaoning Nengfa Weiye Energy Technology Company Ltd. (“Nengfa Energy”). 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.

On August 26, 2009, the Company completed a 3 to 1 reverse share split of its common stock. As a result, the total number of shares of outstanding common stock changed from 39,872,704 pre-split to 13,291,387 post-split shares.

On September 15, 2010 the Company completed a 2.5 to 1 reverse share split of its common stock, the total number of shares of outstanding common stock changed from 13,315,486 pre-split to 5,326,501 post-split shares.

On October 4, 2010 our common stock commenced trading on the Nasdaq Global Market. On March 7, 2012, and upon approval by NASDAQ, our common stock transferred from the Nasdaq Global Market to the Nasdaq Capital Market, Our common stocks trades on the Nasdaq Stock Market under the ticker symbol “NFEC”.

The structure of our corporate organization is as follows:

Business Description

NFEC is dedicated to energy efficiency enhancement in two fields: (1) manufacturing large diameter energy efficient intelligent flow control systems for thermal and nuclear power generation plants, major national and regional water supply projects and municipal water, gas and heat supply pipeline networks; and (2) 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, and municipal infrastructure industries.

NFEC has received many awards and honors from China's regulators, professional associations and renowned international organizations, including the ISO 9001:2008 certification from Det Norske Veritas Management System, the Liaoning Provincial Government's Award of Innovative Enterprise with Best Investment Return Potentials, the Special Industrial Contribution Award of the ESCO Committee of China Energy Conservation Association, and the “Contract-abiding and credit enterprise” Award by the Liaoning State Local administrative bureau for industry and commerce.

NFEC enjoys a reputation as a leader and dedicated energy saving company in China for over 15 years. Its professional capacity as a provider of energy services is officially certified by China’s National Development and Reform Commission (NDRC). It has been a corporate member on the Board of the ESCO Committee of China Energy Conservation Association and a founding member of China Standardization and Technical Consortium for Energy Conservation and Emission.

As a certified energy service provider, NFEC is entitled to various tax breaks and energy saving awards created by Chinese governments at national, provincial and local levels. The major tax incentives by the central government include a two-year corporate income tax exemption plus a three-year reduction of corporation income tax for all energy performance based, profit sharing energy service projects. The government policy also incentivizes NFEC's clients with tax refunds on goods and properties of the energy saving projects when NFEC transfers to them at the end of the energy service contracts.

The current principal development focus of NFEC is to complete the on-going construction project of the new manufacturing facility which will triple the company's capacity to produce large intelligent flow control systems and to provide our company with more advanced technology to supply high grade energy efficient and safety reliant products for high end markets such as nuclear power plants and super critical power generation plants.

Our corporate goal is to maintain our established position as a leading provider of energy efficiency flow control systems, a cutting edge innovator with clean energy and energy efficiency technologies, and a total energy efficiency solution and service provider dedicated to maximum returns to our investors, partners, clients and environment.

Products and Services

Our products and services include the manufacturing and sales of energy-saving flow control equipment, energy saving technology consulting, optimization design services, energy saving reconstruction of pipeline networks and contractual energy management services for China’s electric power, water power, petrochemical, coal, metallurgy, construction, and municipal infrastructure development industries. Examples of contracts entered into by the Company or its subsidiaries are:

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- In 2007, Nengfa Energy received contracts for our products and services to be used in three sub-sections of the prominent “South to North Water Transfer and Supply Project." The subsections were completed and passed inspection in 2008.
- In 2008, the Company received flow control equipment contracts from seven cities in Liaoning Province for their water supply systems.
- In 2009, the Company was awarded several flow control equipment supply contracts, including one for the Xijiang diversion project of Guangdong Province, and one for Phase 1 of Guangdong Yuedian Huilai Power Plant.
- In 2010, the Company received contracts for our products and services to be used in over 50 companies, including Chongqing Water Turbine Company, Chongqing Fangneng Electricity Power Company, Zhejiang Zheneng Jiahua Electricity Power Co. Ltd, and Shaoxing Binhai Thermal Power Company, and a project contract with a Fuxin inner-Mongolian county.
- In 2011, the Company received contracts for our products, including from Jiangsu Changshu Electricity Power Ltd, India RODA Supercritical Coal Fired Power Station, India KAWAI Supercritical Coal Fired Power Station, Zhejiang Zheneng Zhongmei Zhoushan Coal and Electricity Company, Shenzhen Qinglinjing Water diversion project, Chongqing Yunneng Electricity Power Ltd, and Shenyang Mining Machinery Ltd.
- In 2012, the Company received contracts from Beijing South to North Water Diversion Operation and Management Center, Shanxi Kegong Longsheng technology Ltd, Huaihu Coal Ltd, Chongqing Water-Turbine Ltd, Shenergy Company Limited, Shanghai Qingcaosha City-Environment Project (South Branch Project), Luanhe Power station of China Guodian Corporation ,Qiangui power Ltd , Guizhou Province, Guihang Nenghuan refrigeration engineering Ltd, Shanghai City , Electric power construction corporation (Zambia’s project) , Shandong Province;Lu Electric International Trading corporation, and Shandong Province (Philippines project).

Production and Sales of Energy Saving Flow Control Equipment

The Company’s current principal business is the production and sales of energy-saving flow control equipment, and intelligent flow control equipment. This business currently accounts for the majority of the Company’s revenues.

Pipeline transport is one of the basic modes of transportation together with rail transport, road transport, air transport and water transport. Water, gas, oil, and heat rely on various kinds of pipelines and pipe networks to be transported to end users. In the case of water pipelines, such systems are also used for public health and safety, and waste and flood control.

The key to the efficiency and energy conservation of the pipeline transportation process is the valve and the flow control equipment. Having unique technology in this field, the Company has obtained four patents and holds fourteen utilization model patents in China for flow control devices, especially in the area of the bidirectional seal zero revelation installation system with its special characteristics. Using valves of this type can result in reduced energy consumption by 20% for customers compared to traditional valves. The reduced energy consumption thereby increases the efficiency of the pipeline system. It is widely used in the fields of electric power, hydro power, petroleum, and natural gas. The Company’s super intelligent flow-control device was awarded “Number One Energy Saving Valve of China” by the Chinese Energy Conservation Association. Our products currently are exported to the United States, Russia, Turkey, Japan, South Korea, Vietnam, India, Iraq, and Afghanistan.

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Once the Company's new manufacturing facility is completed, the newly installed numerical controlled machines will allow the Company to manufacture and process technologically advanced flow control equipment with greater precision. This will enable the Company to expand its markets into nuclear power plant equipment and new high precision energy related equipment.

Because improved manufacturing and use of sophisticated technologies are important revenue drivers for the Company and represent an important part of its energy efficiency focus, the Company will continue to develop comprehensive energy conservation and energy reduction equipment and services, and to pursue research development and improved manufacturing of flow control and clean energy related equipment.

Energy Saving Reconstruction Projects

1. Energy Efficiency Retrofitting Projects on Industrial Boilers and Furnaces

Our business also focuses on the reconstruction of various industrial boiler/furnace systems with the objective of modernization and improvement in the overall efficiency of existing systems. Efficiency can be expressed in several ways, such as lower operating costs, reduced energy consumption, recapture of by-products which can be used for other purposes, and pollution reduction.

China's industrial boilers and furnaces are used mainly in the iron and steel, metallurgy, building materials, machinery manufacturing, chemical industry and other similar energy consumption industries. Their energy consumption accounts for about 10% of China's total energy consumption. It is estimated that as many as half of the enterprises have outdated technology and equipment, and experience a significant waste of energy. Using our existing technology, we can reconstruct the boiler's or furnace's structure, its heat source system, combustion system, and control system, and thereby both improve the overall efficiency of the system and yield important conservation and pollution control benefits.

One of the most important opportunities for the Company is to undertake projects that refurbish or reconstruct industrial boilers and create cogeneration opportunities for coal fired boilers. It is estimated that as many as 95% of the industrial boilers in China are coal fired. These types of industrial boilers are very inefficient because: most industrial coal burning boilers use traditional traveling grate boilers, only a small portion of the coal fired boilers are equipped with advanced technology, such as the pulverized coal combustion or circulating fluidized bed. The traveling grate boilers are smaller in capacity than required for the purpose for which they are employed; their output does not match the auxiliary equipment used by the boilers. Due to their low combustion and thermal efficiency, the traditional coal fired boilers emit more CO_2 and NO_x, and the boilers are typically at or beyond their estimated useful life. Overall, it is estimated that these types of boilers are operating at about 60-70% of their efficiency, which is about 20% below that of international best practice. The inefficiency, in part, results from their use of mixed sizes of coal particles in layer combustion. Among these types of boilers, about 60% of them are clockwise rotation boilers. The use of the differing sizes of the coal particles results in a highly inefficient combustion, due to the poor ventilation for the effective combustion and the accumulation of dust which chokes the combustion. Therefore, the coal is not totally burned and there is a loss of potential energy. The current methods of coal feed to the boilers and the current combustion cannot solve this problem. Given the large quantities of these types of industrial boilers, approximately 0.3~0.4 million sets of traveling grate boilers currently are in-use, the Company sees a significant opportunity to focus on boiler transformation technology and projects.

The Company’s solution is to redesign and reconstruct elements of an existing boiler or boiler system to improve its overall performance and increase its optimization rates. This is done in a number of different ways, such as the following:

a) Boilers using a pulverized coal fired or a clockwise rotation chain grate system can be refitted with a circulating fluidized bed combustion technology. This change has the benefit of allowing the boiler to use a lower grade of coal but improve the thermal efficiency. The ash from the fluidized bed combustion system can be used in building materials, which is a valuable by-product and reduces pollution output.

b) The control system of a boiler can be either reconstructed or modified to improve the operations of the unit and system.

c) The coal feed system of a boiler system can be altered to provide more efficient coal layer arrangement according to different volume and nature of the coal , with the effect that the boiler will fully combust the coal. This improves the operating cost and fuel optimization.

d) Another change that can be made to boilers is to improve the ventilation system, which can result in increased fuel combustion efficiency and hence reducing the operating costs.

e) One of the most important improvements that the Company seeks to introduce into existing and new boiler systems are methods to reclaim discharged water. The Company designs recovery equipment which permits recovery of significant amounts of the waste water used in a traditional boiler. This recovery can also improve the capture of pollutants by the boiler system.

f) A boiler's heat recovery can be improved, whether it is coal, natural gas or petroleum fueled. By-product heat can be used in a number of different ways, such as to create steam for other uses or localized heating of the factory. The capture and use of the residual heat reduces its emission into the atmosphere thereby reducing heat pollution. This can be an additional source of income or help reduce operating costs and pollution.

The Company is capable of designing and introducing steam thermal systems into existing systems with the effect of recovering the condensed water, eliminating the leakage losses due to faulty or worn steam trap valves and improving the heat preservation systems.

2. Motor Drive Reconstruction

In China, motor drive systems use about two thirds of the total electricity consumption of the country. About 90% of these motors are AC asynchronous motors. Nengfa Energy redesigns such systems to convert them so that they can be used for variable load fans and pumps through frequency conversion and speed regulation technology. NF Energy focuses on the reconstruction and energy conservation of the fans of power station boilers, industrial furnaces and kilns, and the energy-saving pumps in the cold/hot water pipe system. As we analyze the whole industrial reconstruction projects, we can also provide power conservation reconstruction in solid material conveyor systems used in the mining, metallurgy, iron and steel industries.

It is estimated that approximately 12% of China's electric power consumption is for lighting. As one of the most important energy-saving projects, the Chinese government plans to distribute 150 million energy-saving lamps throughout the country during the "Eleventh Five Year Plan" period through a fiscal subsidy in an effort to replace inefficient incandescent lamps and other lighting products. The government also plans to reduce the consumption of power by changing the use of lighting through a rational distribution of public lighting, improving the quality of power consumption and introducing on-demand controls. Between 2008 and 2009, the Company, as one of the companies assigned by the National Development and Reform Commission, has distributed 2.5 million green lighting products in Liaoning Province China.

3. Energy-Saving and Reconstruction of Steam Heat Energy System

As a high quality source of secondary energy, steam is widely used in petroleum, petrochemical, chemical, paper making, brewing, tobacco, steel, pharmaceutical, packaging, machinery, and electronics among other industries. The total energy efficiency of steam is directly determined by the system's energy efficiency. The characteristics of the steam and condensation system are highly complex, due to factors such as the need for a condensation traps and vacuum breakers, the damage from water hammer, corrosion of the heat exchanger and leakage, condensation, pollution and purification, steam consumption's imbalance in winter and summer, steam consumption's mismatching between high and low pressures, the flash steam problem, and steam leakage. For a long time, due to the irrationality of system design, the complexity of the system itself, the negligence of owners, the imprecision of management, and the deficiency of maintenance, the overall energy efficiency of steam systems in China is very low. Therefore, the Company believes there is a significant opportunity for energy savings in steam systems:

1) Approximately 0.5 billion tons of standard coal is consumed annually, which is more than 1/3 of the total national consumption of fossil fuels.

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2) The overall energy efficiency of steam systems in China is only approximately 30%, which is 25% lower than well developed countries.
3) The annual energy waste due to the low energy efficiency of steam systems is approximately 120 million tce, which is estimated to be worth over 120 billion RMB.
4) The annual waste due to inefficient transportation and distribution of steam systems is approximately 180 million tce.
5) Of the more than 1 million traps being used in steam systems in China, 60% of them have above average leakage, 30% of them have serious leakage, and only less than 10% work normally. The waste due to trap leakage is significant.
6) Current condensation systems are generally designed in such a way as to be inappropriate to the system, resulting in the average recovery rate being less than 30% thus; causing large waste of heat energy and water.

Working with energy saving experts in steam systems in China, the Company has built a steam system department. This department has an R&D and design team, which can provide energy conservation solutions for efficient and the long lasting energy saving results. Under normal conditions, the reduction of steam energy cost is generally between 10% and 25%.

Our energy conservation solutions improve energy efficiency in steam systems in five principal ways, covering the entire process of the steam and condensation system: steam generation, steam transportation and distribution, steam consumption, and condensation recovery and condensation purification.

1) Steam generation stage

Our energy saving measures include: using the boiler's long-term stable heat sink resources to fully absorb low temperature waste heat and reduce fuel consumption; correctly designing the generator in order to reduce the steam consumption of the deoxygenizing process and increasing the efficiency of the boiler; controlling boiler blow own and fully utilizing the waste heat of blow own water; adjusting the steam load with steam accumulator; and improving the quality of steam.

2) Steam transportation and distribution stage

Our energy saving measures include: designing the most economical flow speed of steam, reducing leakage, draining condensation correctly, filtering dirt and debris, reducing pressure drop loss, improving steam quality, and avoiding water hammer. The most serious problems to be addressed are water hammer, big drops in steam pressure, high steam humidity and low steam quality caused by errors in the design of the condensation trapping system.

3) Steam consumption stage

In this stage, we improve the energy efficiency of the steam system by studying the difference in details between designed and actual steam consumption of each heat exchanger, and looking for the root causes of excessive energy consumption; consuming lower pressure steam as far as possible when meeting the process's demands; equipping the system with a vacuum breaker and air valve in beehive heat exchangers; designing a condensation trapping system correctly to avoid waterlogging; controlling temperatures automatically in the heating process; installing a separator for steam and vaporous water in the inlet of important equipment to ensure steam quality; optimizing the condensation pipe system according to the residual pressure of each heat exchanger; and enhancing daily inspection and maintenance.

4) Condensation recovery stage

In this stage, we improve steam efficiency by optimizing the overall condensation piping system and deploying decentralized, cutting-edge pressure pump recovery technology; comprehensive treatment on flash steam; comprehensive utilization of heat sink resources; and limit water hammer. The key to optimizing the overall condensation piping system is to identify different condensations according to the residual pressure as “strong”, “mainstream” and “weak”, thus minimizing the mutual interference between different residual pressures.

5) Condensation purification stage

The Company’s “solvent impregnated resin oil desorption technology” can separate emulsified oil molecules and dissolved oil molecules from high temperature condensation directly through the resin’s lipophilicity and hydrophobicity. Before separation, “emulsification breaking”, “capturing” and “enriching” are completed automatically. When the oil molecules adsorbed in the face of the resin reaches a certain saturation level, the enriched oil will be separated from the resin as large oil-drops through the flow impact of condensation water inside the tank. After separation the oil-drops float into an oil-water separator and the off-oil resin will start to work automatically. In the oil-water separator the oils will separate from water automatically.

NF Energy’s condensation iron deprivation technology is called “Powder Ion Exchange Resin Coverage and Filtration Technology”. We utilize this technology to separate excessive metal oxides, colloids and iron ion (Fe^{3+} & Fe^{2+}) from high temperature condensation. The technical principles are filtration, adsorption, and ion replacement; the processes are film formation, operating, toggling, back-washing and film formation again.

We estimate the energy saving market for steam systems is very large in China. We believe the annual consumption of steam systems is approximately 0.5 billion tce. The overall energy efficiency of steam systems in China is only approximately 30%, which is 25% lower than well developed countries. The annual energy waste due to low energy efficiency of steam systems is approximately 120 million tce, which is worth over 120 billion RMB. If all the energy saving projects in steam systems were operated under a EPC (Energy Performance Contract) model, and the average profit were to equal three years of energy-saved we estimate, the value of the energy-saving market for steam system in China would be approximately 360 billion RMB.

Patents and Technology

Nengfa Energy currently has been issued four invention patents and has applied for fourteen utility model patents in the PRC. We will maintain the innovation of the new product in order to maintain our leading position in the market.

The invention patents include the following:

1. Processing technology of butterfly valve seal (ZL2006 1 0152644.8), which expires on September 26, 2026;

2. Butterfly valve body dynamic seal ring pointing device (ZL2007 1 0159250.X), which expires on December 28, 2027;

3. The closing and locking equipment for valves (ZL2009 1 0011939.7), which expires on June 11, 2029; and

4. Valve body active seal circle position monitor equipment (ZL2009 2 0014504.3), which expires on July 21, 2030.

The utility model patents that we have applied for include the following:

5. An energy-saving heat-sink used in heating (ZL2008 2 0218146.3), with an application date of September 23, 2008

6. A device used in energy-saving boiler combustion (ZL2008 2 0218145.9), with an application date of September 23, 2008;

7. Butterfly valve sealing ring instruction device (ZL2007 2 0185293.0), with an application date of December 12, 2007;

8. Butterfly valve with block for opening butterfly plate (ZL2007 2 0185289.4), with an application date of December 12, 2007;

9. Piston flow-adjusting valve with removable piston sealing ring (ZL2007 2 0185288.X), with an application date of December 12, 2007;

10. J-shapes large dimension butterfly valve hard sealing ring (ZL2007 2 0185292.6), with an application date of December 12, 2007;

11. Composite valve sealing ring (ZL2007 2 0185290.7), with an application date of December 12, 2007;

12. Multi-level buffering full oriented valve fuel tank (ZL2007 2 0185287.5), with an application date of December 12, 2007;

13. Fluid control valve on-off speed control device (ZL2007 2 0185286.0), with an application date of December 12, 2007;

14. T-shaped large dimension butterfly valve rubber sealing ring (ZL2007 2 0185291.1), with an application date of December 12, 2007;

15. Butterfly valve with butterfly plate adjusting device (ZL2008 2 0231340.5), with an application date of September 23, 2008;

16. Two-way sealed butterfly valve (ZL 2009 2 0014504.3), with an application date of June 11, 2009;

17. Energy-saving electric valve (ZL2011 2 0393230.0) with an application date of October 14,2011; and

18. Radial fixed valve seal butterfly valve (ZL2011 2 0393135.0) with an application date of October 14, 2011.

In addition to the patent protection that we seek, we also rely on the confidentiality of our operations, proprietary know-how and business secrets. Although we do not have formal agreements with our employees, we do consider our employees' work to be proprietary and owned by the Company. Where necessary, we will take steps to protect our intellectual property interests under the laws of the PRC. There can be no assurance that we will be able to enforce our rights if they are improperly taken by our employees or adopted by our competitors outside of sanctioned use and royalty agreements with the Company.

Certain of our service offerings will not be patentable or otherwise be capable of being registered as intellectual property. Therefore, the Company will rely solely on such services being proprietary. As such the Company will have to rely on the services being more advanced or better than its competitors' offerings or rely on trade secret laws and protections. Such protections in the PRC are considered rather weak and are difficult if not impossible to enforce. Consequently, it may be possible for our competitors to obtain our information and to copy, adopt or adapt our methods, services and technical aspects to their own business with no assurance that we will be able to prevent them from using the intellectual property in competition with us.

The Company does not have any significant trademarks in use at this time. As our business develops, we will consider the advantage of developing specific trademarks for our products and services and have registration of those marks with the PRC government authorities for their protection.

Markets and Customers

The South-North Water Diversion Project is a multi-decade project undertaken by the Chinese government to better utilize water resources available to China. Part of this massive project was brought forward to provide additional water supply for the 2008 Olympics in Beijing. While the main task is to divert water from the Yangtze River to the Yellow River and Hai River, other spin-off plans are also included. Among these, a plan calling for the capture and diversion of water from Brahmaputra River, located in Yarlung Zangbo Grand Canal north of India, has been under study for years. This is because the heavily industrialized Northern China has a much lower rainfall and its rivers are running at reduced rates as demand increases for industrial water and general population usage. For example, the Yellow River and Hai River have experienced significant flow reduction and at times during certain years have been dry.

Currently, the Grand Canal is being upgraded, as the Eastern route for diverting water to the North. Water from the Yangtze River will be drawn into the canal in Jiangdu City, where a giant 400 m^3/s. pumping station was built in the 1980s, and will then be fed uphill by pumping stations along the Grand Canal and through a tunnel under the Yellow River, from where it can flow downhill to reservoirs near Tianjin. Construction on the eastern route officially began in December 2002 and completed in 2012 which results in the citizens of Tianjin City who enable to use the water derived from Yangtze River.

The central route for the water diversion project is from Danjiangkou Reservoir on the Han River, a tributary of the Yangtze River, to Beijing. This route is built on the North China Plain and, once the Yellow River has been crossed, water can flow all the way to Beijing by gravity. The main engineering challenge is to build a tunnel under the Yellow River. Construction on the central route began in 2004. In 2008 the 307 km-long northern stretch of the central route was completed at a cost of $2 billion. Water in that stretch of the canal does not yet come from the Han River, but from various reservoirs in Hebei Province south of Beijing. Farmers and industries in Hebei have had to cut back their water consumption to allow for water to be transferred to Beijing. The whole project was initially expected to be completed around 2010, however, this has recently been pushed back to 2014 to allow for more environmental protection elements to be built into the system. A major difficulty in completion of the central route has been the resettlement of approximately 250,000 persons around Danjiangkou Reservoir and along the route. Another consideration that has to be accommodated in the implementation of the central route is the effect of removing approximately one third of the water from Han River and the effect of that reduction on the environment and other users that currently depend on the Han River. One long-term plan to reduce the effect on the Han River basin is to build another canal to divert water from the Three Gorges Dam to Danjiangkou Reservoir.

The western route for the water diversion project is to divert water from the headwaters of the Yangtze River into the headwaters of the Yellow River. In order to move the water through the drainage divide between these rivers, huge dams and long tunnels are needed to be built to cross the Tibetan-Qinghai and Western Yunnan Plateaus. The feasibility of this route is still under study and this part of the project will not start anytime soon.

To date, the Company has participated in the water diversion project by being a supplier of flow control equipment for various parts of the water flow infrastructure, with contract value over $3.05 million for four phases of the project. And as part of providing that equipment, the Company has also provided design and related services. The contracts related to this project accounted for 9.5% of total revenues in 2012. In the newly released Twelfth Five Year Plan announced by Chinese government, the fixed asset investment in hydro and water diversion projects will be increased dramatically in the next 5 to 10 years. The expected investment is 4 trillion RMB in 10 years, with annual average investment of 400 billion RMB.

In addition to the water diversion project, the Company also supplies flow control equipment and related equipment to the power generation industry (thermal power plants, hydroelectric, wind and nuclear power plants). Customers in these market segments are well-established, larger state and private corporations. Combined, these markets represent approximately 60 % of the revenues of the Company for 2012.

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In connection with its work on the water diversion project and some of the power plant projects, the Company has a preferred provider agreement with Nengfa Weiye Tieling Valve Joint Stock Co., Ltd. (“Tieling Valve”) under which Nengfa Energy is the preferred provider of the valves and other related flow control equipment that Tieling Valve requires in its own work on the water diversion project. The agreement is in the manner of a right of first refusal whereby Tieling Valve is obliged to offer supply opportunities to Nengfa Energy within its scope of product offerings and expertise, but Tieling Valve is not prohibited from developing other supply arrangements. Tieling Valve and Nengfa Energy have agreed to cooperate to develop and market their respective technologies, equipment, products and services for their respective and mutual benefit, and will work together to examine and expand their respective businesses. Under the agreement, each party retains full right to their respective intellectual property. The agreement terminates in 2016, but by its terms will automatically extend for additional one year terms unless notice of termination is given by one party to the other at least six months prior to the then termination date.

The Company will focus its marketing to the wind power generation and the boiler/furnace industry through participation in and addressing government organizations and industry associations related to energy conservation and emission reduction. Marketing will also focus on equipment suppliers and end-users such as the larger and medium sized high energy consumption enterprises that provide or use the kinds of products and services that the Company currently offers or plans to offer. The focus will not only be to sell the products and services, but also to learn of the customers needs so that the Company can develop and adapt its products and services to the needs of its customer base. Another important aspect of the marketing strategy will be to participate directly in the consulting and reconstruction services of energy conservation projects organized by government agencies. Nevertheless, the Company plans to continue to participate in the bidding process for government projects, in an effort to enhance its market position.

The Company’s marketing and sales strategy also relies on the use of exclusive agents throughout China who act as marketing agents and after sale service providers. The Company currently has 23 exclusive distributing agents national wide. At certain times each year, the Company provides and organizes training sessions for these agents and their personnel. These sessions provide the Company with a valuable opportunity to gather feedback and to foster an exchange of technical ideas. These agents have agreements with the Company to sell NF flow control equipment and systems, and they are managed by the Sales Company. The Company evaluates the productivity of these exclusive agents annually, based on how well they achieve the annual sales target established by the Company. The Company typically will terminate its agreement with those agents that miss the sales targets for two consecutive years without good reasons.

Raw Materials

The major raw materials for our production are pig iron, steel, copper, and plastic. We source our materials locally in China. Nengfa Energy is located in Liaoning Province which is China’s largest production base for iron and steel. We have stable long term supply arrangements for our principal raw material suppliers based on long standing business relationships. Since we are located close to the supplies of many of our essential raw materials, we enjoy price and transportation cost advantages over our competitors and competing users. Through our advanced technology and our management of raw materials, we are able to manage and improve our consumption rates of the raw materials we use in production, which results in lower operating expense and extension of our inventories.

Regulatory Compliance

The products that represent a majority of our sales are subject to regulatory standards and enforcement codes which typically require that these products meet stringent performance criteria. Standards are established by industry testing and certification organizations such as the Ministry of Industry and Information Technology of China, the American Society of Mechanical Engineers (A.S.M.E.), the Canadian Standards Association (C.S.A.), the Japanese Standards Association (J.S.A.), the International Association of Plumbing and Mechanical Officials (I.A.P.M.O.), Factory Mutual (F.M.), and Underwriters Laboratory (U.L.). These standards are incorporated into state and municipal plumbing and heating, building and fire protection codes in China.

We maintain stringent quality control and testing procedures at each of our manufacturing facilities in order to manufacture products in compliance with code requirements. Our production management is certified to conform to the ISO 9001 standards by the Det Norske Veritas Management System.

Competition

We think that the valve products of the Company place it in a leading position in the super-saving flow control in China. The Company has an extensive competitive advantage compared to Chinese domestic manufactures in this field. Other manufactures that are focusing on the development of different products may enter into this field. Our potential competitor in this field is China Valve Technology in this field.

In the other areas of the Company’s business, there are many different competitors with differing focuses and strengths. To some extent, boilers and furnaces are specialized to particular industries and output requirements. This specialization engenders specialization in the design, manufacture and installation of new equipment and retrofit solutions. Therefore, there are many engineering and manufacturing companies that focus on certain types of boilers and furnaces resulting in a relatively fragmented market for these services. The same is true for the retrofit and reconstruction of other industrial systems for improved energy efficiency, as well as for the localized projects for energy conservation and biomass utilization, and similar projects. Therefore, the competition that the Company faces tends to be localized companies with no dominant players at this time.

The utilization of Biomass energy is matured in China. Although the technology is widely used in China, it is still at a stage of individual household build gas digesters, rather with a large scale piped gas supply system. The county-city level gas supply project the Company concentrates on will generate a local area monopoly business operation. There is no direct competition in short term.

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We plan to compete based on our ability to address a wide spectrum of solutions in our various market areas. We believe our competitive advantages result from our patented technologies, our strategic relationships with engineering companies, our marketing and our business relationships. We plan to continue to expand these aspects of our business to further grow our core businesses and provide solutions for the energy savings and green energy projects. We intend to participate actively in the government sponsored projects and government contracting.

Research and Development

The research and development expenses are to develop new products or new production technologies. The research and development expenses include the materials and labor costs, application fees for patents and significant improvements to existing products. In 2012, we completed five patents as well as a series of improvements to existing products. The accumulated increase in R&D expenses was $50,236 over the past two years.

Employees

As of December 31, 2012, there were 221 employees including 30 technical staff working in our subsidiaries located in China. We believe we have a good relationship with our employees.

Others

Our internet website address is http://www.nfenergy.com .. Through our website, we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, proxy statement and registration statements, and all of our insider Section 16 reports, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission, or SEC. These SEC reports can be accessed through the “Investors” section of our website.

ITEM 1A. RISK FACTORS

Investors should carefully consider the following risk factors, in addition to other information included in this annual report, in evaluating NF Energy Saving Corporation and our business. If any of the following risks occur, our business, financial condition and operating results could be materially adversely affected.

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Risks Related to Our Business

We have a relatively short operating history and are subject to the risks of any growing enterprise, any one of which could limit our growth and our product and market development.

Our operating history makes it difficult to predict how our businesses will develop and where the Company will find success. This is especially true in respect of our expansion into areas other than flow valve technology and their design, sales and installation. Accordingly, we face all of the risks and uncertainties encountered by companies in earlier stages of development and initial expansion, such as: (i) uncertain and continued market acceptance for our product extensions and our services; (ii) the evolving nature of the wind energy equipment industry in the PRC, where significant consolidation may occur, leading to the formation of companies which may be better able to compete with us than is currently the case; (iii) the fragmented nature of the boiler and furnace business which may limit our ability to penetrate the market and provide comprehensive solutions on a sufficiently wide basis to make the business profitable; (iv) changing competitive conditions, technological advances or customer preferences could adversely effect the sales of our products or services; (v) maintaining our competitive position in the PRC and competing with Chinese and international companies, many of which have longer operating histories and greater financial resources than us; (vi) continuing to offer commercially successful products to attract and retain a larger base of direct customers and ultimate users; (vii) maintaining effective control of our costs and expenses; and (viii) retaining our management and skilled technical staff and recruiting additional key employees.

If we are not able to meet the challenges of building our businesses and managing our growth, the likely result will be slower growth, lower margins, additional operational costs and lower income.

We may be unable to generate sufficient cash flow from operations or obtain financing in the future to support our operations and expansion.

Having access to sufficient operating funds and capital funds for expansion will affect our ability to execute our business plan. We finance our business mainly through internally generated funds and, from time to time, selling equity securities to raise additional capital. There is no guarantee that we will always have internal funds available for our future development or that we will be able to raise capital from investor financing and loans granted by investors and financial institutions in the future. In addition, there may be delays in the process of selling our securities, which may require us to cut back on our operations or expansion activities. Our access to debt or equity financing depends on the investors’ and banks’ willingness to lend to and invest in us, our financial condition and on general conditions in the capital markets. We may not be able to secure additional sources of financing on commercially acceptable terms, if at all. Any shortfall in our cash flow and capital needs may result in our having to curtail our business plans or have an adverse effect on our financial condition.

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We believe that we need to raise additional capital for the expansionary elements of our business plan, which financing may not be available or available on terms favorable to us.

During the next phase of our business development, as we complete Phase II of our new manufacturing facility and continue our planned expansion into the wind energy equipment segment and other aspects of the energy savings industry, including steam energy, we believe that we will need to raise additional capital from outside sources during the next year or two. We cannot be certain that we will be able to obtain additional financing on favorable terms, if at all. One possible impediment to raising capital is the tightening credit policies of the Chinese banks and the continued effects of tightening in the global credit markets as a result of the recent economic financial crisis. If we cannot raise additional capital on acceptable terms, we may not be able to develop or enhance our products or services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. We cannot be sure that we will be able to secure all the financing we will require, or that it will be available on favorable terms. If we are unable to obtain any necessary additional financing, we will be required to substantially curtail our approach to implementing our business objectives. Additional financing may be debt, equity or a combination of debt and equity. If equity is used, it could result in significant dilution to our shareholders.

Efforts to protect our intellectual property rights and to defend against claims against us can increase our costs and will not always succeed. Any failures could adversely affect our sales and results of operations or restrict our ability to conduct our business.

Intellectual property rights are important to many aspects of our business. We actively pursue patent protection in our flow valve business, and we expect to pursue intellectual property rights in our other business endeavors as we develop unique solutions to business demands. We, however, may be unable to obtain protection for our intellectual property. Even if protection is obtained, competitors may raise legal challenges to our rights or illegally infringe on our rights, including through means that may be difficult to prevent, detect or defend. In addition, because of the rapid pace of technological change and the confidentiality of patent applications in some jurisdictions, competitors may be issued patents from applications that were unknown to us prior to issuance. The patents of others could reduce the value of our commercial or pipeline of products or, to the extent they cover key technologies on which we have unknowingly relied, require that we seek to obtain licenses at a financial cost to us or cease using the technology, no matter how valuable the patents may be to our business. We cannot assure you we would be able to obtain such licenses on acceptable terms. Also, litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of our and the proprietary rights of others. There is a risk that the outcome of such litigation will not be in our favor. Such litigation may be costly and may divert management attention as well as expend other resources which could otherwise have been devoted to our business. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover such costs from other parties. The occurrence of any of the foregoing may harm our business, results of operations and financial condition.

Finally, implementation of PRC intellectual property-related laws has historically been limited, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries, which increases the risk that we may not be able to adequately protect our intellectual property.

For aspects of our business we rely on strategic relationships, and there is no assurance that we will be able to renew these arrangements.

We have several strategic relationships which provide us with access to technology and provide us with a competitive advantage. These include the relationships with Shanghai Electric Co., LTD., Sichuan Eastern Electric Co., LTD, Harbin Electric Co., LTD, China Datang Corporation, China Huadian Group, China Huaneng Group and China Guodian Group. There is no guarantee that any of these agreements and arrangements will provide the benefits that we hope will result or that the relationships will be renewed on substantially similar terms or at all. Moreover, there is no assurance that any steps we have already taken or might take in the future will ensure the successful renewal of any or all our rights or the granting of further new rights or that the terms of any renewals would not be significantly less favorable to us than the terms of our current agreements. The loss of such arrangements or diminution of the rights may have an adverse impact on our business development, including product offerings, research and development and competitive position.

We derive a substantial part of our revenues from several major customers, therefore if we lose any of these customers or they reduce the amount of business they do with us in the future, our revenues may be affected

Our largest customer, Nengfa Weiye Tieling Valve Joint Stock Co. Ltd, accounted for 27% of our revenues for the years ended December 31, 2012 Our second largest customer, Zhongye Valve Group Co. Ltd accounted for 18% of our revenue in the year ended December 31, 2012.As of December 31, 2012, these two customers accounted for 45% in our total revenue. These customers may not maintain the same volume of business with us in the future. If we lose any of these customers or they reduce the amount of business they do with us, our revenues may be materially and adversely affected. Although we have a strategic partnership with our second largest customer and a preferred provider agreement with our largest customer, there can be no assurance that these customers will continue to provide the current level of demand or will not seek to modify or terminate their respective agreements.

Our technology may not satisfy the changing needs of our customers.

With any technology, including the technology of our current and proposed products, there are risks that the technology may not successfully address our customers' needs. Certain of our product offerings in relation to the wind energy equipment will be new for the Company. While we have already established successful relationships with our customers, their needs may change or vary. This may affect the ability of our present or proposed products to address all of our customers' ultimate technology needs in an economically feasible manner.

We may not be able to keep pace with rapid technological changes and competition in our industry.

While we believe that we have hired or engaged personnel and outside consultants who have the experience and ability necessary to keep pace with advances in technology, and while we continue to seek out and develop "next generation" technology through our research and development efforts, there is no guarantee that we will be able to keep pace with technological developments and market demands in this evolving industry and market. In addition, our industry is competitive in various aspects. Although we believe that we have developed strategic relationships to best penetrate the China market, we face competition from other manufacturers of products similar to our products and services. Some of these companies have significant advantages over us with respect to their products, marketing and services, and their financial resources and customer relationships.

We may experience high accounts receivable balances from time to time, which may have an adverse effect on our operating profitability and cash flow and financing needs.

Although we generally have a 90 to 180 day accounts receivable period, if our customers extend the period in which they pay, we will experience a reduced cash flow, which could have an adverse effect on our ability to fund our operations and growth. One result may be that we will have to obtain outside financing and our operating expense will increase. Extension of the accounts receivable period may also result in reduced collections, which will adversely affect our operations and profitability.

To the extent that we depend on government projects, our business is dependent on government policy and, to some extent, government funding and government contracts.

Although we do not characterize our business as a government contractor, some aspects of our business are indirectly dependent on government policy, government funding, and government contracts. For example, the South to North Water Diversion Project is largely a government funded project, and our customers are contractors with the government. Similarly, our energy-saving projects and adjustments of our products and services are dependent on the policies issued by the government. As a consequence, it is possible that our requirements based on the products and services to be provided will be diminished resulting in a decrease in our revenue. It is possible that our wind energy equipment business will also be highly dependent on government funding, if not government contracts. Much of the pollution control and green industries are dependent on government policy to implement societal improvements. Our business has a number of aspects that are dependent on the government and our products, services and revenues are dependent on policies that can change if the government officials determine to redirect attention and investment to other aspects of society and industrial development.

Additionally, as a number of our customers are dependent on the government for their revenues through the provision of products and services on government contracts or government funded projects, there may be delays in our receiving payment for our products and services.

Fluctuation in the availability and cost of our raw materials may have an adverse effect on our operations and results of operations.

A portion of the inventory of raw materials and parts may be affected by fluctuations in the availability of the items and the price. Such things may include steel, electronic components, power systems, paints and welding rods. We do not generally have long term supply contracts with our suppliers, but rely on long standing relationships. To the extent that we are not able to obtain the required materials and parts necessary to enable us to fabricate our products, or we are required to pay more for such items, then there could be an adverse effect on our operations and our results of operations.

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We may be unable to effectively manage our growth.

As we expand our business into several different areas of energy savings and green industry, we will need to manage our growth effectively, which may entail devising and effectively implementing business plans, training and managing our growing workforce, managing our costs, and implementing adequate control in our reporting systems in a timely manner. We may not be able to successfully manage our growth. Our failure to do so could affect our success in executing our business plan and adversely affect our revenues, profitability and results of operations.

If we fail to successfully manage our planned expansion of operations, our growth prospects will be diminished and our operating expenses could exceed budgeted amounts.

Our ability to offer our products and services in an evolving market and in different markets requires effective planning and management process. This rapid growth places significant demand on our managerial and operational resources and our internal training capabilities. In addition, we plan to increase our total work force. This growth will place a substantial burden on our management team. To manage growth effectively, we must implement and improve our operational, financial and other systems, procedures and controls on a timely basis and expand, train and manage our workforce, particularly our sales and marketing and support organizations. We cannot be certain that our systems, procedures and controls will be adequate to support our current or future operations or that our management will be able to handle such expansion and still achieve the execution necessary to meet our growth expectations. Failure to manage our growth effectively could diminish our growth prospects and could result in lost opportunities as well as operating expenses exceeding the amount budgeted.

If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately or to prevent fraud. Any inability to report and file our financial results accurately and timely could harm our business and adversely impact the trading price of our common stock.

We are required to establish and maintain internal controls over financial reporting, disclosure controls, and to comply with other requirements of the Sarbanes-Oxley Act and the rules promulgated by the SEC thereunder. Our management, including our Chief Executive Officer and Chief Financial Officer, cannot guarantee that our internal controls and disclosure controls will prevent all possible errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or the degree of compliance with policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Our operations are vulnerable to natural disasters or other events.

Our operating income may be reduced by natural disasters, in locations where we own and/or operate significant manufacturing facilities or are working on significant projects. Some types of losses, such as from earthquake, severe winter storms and environmental hazards, may be either uninsurable or too expensive to justify insuring against. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in any particular property, as well as any anticipated future revenue from such property.

Our products may contain defects, which could adversely affect our reputation and cause us to incur significant costs.

Despite numerous testing and quality controls, defects may be found in existing or new products. Any such defects could cause us to incur significant return and exchange costs, re-engineering costs, divert the attention of our engineering personnel from product development efforts, and cause significant customer relations and business reputation problems. Any such defects could force us to undertake a product recall program, which could cause us to incur significant expenses and could harm our reputation and that of our products. If we deliver products with defects, our credibility and the market acceptance and sales of our products could be harmed.

Our business could be subject to environmental liabilities.

We use certain hazardous substances in our operations. Currently we do not anticipate any material adverse effect on our business, revenues or results of operations, as a result of compliance with Chinese environmental laws and regulations. However, the risk of environmental liability and charges associated with maintaining compliance with environmental laws is inherent in the nature of our business, and there is no assurance that material environmental liabilities and compliance charges will not arise in the future.

We have limited business insurance coverage in China

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

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Because our funds are held in banks in the PRC that do not provide insurance, the failure of any bank in which we deposit our funds could affect our ability to continue in business.

Banks and other financial institutions in the PRC do not provide insurance for funds held on deposit. A portion of our assets are in the form of cash deposited with banks in the PRC, and in the event of a bank failure, we may not have access to our funds on deposit. Depending upon the amount of money we maintain in a bank that fails, our inability to have access to our cash could impair our operations, and, if we are not able to access funds to pay our suppliers, employees and other creditors, we may be unable to continue in business.

We substantially depend on a few key personnel who, if not retained, could cause declines in productivity and operational results and loss of our strategic guidance, all of which would diminish our business prospects and value to investors.

Our success depends to a large extent upon the continued service of a few executive officers and key employees, including, Mr. Gang Li, our Chairman, Chief Executive Officer and President. The loss of the services of one or more of our key employees would have an adverse effect on us and our PRC operating subsidiaries, as these individuals play a significant role in developing and executing our overall business plan and maintaining customer relationships and proprietary technology systems. While none of our key personnel is irreplaceable, the loss of the services of any of these individuals would be disruptive to our business. We believe that our overall future success depends in large part upon our ability to attract and retain highly skilled managerial and marketing personnel. There is no assurance that we will be successful in attracting and retaining such personnel on terms acceptable to the Company or the employee. Inadequate personnel will limit our growth, and will be seen as a detriment to our prospects, leading potentially to a loss in value for investors.

We are controlled by a small group of our existing stockholders, whose interests may differ from other stockholders.

Our Chairman, Chief Executive Officer and President, Mr. Gang Li, beneficially owns approximately 38.15% of the outstanding shares of our common stock and is our largest single stockholder. Together with, Ms Lihua Wang, who is our Chief Financial Officer, they own 47.69% of the outstanding shares of our common stock. Accordingly these stockholders acting together will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations, the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They will also have significant influence in preventing or causing a change in control. In addition, without the consent of these stockholders, we may be prevented from entering into certain transactions which may be beneficial to our other stockholders. The interests of these stockholders may differ from the interests of the other stockholders.

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

Delaware law and our Bylaws provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against costs and expenses incurred by them in any litigation to which they become a party arising from their association with or activities on our behalf. Consequently, we may be required to expend substantial funds to satisfy these indemnity obligations. Any payment in respect of these indemnification rights could have an adverse effect on our cash flow and our results of operations.

If we fail to implement effective internal controls required by the Sarbanes-Oxley Act of 2002, or remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

Section 404 of the Sarbanes-Oxley Act of 2002 requires management of public companies to develop and implement internal controls over financial reporting and evaluate the effectiveness thereof. A material weakness is a deficiency or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual interim financial statement will not be prevented or detected on a timely basis. Due to the Company's limited resources, the Company does not have accounting personnel with extensive experience in maintaining books and records and preparing financial statements in accordance with US GAAP which could lead to untimely identification and resolution of accounting matters inherent in the Company's financial transactions in accordance with US GAAP.

Any failure to complete our assessment of our internal controls over financial reporting, to remediate any material weaknesses that we may identify, including the one identified above, or to implement new or improved controls, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Inadequate disclosure controls and procedures and internal controls over financial reporting could also cause investors to lose confidence in our public disclosures and reported financial information, which could have a negative effect on the trading price of our common stock.

The inability to inspect may prevent the PCAOB from regularly evaluating our auditor's audits and its quality control procedures since our auditors come from Hong Kong rather than United States.

Public company auditors are required by law to undergo regular Public Company Accounting Oversight Board, or PCAOB, inspections to assess their compliance with U.S. law and professional standards in connection with their audits of public company financial statements filed with the SEC. Due to the position taken by the authorities in China, the PCAOB was prevented from conducting inspections of certain registered firms in Hong Kong to the extent that their audit clients had operations in China.

The inability of the PCAOB to conduct inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of the PRC that are subject to PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

The Company's auditor HKCMCPA Company Limited, Certified Public Accountants is currently subject to PCAOB inspection. The auditor was inspected in 2008 and the corresponding inspection report was issued under the name of Zhong Yi (Hong Kong) Company Limited. The most recent inspection report for the year of 2010 has not been issued yet.

Because our auditor is located in Hong Kong and we have operations in China, in the event that PCAOB becomes unable to inspect the audit work and practices of our auditor, our investors in U.S. markets who rely on audit reports from our auditor will be unable to factor the publicly reported findings of regular recurring PCAOB inspections of audit firms and their quality control practices into their decision making processes.

Risks Related to Our Company's Common Stock

Future sales of our common stock could adversely affect our stock price.

We have a substantial amount of outstanding shares held by persons that are able to sell or will be able to sell in the near future under Rule 144.The holders of these shares subject to Rule 144 include our significant shareholders and a number of investors. If our shareholders sell substantial amounts of our common stock in the public market, the market price of our common stock could be adversely affected. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional equity or equity based securities.

Trading volume of our common stock has fluctuated from time to time, which may make it difficult for investors to sell their shares at times and prices that investors feel are appropriate.

To date, the trading volume of our common stock has fluctuated. Generally, lower trading volumes adversely effects the liquidity of our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us. This may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for our common stock.

The Nasdaq Capital Market imposes listing standards on our common stock that we may not be able to fulfill, thereby leading to a possible delisting of our common stock.

As a listed Nasdaq Capital Market company, we are subject to rules covering, among other things, certain major corporate transactions, the composition of our Board of Directors and committees thereof, minimum bid price of our common stock and minimum stockholders equity. We currently are not in compliance with Nasdaq's minimum bid price requirement. The failure regain compliance with Nasdaq's minimum bid price requirement or meet the other Nasdaq Capital Market requirements may result in the de-listing of our common stock from the Nasdaq Capital Market, which could adversely affect the liquidity and market price thereof.

We believe that period-to-period comparisons of our financial results will not necessarily be indicative of our future performance.

The price for our common stock may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media reports by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions. The volatile price of our stock makes it difficult for investors to predict the value of our investment, to sell shares at a profit at any given time, or to plan purchases and sales in advance.

In addition, the stock market in general has experienced extreme price and volume fluctuations that may have been unrelated and disproportionate to the operating performance of individual companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance.

Because we have not paid dividends, investors will not realize any income from an investment in our common stock unless and until investors sell their shares at profit.

We have not paid dividends on our common stock in 2011 or 2012, and we do not anticipate paying any dividends in the near future. Investors will only realize income on an investment in our stock in the event they sell or otherwise dispose of their shares at a price higher than the price they paid for their shares. Such a gain would result only from an increase in the market price of our common stock, which is uncertain and unpredictable.

The payment of any future dividends will be at the discretion of the Board of Directors and will depend upon a number of factors, including future earnings, the success of our business activities, general financial condition, future prospects, general business conditions and such other factors as our Board of Directors may deem relevant.

Risk Related to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

All of our business operations are currently conducted in the PRC, under the jurisdiction of the PRC government. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

Unprecedented rapid economic growth in China may increase our costs of doing business, and may negatively impact our profit margins and/or profitability.

Our business depends in part upon the availability of relatively low-cost labor and materials. Rising wages in China may increase our overall costs of production. In addition, rising raw material costs, due to strong demand and greater scarcity, may increase our overall costs of production. If we are not able to pass these costs on to our customers in the form of higher prices, our profit margins and/or profitability could decline

We may suffer currency exchange losses if the RMB depreciates relative to the US Dollar.

Our reporting currency is the US Dollar. However, substantially all of our revenues are denominated in RMB. In July 2005, China changed its exchange rate regime by establishing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The RMB is no longer officially pegged to the US dollar, and the exchange rate will have some flexibility, although recently it has been fairly stable. Despite the stability, there is increasing pressure to dissociate the RMB from the US Dollar and let it float more in line with the state of the Chinese economy and other important trading currencies. Hence, considering the floating exchange rate regime, if the RMB depreciates relative to the US Dollar, our revenues as expressed in our US Dollar financial statements will decline in value and if the RMB appreciates relative to the US Dollar, our revenues as expressed in our US Dollar financial statements will increase in value. There are very limited hedging transactions available in China to reduce our exposure to exchange rate fluctuations. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into US Dollars.

Labor laws in the PRC may adversely affect our results of operations.

On January 1, 2008, the PRC government promulgated the Labor Contract Law of the PRC, or the New Labor Contract Law. The New Labor Contract Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the New Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost effective manner, thus materially and adversely affecting our financial condition and results of operations.

Changes in PRC Corporate Income Tax Law may affect our effective tax.

In March 2007, the Chinese government enacted the Corporate Income Tax Law, and promulgated related regulations, which were effective January 1, 2008. The Corporate Income Tax Law, among other things, imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises. The income tax rate was decreased by 12.5% from 2009-2011. At present, the income tax rate of 25% is in effect for all subsidiaries of NF Energy.

Governmental control of currency conversion may affect the value of your investment

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive all our revenues in RMB. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where RMB is to be converted into foreign currency and can be remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

The PRC legal system embodies uncertainties which could limit the legal protections available to us and you, or could lead to penalties on us.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past 25 years has significantly enhanced the protections afforded to various forms of foreign investment in mainland China. Our PRC operating subsidiary, Nengfa Energy, a wholly foreign-owned enterprises ("WFOEs"), is subject to laws and regulations applicable to foreign investment in the PRC in general and laws and regulations applicable to WFOEs in particular.

It may be difficult to enforce any civil judgments against us or our board of directors or officers, because most of our operating and/or fixed assets are located outside of the United States.

Although we are incorporated in the State of Delaware, all of our operating and fixed assets are located in the PRC. As a result, it may be difficult for investors to enforce judgments outside the United States obtained in actions brought against us in the United States, including actions predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. In addition, certain of our directors and officers (principally based in the PRC) and all or a substantial portion of their assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those directors and officers, or to enforce against them or us judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. We have been advised by our PRC counsel that, in their opinion, there is doubt as to the enforceability in the PRC, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States or the securities laws of any state of the United States.

Because our assets are located overseas, shareholders may not receive distributions that they would otherwise be entitled to if we were declared bankrupt or insolvent.

Because all of our assets are located in the PRC, they may be outside of the jurisdiction of U.S. courts to administer if we are the subject of an insolvency or bankruptcy proceeding. As a result, if we declared bankruptcy or insolvency, our shareholders may not receive the distributions on liquidation that they would otherwise be entitled to if our assets were to be located within the U.S., under U.S. Bankruptcy law.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The new manufacturing facility located in the new industrial park, Yinzhou District, Tieling City, Liaoning Province was structurally completed in 2012. The Our main manufacturing operations was relocated from 118 Guang Yu St., Yinzhou District, Tieling City, Liaoning Province, People’s Republic of China to the new facility in August 2012. The new manufacturing facility covers an area of 81,561 sq.m acres. The plant covers an area of 23,514 sq.m. Total estimated construction cost of a new manufacturing facility will be approximately $24 million. Once fully operational, we anticipate that this facility will significantly increase Nengfa's total manufacturing capacity to 20,000 tons of flow control equipment and new energy equipment, which is approximately triple the current capacity.

ITEM 3. LEGAL PROCEEDINGS

Robert E. Dawley v. NF Energy Corp. of America, M.D. Fla. Case no. 6:10-cv-0115-Orl-22DAB. Robert Dawley ("Dawley") commenced this action in the United States District Court for the Middle District of Florida against the Company, Mr. Gang Li and the Company's litigation counsel on October 1, 2010. The allegations in this action are identical to those that Dawley raised in a prior proceeding in which the United States Court of Appeals for the Eleventh Circuit entered judgment against him and in favor of the Company.

The District Court, upon motion by the defendants, has dismissed six of Dawley's ten claims with prejudice on the grounds that they are precluded by the Eleventh Circuit's prior judgment. Dawley has attempted to appeal the District Court's dismissal to the Eleventh Circuit. (Dawley v NF Energy Saving Corp. of America, U.S.C.A. 11th Cir. Appeal no. 11-10201-F.) However, that Court has questioned whether it has jurisdiction over the matter in light of the continued pendency of four of Dawley's claims before the District Court.

Dawley has filed an Amended Complaint in the District Court in an effort to address the deficiencies noted by it with respect to his four remaining claims. Defendants have moved to dismiss the Amended Complaint on the grounds that it still fails to allege facts sufficient to state a claim. Whether or not the District Court agrees, the Company intends to contest Dawley's claims on several grounds, including that he has failed to identify any basis for liability or damages.

In October 19, 2012, The Eleventh Circuit Court of Appeals affirmed the District Court's dismissal of Dawley's claims.

As of March 18, 2013, there is no any update regarding this case and the Company does not believe that the judgment would have a material impact on, or result in significant contingencies to, the Company.

ITEM 4. MINE SAFTEY DISCLOSURE

Not applicable.

PART II

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

Market Information

Our common stock, $0.001 par value, began trading on the OTC Bulletin Board (“OTCBB”) on December 4, 2004 under the symbol “DGNA.OB”. The symbol after the Company’s name change to NF Energy Saving Corporation of America was “NFES.OB”. On August 26, 2009, the Company further changed its name to NF Energy Saving Corporation, and the symbol was changed to “NFEC.OB”. On October 4, 2010, the Company commenced trading on the Nasdaq Global Market, under the symbol “NFEC”. On March 7, 2012, the trading for the common stock was changed to the Nasdaq Capital Market. The following table sets forth the high and low bid prices for our common stock for the years ended December 31, 2012 and 2011 and for the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. On March 7, 2013, the closing price was $0.9 per share.

	Common Stock (Adjusted Stock Price)	
	High	Low
Fiscal year ends at December 31, 2012		
First quarter	$ 1.25	$ 0.485
Second quarter	$ 2.35	$ 0.84
Third quarter	$ 1.19	$ 0.64
Forth quarter	$ 1.27	$ 0.54
Fiscal year ends at December 31, 2011		
First quarter	$ 5.05	$ 3.07
Second quarter	$ 3.38	$ 1.66
Third quarter	$ 2.38	$ 0.76
Forth quarter	$ 0.92	$ 0.46

Record Holders

As of December 31, 2012, we had 1,343 common shareholders of record.

Dividends

Since inception of NFEC, we have not paid cash dividends on our common stock. It is our present policy not to pay cash dividends and to retain future earnings to support our growth. Any payments of cash dividends in the future will be dependent upon, among other things, the amount of funds available therefore, our earnings, financial condition, capital requirements, and other factors which the Board of Directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

As of the date of this Form 10-K, we have not authorized any equity compensation plan, nor has our Board of Directors authorized the reservation or issuance of any securities under any equity compensation plan.

Transfer Agent

Our transfer agent is Corporate Stock Transfer, Inc, located at 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado, 80209.

ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

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

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this Report on Form 10-K. The discussion in this section of this Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, those discussed in "Risk Factors" and those discussed elsewhere in this Report on Form 10-K.

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" 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. The Company undertakes 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, 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 the prescribed condition; 2) our ability to compete effectively with other companies in the same industry; 3) our ability to raise sufficient capital in order to effectuate our business plan; and 4) our ability to retain our key executives.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue, receivable, inventory, and accrued expenses. We base our estimates on historical experience, known trends and events and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Changes in estimates are recorded in the period in which they become known.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

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 the production in accordance with the customer’s specification, the customer is required to inspect the finished products for quality and suitability, to its full satisfaction, then the company makes delivery to the customer

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 at the rate of 17% on the invoiced value of sales. As of December 31, 2012 and 2011, there were no refunds regarding our products.

(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 which is generally from two to three months.

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

(c) 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 and allowance for doubtful accounts

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 those 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 to 24 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).

In general, accounts receivable 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 of the risk of default, and as a result, we actively monitor accounts receivable with aging above 1 year and those accounting for at least 1% of the total accounts receivable.

For most of our contracts, our customers are generally large or state-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 sizes and complexity and require a high of quality 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, and we take appropriate actions to exhaust all means of collection, including seeking legal resolution in a court of law. For customers with a large accounts receivable balance, 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.

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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.

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 reviews historical sales activity quarterly 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.

Property, 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 the asset becomes fully operational and after taking into account its estimated residual values:

	Expected useful life	Residual value	
Building	30 years	5	%
Plant and machinery	10-20 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.

Land use right

All land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may sell the right to use the land for a specified period of time. Thus, the Company's land purchase in the PRC is considered to be leasehold land and is stated at cost less accumulated amortization and any recognized impairment loss. Amortization is provided over the term of the land use right agreement on a straight-line basis, which is 50 years and will expire in 2059.

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.

Income taxes

Income taxes are 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.

As at December 31, 2012 and 2011, the Company had no benefit or penalties regarding its income taxes. As of December 31, 2012, there are also no any significant uncertain tax items.

The main operations of the company are located in the PRC and have jurisdiction under the local tax law. As a result of these operations, the company’s tax returns are subject to examination by a foreign tax authority. As of December 31, 2012, the company filed and cleared the tax returns of 2012 with the appropriate local PRC 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 statement of operations. The reporting currency of the Company is the United States Dollar ("US$"). The Company's subsidiaries in the PRC 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 year:

	2012	2011
Year-end RMB:US$1 exchange rate	6.3161	6.3523
Annual average RMB:US$1 exchange rate	6.3198	6.4544

RESULTS OF OPERATIONS

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

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 $9,269,016 and $14,929,430 for the years ended December 31, 2012 and 2011, respectively. Total revenues decreased $5,660,414, a 38% decrease, for the year ended December 31, 2012 compared to total revenues for the year ended December 31, 2011. Decrease in total revenue was due to the decrease in product revenue, service revenue and project revenue.

Product Revenues

Product revenues are derived principally from the sale of self-manufactured products and energy saving flow control equipment. Product revenues were $6,866,959 and $10,897,946, or 74% and 73% of total revenues for the years ended December 31, 2012 and 2011, respectively. Product revenues for the year ended December 31, 2012 decreased $4,030,987 or 37%, compared to the product revenue for the year ended December 31, 2011. The decrease in product revenue was primarily due to disruptions in our operations caused by the relocation of our manufacturing operations commencing in October 2011 and not completed until August, 2012, which was postponed by 60 days due to winter weather. In 2011, production was carried on in both the old and new facilities. About 60% of the processing including casting, forging, structure making, primary machining, was done in the old plant and 40% of the production including refined machining, assembling and testing, was done in the new plant. However, the production line in the old plant was closed due to relocation between January and August, 2012. As a result, the Company had only 40% of the production done at the new facility through the on going relocation in this period, having to consign the other 60% of the processing load previously done at the old plant by outsourcing contracts with other companies in nearby cities of Shenyang and Fushun.

With the relocation ended in August, 2012, the Company has brought the whole production line back for regular operation. According to the contracts received and under negotiation as well as progress in production financing, the Company's manufacturing capacity and sales levels should reach the normal level before relocation.

Service Revenues

Service revenues are derived principally from energy-saving technical services and product collaboration processing services. The energy-saving technical services include providing energy saving auditing, conservation plans, and/or related service reports. The product re-processing services are generally billed on a time-cost plus basis. Service revenues were $2,402,057 and $4,031,484 for the years ended December 31, 2012 and 2011 respectively, a decrease of $1,629,427 or 40%. The decrease in service revenue was primarily due to relocation to the new manufacturing facility and hence the delay in processing of the new product.

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 $7,423,946 and $10,757,351, or 80% and 72% of total revenues, for the years ended December 31, 2012 and 2011, respectively. The total cost of revenues decreased by $3,333,405 or 31% for the year ended December 31, 2012 compared to the total cost of revenues for the year ended December 31, 2011. The decrease in total cost of revenues was primarily due to the decrease in product revenue and service revenue by 38% during the year.

The overall gross profit for the Company was $1,845,070 and $4,172,079, or 20% and 28% of total revenues, for the years ended December 31, 2012 and 2011, respectively. The decrease in overall gross profit was due to the increase of cost of production because of the disruptions caused by the relocation to our new manufacturing facility.

Cost of Products

Total cost of product revenues was $5,819,446 and $8,151,829 for the years ended December 31, 2012 and 2011, respectively. The cost of product revenues decreased by $2,332,383 or 29% for the year ended December 31, 2012 compared to the cost of revenues for the year ended December 31, 2011. The gross profit for products was $1,047,513 and $2,746,117, and the gross profit margin was 15.25% and 25.20% for the years ended December 31, 2012 and 2011, respectively.

The decrease in product costs was due to the transfer of our production machines from our leased facility to our new manufacturing facility, which affected our production capacity when compared to with last year.

Cost of Service

Total cost of service revenues was $1,604,500 and $2,605,522 for the years ended December 31, 2012 and 2011, respectively. The cost of service revenues decreased by $1,001,022 or 38.42% for the year ended December 31, 2012 compared to the cost of revenues for the year ended December 31, 2011. The gross margin for services was $797,557and $1,425,962, or 33.20% and 35.37% for the years ended December 31, 2012 and 2011, respectively. The decrease in gross margin is due to the increase of labor costs as a result of the relocation to our new manufacturing facility.

Cost of Projects

There was no project revenue for the year ended December 31, 2012, therefore there was no cost of projects recognized during the year.

Operating Expenses

The total operating expenses were $1,278,735 and $1,454,151, or 13.80% and 9.74% of total revenues, for the year ended December 31, 2012 and 2011, respectively. The total operating expenses decreased by 175,416 or 12.06% for the year ended December 31, 2012 compared to the year ended December 31, 2011. The decrease of operating expenses is primarily due to the decrease in legal and professional fees and investor relations fees.

Sales and marketing expenses

The total sales and marketing expenses were $196,033 and $101,586, or 2.1% and 0.68% of total revenues, for the years ended December 31, 2012 and 2011, respectively. The increase in sales and marketing is due to the increase in exploring more business opportunities for the company.

General and administrative expenses

General and administrative expenses were $1,082,702 and $1,352,565, or 11.68% and 9.06% of total revenue, for the year ended December 31, 2012 and 2011, respectively. The general and administrative expenses decreased by $269,863 or 19,95%. The decrease in general and administrative expenses was primarily due to a decrease in legal and professional fees and investor relations fees.

Income from Operations

As a result of the foregoing, our income from operations was $2,717,928 or 18.21% of total revenues, for the year ended December 31, 2011, as compared to $566,335 or 6.11% of total revenues, for the year ended December 31, 2012, a decrease of $2,151,593 or 79.16%.

Other income (expenses)

For the year ended December 31, 2012, interest income was $33,002 as compared to $5,838 for the year ended December 31, 2011, an increase of $ 27,164 as compared to last year. In 2012, interest expense was $468,031, an increase of $92,258 as compared to $375,773 for the year ended December 31, 2011. The increase of interest was due to the increase of financings derived from the commercial banks in China.

Income Tax Expenses

For the years ended December 31, 2012 and 2011, income tax expenses were $43,272 and $301,533 respectively. The decrease of income tax expenses was due to the decrease in taxable income. The new income tax rate was 25% from 2012 onwards.

As of December 31, 2012, the Company’s operations in the United States of America incurred $2,662,958 of cumulative net operating losses, which can be carried forward to offset future taxable income. The net operating loss carry forwards begin to expire in 2032, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $905,046 on the expected future tax benefits from the net operating loss carried forwards as the management believes it is more likely than not that these assets will not be realized in the future.

Net Income

As a result of the foregoing, we recorded net income of $88,034, a 0.95% profit margin on revenue for the year ended December 31, 2012, as compared to net income of $2,046,460, a 13.71% profit margin on revenues, for the year ended December 31, 2011. The net income for the year ended December 31, 2012 decreased by $1,958,426, a decrease of 95.70%, compared to the year ended December 31, 2011. The decrease in net income was mainly due to the decrease in revenues.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended December 31, 2012, net cash provided by operating activities was $4,559,248. This was primarily attributable to our net income of $88,034, adjusted by non-cash items of depreciation and amortization of $842,050, reversal of allowance for doubtful account of $28,956, and non-cash interest expenses of $19,728. The increase in cash flow in 2012 were due primarily to the decrease in accounts receivable by $3,844,641, the increase in inventories by $620,685, decrease in prepayments and other receivables by $494,695, increase in accounts payable by $268,686, decrease in income tax payable by $131,671 and decrease in other payables and accrued liabilities by $275,186.

The decrease in accounts and retention receivable of $3,844,641 for the year ended December 31, 2012 are mainly due to the active monitoring of accounts receivable with aging above 1 year and those accounting for about 15% of the total accounts receivable. Thus there is no significant credit risk. The Company will consider an allowance for doubtful accounts for any estimated losses resulting from the inability of its customers to make required payments. The Company’s accounts receivable aging was as follows:

Items	Total	1-90 days	91-180 days	181-365 days	Above 365 days
Product	7,000,413	1,322,209	381,624	2,858,262	2,438,318
Service	577,162	183,363	63,977	279,810	50,012
Total	7,577,575	1,505,572	445,601	3,138,072	2,488,330
Less: allowance for doubtful accounts	36,774	-	-	-	36,774
Accounts receivable, net	7,540,801	1,505,572	445,601	3,138,072	2,451,556

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 take appropriate actions to exhaust all means of collection, including seeking legal resolution in a court of law, for our collection efforts. As of December, 31, 2012, with respect to two customers that have accounts receivable with aging above 365 days which are not only the long term customers and have the sound business relationship , but also were awarded “A Class” with business scale and reputation. The company will plan to assign special employee who will be stayed in two companies such to ensure the collection of accounts receivable. The accounts receivable with aging above 365 days could be collected at the end of May, 2013 and end of December, 2013, respectively by mean of enhancing service and supervising on the spot. The two customers’s accounts receivable aging and collecting time indicated below:

Customer	AR with aging above 365 days	Collected amount by June,2013	Collected amount by December,2013
Customer “A”	2,741,714	1,234,939	1,506,775
Customer “B”	1,016,704	1,016,704	-

We offer a free 12 to 24 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 from 12 to 24 months, until the product warranty has expired.

The reason for the increase in inventories of $620,685 is mainly due to inventory of 314,286 that was only distributed in January 2013. The prepayments and other receivables was increased by $494,695 which are mainly due to the increase in the prepayment derived from the construction in process. The $268,686 decrease in accounts payable was mainly due to the decrease in purchase of raw materials due to the decrease in revenue. The $275,186 decrease in financing lease payable was due to a payment for equipment leasing purchase. The decrease of $131,671 from income tax payable is due to the Company’s annual taxable income in 2012 less than the taxable income for year ended December 31, 2011.

Investing activities

For the year ended December 31, 2012, net cash used in investing activities was $3,250,440. The $3,186,836 of cash used in 2012 was primarily used in No.2 Plant of the construction as the remainder payment, and $63,604 was used for purchasing plant and equipment.

In 2008, the Company was approved by the local government to construct a new manufacturing facility for energy-saving products and equipment in Yinzhou District Industrial Park, Tieling City, Liaoning Province, the PRC. It covers an area of 81,561 sq.m acres. Phase I of the project was structurally completed and began its operations in December 2011. Phase II of the project was structurally completed in December 2012, but is not yet fully operational. Our invested project based upon product casting equipment has not been completed due to the influence derived from market such that the invested time was postponed. Currently, some equipment was installed, such as smelting unit; eight hoisting equipment was delivered and the remainder will be delivered later. Up to date, the company is wating for the approval on fire security by the local authority so as to commence its operation. As of December 31, 2012, the company has completed an investment of about $20M, accounting for 83% of the planned investment. Equipment investment of the Phase II of the project was about $4M, of which about $3M is being installed, the remaining equipments will be completed and operated in the third quarter in 2013.

Financing activities

For the year ended December 31, 2012, the net financing cash outflow was -$568,653 which was due to the proceeds from short-term bank loans and issuance of notes of $5,403,618 and $1,578,205, respectively. These were partially off-set by the increase in restricted cash of $791,159, repayment on short-term bank loans of $8,307,172 and payment on finance lease of $34,463.

In February, 2011, the Company obtained a short-term bank borrowing of $1,562,061 (Equivalent to RMB10,000,000) from a commercial bank in China, with interest rate at 1.3 times of the Bank of China Benchmark Lending Rate, payable monthly, which is guaranteed by its vendor. This bank borrowing was repaid in February 16 ,2012.

In March, 2012, the Company obtained a short-term bank borrowing of $1,562,061 (Equivalent to RMB10, 000,000) from a commercial bank in China, with interest rate at 1.3 times of the Bank of China Benchmark Lending Rate, due 26 March 2013, payable monthly, which is guaranteed by its vendor. This bank borrowing was repaid by $ 390,516 (Equivalent to RMB 2,500,000) in December, 2012.

In December 2012, the Company obtained another short-term bank borrowing of $315,814 (Equivalent to RMB 2,500,000), from a commercial bank in China, Bank of Jilin, due 30 June 2013, with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, which is guaranteed by a guarantee company in Shenyang City, the PRC.

In December, 2011, the Company obtained a bank note of $3,148,466 (Equivalent to RMB 20,000,000) from a commercial bank in China, Bank of Jilin, due 15 December 2012. Only $2,533,156 (Equivalent to RMB 16,350,000) was drawn down in 2011, payable quarterly, with interest rate at 1.4 times of the Bank of China Benchmark Lending Rate. The remaining $565,505 (Equivalent to RMB 3,650,000) was drawn down in 2012. This is guaranteed by Mr. Gang Li and a guarantee company in Shenyang City, the PRC. This bank borrowing was repaid fully in 15 December, 2012.

In November 2011, the Company obtained a bank note of $3,148,466 (Equivalent to RMB 20,000,000) from a commercial bank in China, Bank of Liaoyang, due May 2012. This was collateralized by restricted cash of $1,574,233 (Equivalent to RMB 10,000,000) and guaranteed by a third party. The bank note was issued to settle the accounts payable and there was no cash proceeds for the bank note. This bank borrowing was repaid in May 2012.

In August 2012, the Company obtained a bank note of $1,578,205 (Equivalent to RMB 10,000,000) from a commercial bank in China, Bank of Liaoyang, due February 2012. This was collateralized by restricted cash of $789,102 (Equivalent to RMB 5,000,000) and guaranteed by a third party. The bank note was issued to settle the accounts payable and there was no cash proceeds for the bank note.

As of December 31, 2011, the amount due to a related party of $431,682 represented a temporary advance made by Cloverbay International Ltd., the Company's major stockholder, which is controlled by Ms. Lihua Wang (the Company's CFO) and Mr. Gang Li (the Company's CEO). This is unsecured, interest-free and bears no fixed repayment term. Imputed interest on this amount is considered insignificant.

In June 2011, the Company obtained a new short-term loan of $1,500,000 from Cloverbay International Ltd. which is controlled by Ms. Lihua Wang (the Company's CFO) and Mr. Gang Li (the Company's CEO), to repay a short-term loan due June 10, 2011. This note is unsecured, carries interest at 2.5% per annum, payable at maturity and repayable on May 31, 2012. On May 31, 2012, the Company and the holders of the notes mutually agreed to extend the maturity date to May 31, 2013.

In December ,2012, the Company obtained another short-term bank borrowing of $2,849,860 (Equivalent to RMB18,000,000), from a commercial bank in China, Bank of Jilin, due 27 December 2013, with interest rate at 1.3 times of the Bank of China Benchmark Lending Rate, which is guaranteed by Mr. Gang Li and a guarantee company in Shenyang City, the PRC.

As of February 24, 2013, in accordance with agreement, each of an $810,000 convertible promissory note issued to ARC China Investment Funds and a $150,000 convertible promissory note issued to ARC Semper China Investments Ltd. automatically converted into 111,942 and 20,704, respectively, shares of the Company's common stock.

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. At present we are able to increase our prices due to the rising prices of raw materials.

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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

NF Energy Saving Corporation

We have audited the accompanying consolidated balance sheets of NF Energy Saving Corporation and its subsidiaries ("the Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, cash flows and changes in stockholders' equity for the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and cash flows for the years ended December 31, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America.

HKCMCPA Company Limited

Certified Public Accountants

Hong Kong, China

March 29, 2013

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NF ENERGY SAVING CORPORATION

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars ("US$"), except for number of shares)

	As of December 31,	
	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$3,071,367	$2,317,456
Restricted cash	791,628	1,574,233
Accounts receivable, net	6,657,380	10,617,416
Retention receivable, current	883,421	734,214
Inventories	1,205,560	581,176
Prepayments and other receivables	1,083,726	1,532,283
Total current assets	13,693,082	17,356,778
Non-current assets:		
Deposits on property purchase	2,216,558	-
Property, plant and equipment, net	10,587,181	11,236,347
Land use right, net	3,071,015	3,118,482
Construction in progress	13,263,866	12,106,316
TOTAL ASSETS	$42,831,702	$43,817,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$1,380,213	$2,679,267
Short-term bank borrowings	6,016,370	7,296,570
Notes payable, related parties	3,079,139	1,500,000
Current portion of obligation under finance lease	-	34,287
Income tax payable	-	93,407
Amount due to a related party	431,682	431,682
Convertible promissory notes, net	960,000	-
Other payables and accrued liabilities	1,150,948	1,304,887
Total current liabilities	13,018,352	13,340,100
Long-term liabilities:		
Convertible promissory notes, net	-	960,000
TOTAL LIABILITIES	13,018,352	14,300,100

Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 5,326,501 and 5,326,501 shares issued and outstanding, respectively	5,326	5,326
Additional paid-in capital	8,463,291	8,443,563
Statutory reserve	2,212,951	2,203,798
Accumulated other comprehensive income	3,619,119	3,431,354
Retained earnings	15,512,663	15,433,782
Total stockholders' equity	29,813,350	29,517,823
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$42,831,702	$43,817,923

See accompanying notes to consolidated financial statements.

NF ENERGY SAVING CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars ("US$"), except for number of shares)

	Years ended December 31,	
	2012	2011
REVENUES, NET		
Products	$6,866,959	$10,897,946
Services	2,402,057	4,031,484
Total revenues, net	9,269,016	14,929,430
COST OF REVENUES:		
Cost of products	5,819,446	8,151,829
Cost of services	1,604,500	2,605,522
Total cost of revenues	7,423,946	10,757,351
GROSS PROFIT	1,845,070	4,172,079
OPERATING EXPENSES:		
Sales and marketing	196,033	101,586
General and administrative	1,082,702	1,352,565
Total operating expenses	1,278,735	1,454,151
INCOME FROM OPERATIONS	566,335	2,717,928
Other (expense) income:		
Interest income	33,002	5,838
Interest expense	(468,031)	(375,773)
INCOME BEFORE INCOME TAXES	131,306	2,347,993
Income tax expense	(43,272)	(301,533)
NET INCOME	$88,034	$2,046,460
Other comprehensive income:		
– Foreign currency translation gain	187,765	1,215,454
COMPREHENSIVE INCOME	$275,799	$3,261,914
Net income per share:		

– Basic	$0.02	$0.38
– Diluted	$0.02	$0.38
Weighted average common shares outstanding:		
– Basic	5,326,501	5,326,501
– Diluted	5,454,501	5,454,501

See accompanying notes to consolidated financial statements.

NF ENERGY SAVING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars ("US$"))

	Years ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net income	$88,034	$2,046,460
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	842,050	588,278
Allowance for doubtful accounts	28,956	930
Interest expenses, non-cash	19,728	70,271
Change in operating assets and liabilities:		
Accounts and retention receivable	3,844,641	(2,673,870)
Inventories	(620,685)	271,495
Prepayments and other receivables	494,695	393,503
Accounts payable, trade	268,686	1,466,017
Income tax payable	(131,671)	(32,161)
Other payables and accrued liabilities	(275,186)	357,650
Net cash provided by operating activities	4,559,248	2,488,573
Cash flows from investing activities:		
Purchase of property, plant and equipment	(63,604)	(38,682)
Deposit payment on property purchase	(2,215,246)	-
Payments on construction in progress	(971,590)	(3,122,962)
Net cash used in investing activities	(3,250,440)	(3,161,644)
Cash flows from financing activities:		
Change in restricted cash	791,159	(1,549,331)
Advance from a related party	-	112,005
Proceeds from short-term bank borrowings	5,403,618	2,533,156
Repayment on short-term bank borrowings	(8,307,172)	-
Payments on finance lease	(34,463)	(508,248)
Proceeds from issuance of notes, related parties	1,578,205	1,500,000
Net cash (used in) provided by financing activities	(568,653)	2,087,582
Effect on exchange rate change on cash and cash equivalents	13,756	79,228
NET CHANGE IN CASH AND CASH EQUIVALENTS	753,911	1,493,739
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,317,456	823,717

CASH AND CASH EQUIVALENTS, END OF YEAR	$3,071,367	$2,317,456
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$222,326	$333,615
Cash paid for interest	$448,303	$275,502
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Settlement of accounts payable in lieu of bank demand notes	$1,582,319	$3,098,661
Prepayment for construction in progress in lieu of accounts receivable	$-	$7,830,649
Transfer from construction in progress to property, plant and equipment	$-	$7,276,065

See accompanying notes to consolidated financial statements.

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NF ENERGY SAVING CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars ("US$"), except for number of shares)

	Common stock		Additional	Statutory	Accumulated other comprehensive	Retained	Total stockholders'
	No. of shares	Amount	paid-in capital	reserve	income	earnings	equity
Balance as of January 1, 2011	5,326,501	$ 5,326	$ 8,443,563	$ 1,965,556	$ 2,215,900	$ 13,625,564	$ 26,255,909
Foreign currency translation adjustment	-	-	-	-	1,215,454	-	1,215,454
Net income for the year	-	-	-	-	-	2,046,460	2,046,460
Appropriation to statutory reserve	-	-	-	238,242	-	(238,242)	-
Balance as of December 31, 2011	5,326,501	$ 5,326	$ 8,443,563	$ 2,203,798	$ 3,431,354	$ 15,433,782	$ 29,517,823
Foreign currency translation adjustment	-	-	-	-	187,765	-	187,765
Imputed interest on related party notes	-	-	19,728	-	-	-	19,728
Net income for the year	-	-	-	-	-	88,034	88,034
Appropriation to statutory reserve	-	-	-	9,153	-	(9,153)	-
Balance as of December 31, 2012	5,326,501	$ 5,326	$ 8,463,291	$ 2,212,951	$ 3,619,119	$ 15,512,663	$ 29,813,350

See accompanying notes to consolidated financial statements.

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NF ENERGY SAVING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars (“US$”), except for number of shares)

1. 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.” On October 1, 2010, the Company’s common stock was traded on the Nasdaq stock market.

The Company, through its subsidiaries, mainly operates in the energy technology business in the People’s of Republic of China (the “PRC”). The Company specializes in the provision of energy saving technology consulting, optimization design services, energy saving reconstruction of pipeline networks and contractual energy management services to China’s electric power, petrochemical, coal, metallurgy, construction, and municipal infrastructure development industries. The Company also engages in the manufacturing and sales of the energy-saving flow control equipment. All the customers are located in PRC.

On September 16, 2010, the Company effected a 1 for 2.5 reverse stock split of its common stock. As a result of the reverse stock split, the number of issued and outstanding shares of the Company's common stock was decreased from 13,315,486 pre-split shares to 5,326,501 post-split shares.

<u>Description of subsidiaries</u>

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/ registered share capital	Effective interest held
Liaoning Nengfa Weiye Energy	The PRC, a limited liability company	Production of a variety of industrial valve components which are widely used in	US$ 3,580,880	100 %

Technology Co. Ltd ("Nengfa Energy")		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	RMB 5,000,000	99	%

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

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

· Basis of presentation

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

NF ENERGY SAVING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars (“US$”), except for number of shares)

· Use of estimates

In preparing these 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 years reported. Actual results may differ from these estimates.

· Basis of consolidation

The 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.

The accounts of Sales Company are consolidated as a wholly-owned subsidiary from its inception to December 31, 2012, in which the Company holds 99%-majority interest and has the ability to exercise significant influence over Sales Company. The consolidation of 1% equity interest of Sales Company is not material to the financial position and results of operations for the years presented.

· 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.

· Restricted cash

The Company maintains restricted cash accounts held with financial institutions in the PRC, which are pledged as collateral for short-term bank demand notes payable that will be expired or matured in the next twelve months.

· Accounts receivable and allowance for doubtful accounts

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 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 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 the 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. The warranty period is usually 12 to 24 months.

· 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 reviews historical sales activity quarterly 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 December 31, 2012 and 2011, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

NF ENERGY SAVING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars (“US$”), except for number of shares)

· Property, plant and equipment

Property, 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:

	Expected useful lives	Residual value	
Building	30 years	5	%
Plant and machinery	10 – 20 years	5	%
Furniture, fixture and equipment	5 – 8 years	5	%

Expenditures for repairs and maintenance are 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.

· Land use right

All land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may sell the right to use the land for a specified period of time. Thus, the Company’s land purchases in the PRC are considered to be leasehold land and are stated at cost less accumulated amortization and any recognized impairment loss. Amortization is provided over the term of the land use right agreement on a straight-line basis, which is 50 years and will expire in 2059.

· 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. 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.

· Impairment of long-lived assets

In accordance with the provisions of ASC Topic 360, "*Impairment or Disposal of Long-Lived Assets*", all long-lived assets such as property, plant and equipment held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an asset to its estimated future undiscounted cash flows expected to be generated by the asset. 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 charge for the years presented.

· Revenue recognition

The Company offers the following products and service to its customers:

(a) Energy saving flow control equipment; and
(b) Energy project management and sub-contracting service.

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.

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(a) Sale of products

The Company derives a majority of its revenues from the sale of energy saving flow control equipment. Generally, these products 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 quality adherence to product conditions specifications, to its full satisfaction; then the Company makes delivery to the customer.

The Company recognizes revenue from the sale of such finished products upon delivery to the customer, 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 recorded no reserve for sales returns for the years ended December 31, 2012 and 2011.

(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 the service is rendered and accepted by the customer.

(c) Interest income

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

· Cost of revenue

Cost of revenue 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 or projects. Shipping and handling costs, associated with the distribution of finished products to customers, are borne by the customers.

· Advertising expense

Advertising costs are expensed as incurred under ASC Topic 720-35, *"Advertising Costs"*. No advertising expense was incurred for the years ended December 31, 2012 and 2011.

· Research and development

Research and development costs are expensed when incurred in the development of new products or processes including significant improvements and refinements of existing products. Such costs mainly relate to labor and material cost. The Company incurred $50,207 and $51,781 of such costs for the years ended December 31, 2012 and 2011.

· 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.

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· Income taxes

Income taxes are 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 years ended December 31, 2012 and 2011, the Company did not have any interest and penalties associated with tax positions. As of December 31, 2012, the Company did not have any significant unrecognized uncertain tax positions.

The Company conducts the 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 a foreign tax authority. For the year ended December 31, 2012, the Company filed and cleared 2011 tax return with its local tax authority.

· Product warranty

Under the terms of the contracts, the Company offers its customers with a free 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 from 12 to 24 months, until the product warranty has expired. The Company has not experienced any material returns or claims 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 years ended December 31, 2012 and 2011.

· 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.

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The reporting currency of the Company is the United States Dollar ("US$"). The Company's subsidiaries in the PRC 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 year:

	2012	2011
Year-end RMB:US$1 exchange rate	6.3161	6.3523
Annual average RMB:US$1 exchange rate	6.3198	6.4544

· Retirement plan costs

Contributions to retirement plans (which are defined contribution plans) are charged to general and administrative expenses in the accompanying consolidated statements of operation as the related employee service is provided.

· 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. For the years ended December 31, 2012 and 2011, the Company operates in two reportable operating segments in the PRC.

· Fair value of financial instruments

The carrying value of the Company's financial instruments (excluding short-term bank borrowing and convertible promissory notes): cash and cash equivalents, restricted cash, accounts and retention receivable, prepayments and other receivables, accounts payable, income tax payable, amount due to a related party, other payables and accrued liabilities approximate at their fair values because of the short-term nature of these financial instruments.

Management believes, based on the current market prices or interest rates for similar debt instruments, the fair value of its obligation under finance lease and short-term bank borrowing approximate the carrying amount. The fair value of convertible promissory notes is disclosed in Note 10.

The Company also follows the guidance of the ASC Topic 820-10, "*Fair Value Measurements and Disclosures*" ("ASC 820-10"), with respect to financial assets and liabilities that are measured at fair value. ASC 820-10 establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

·*Level 1* : Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets;

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- *Level 2* : Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. Black-Scholes Option-Pricing model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs; and

- *Level 3* : Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

- 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 June 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-05, "*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*" ("ASU 2011-05"). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively. The Company adopted this ASU by presenting the comparative components of comprehensive income within our consolidated financial statements of operation and comprehensive income.

In September 2011, the FASB issued ASU No. 2011-08, "*Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*"("ASU 2011-08"). This ASU is intended to simplify how entities test goodwill for impairment and permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of these changes had no impact on the Company's consolidated financial statements.

On July 2012, the FASB issued ASU 2012-02, "*Intangibles-Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment*". The ASU provides entities with an option to first assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If an entity concludes that it is more than 50% likely that an indefinite-lived intangible asset is not impaired, no further analysis is required. However, if an entity concludes otherwise, it would be required to determine the fair value of the indefinite-lived intangible asset to measure the amount of actual impairment, if any, as currently required under US GAAP. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

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In February 2013, the FASB issued ASU No. 2013-02, “*Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*” (“ASU 2013-02”). This standard requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the statement where net income is presented or in the accompanying notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, companies are required to cross-reference to other disclosures that provide additional detail on those amounts. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this pronouncement will not have a material impact on the Company’s consolidated financial statements.

3. ACCOUNTS AND RETENTION RECEIVABLE

The majority of the Company’s sales are on open credit terms and in accordance with terms specified in the contracts governing the relevant transactions. The Company evaluates the need of an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. The allowance for doubtful accounts is based on a combination of the historical experience and management’s review of long outstanding accounts receivable. If actual collections experience changes, revisions to the allowance may be required. Based upon the aforementioned criteria, the Company recognized $28,956 and $930 allowance for the years ended December 31, 2012 and 2011.

	As of December 31,	
	2012	2011
Accounts receivable, cost	$6,694,154	$10,625,173
Retention receivable, cost	883,421	734,214
	7,577,575	11,359,387
Less: allowance for doubtful accounts	(36,774)	(7,757)
Accounts and retention receivable, net	$7,540,801	$11,351,630

Up to February 28, 2013, the Company has subsequently recovered from approximately 4% of accounts and retention receivable as of December 31, 2012.

The management has continued to monitor the long outstanding accounts receivables, which are mainly due from two prolonging customers. It is expected to be fully collectible in the next twelve months.

4. INVENTORIES

Inventories consisted of the following:

	As of December 31,	
	2012	2011
Raw materials	$486,090	$328,293
Work-in-process	90,898	185,492
Finished goods	628,572	67,391
	$1,205,560	$581,176

For the years ended December 31, 2012 and 2011, no allowance for obsolete inventories was recorded by the Company.

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5. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consisted of the following:

	As of December 31,	
	2012	2011
Prepayment to vendors for raw materials	$617,859	$1,071,177
Guarantee deposit	316,651	314,847
Prepaid operating expenses	106,339	142,445
Income tax recoverable	37,806	-
Other receivables	5,071	3,814
	$1,083,726	$1,532,283

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.

6. DEPOSITS ON PROPERTY PURCHASE

Deposits on property purchase represented refundable deposit payment for the purchase of two units of office premises in Teiling City, Laoning Province, the PRC with an aggregate purchase price of $2.5 million (approximately RMB15.6 million) for operational use. These deposits were interest-free and unsecured. Deposits on property purchase are recorded when payment is made by the Company and capitalized as property, plant and equipment when the transfer of the land titles is successfully registered in favor of the Company. For the year ended December 31, 2012, these purchase contracts have been signed.

As of December 31, 2012, the Company believes that the purchase of these properties will be completed and the title of real estate properties will be received in the next twelve months. The Company intends to use these properties as office premises for operational use.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	As of December 31, 2012	2011
Building	$7,191,316	$7,191,316
Plant and machinery	5,467,297	5,404,559
Furniture, fixture and equipment	68,597	67,731
Foreign translation difference	773,374	696,762
	13,500,584	13,360,368
Less: accumulated depreciation	(2,744,994)	(1,968,247)
Less: foreign translation difference	(168,409)	(155,774)
Property, plant and equipment, net	$10,587,181	$11,236,347

Depreciation expense for the years ended December 31, 2012 and 2011 were $776,748 and $524,337, of which $733,975 and $483,039 were included in cost of revenue, respectively.

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8. LAND USE RIGHT

Land use right consisted of the following:

	As of December 31, 2012	2011
Land use right, at cost	$3,044,062	$3,044,062
Less: accumulated amortization	(190,124)	(124,822)
	2,853,938	2,919,240
Add: foreign translation difference	217,077	199,242
Land use right, net	$3,071,015	$3,118,482

Amortization expense for the years ended December 31, 2012 and 2011 were $65,302 and $63,941, respectively.

The estimated amortization expense on the land use right in the next five years and thereafter is as follows:

Year ending December 31:	
2013	$65,341
2014	65,341
2015	65,341
2016	65,341
2017	65,341
Thereafter	2,744,310
Total:	$3,071,015

9. CONSTRUCTION IN PROGRESS

In 2008, the Company received approval from 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 $24 million.

For the year ended December 31, 2011, the Company transferred its accounts receivable due from two customers amounting to $7.8 million on a non-recourse basis to an independent project management company in the PRC as the prepayment for construction cost to complete the remaining construction of new manufacturing facility. The remainder of the construction project was structurally completed in December 2012.

The first phase of construction project was completed and began its operations in December 2011. The cost of construction was transferred to property, plant and equipment and its depreciation expense began to be recorded in 2012. The second phase of construction project was structurally completed in 2012. The Company expects the operation to be commenced in the next twelve months when the safety approval is granted by the local authority in 2013.

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10. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consist of the following:

	As of December 31,	
	2012	2011
Payable to financial institutions in the PRC:		
Demand bank notes:		
Equivalent to RMB20,000,000, due May 2012, which is collateralized by its restricted cash and guaranteed by a third party, and bears the handling fee equal to 0.05% of its face value	$-	$3,148,466
Equivalent to RMB4,000,000, due January 2013, which is collateralized by its restricted cash and guaranteed by its vendor and bears the handling fee equal to 0.05% of its face value.	633,302	-
Equivalent to RMB2,000,000, due February 2013, which is collateralized by its restricted cash and guaranteed by its vendor and bears the handling fee equal to 0.05% of its face value.	316,651	-
Equivalent to RMB4,000,000, due February 2013, which is collateralized by its restricted cash and guaranteed by its vendor and bears the handling fee equal to 0.05% of its face value.	633,302	-
Short-term borrowings:		
Equivalent to RMB10,000,000 with interest rate at 1.3 times of the Bank of China Benchmark Lending Rate, monthly payable, due February 16, 2012, which is guaranteed by a guarantee company in Shenyang City, the PRC	-	1,574,233
Equivalent to RMB16,350,000 with interest rate at 1.4 times of the Bank of China Benchmark Lending Rate, monthly payable, due December 15, 2012, which is guaranteed by Mr. Gang Li (the Company's CEO) and a guarantee company in Shenyang City, the PRC	-	2,573,871
	1,187,441	-

Equivalent to RMB7,500,000 with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, due March 26, 2013, which is guaranteed by a guarantee company in Shenyang City, the PRC		
Equivalent to RMB2,500,000 with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, due June 30, 2013, which is guaranteed by a guarantee company in Shenyang City, the PRC	395,814	-
Equivalent to RMB18,000,000 with interest rate at 1.3 times of the Bank of China Benchmark Lending Rate, monthly payable, due December 27, 2013, which is guaranteed by a guarantee company in Shenyang City, the PRC and the Company's director, Mr. Gang Li	2,849,860	-
Total short-term bank borrowings	$6,016,370	$7,296,570

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The effective Bank of China Benchmark Lending rate was 6% and 6.56% per annum for the years ended December 31, 2012 and 2011.

Subsequently, demand bank notes amounting to $1,583,255 were fully repaid upon maturity.

11. NOTES PAYABLE, RELATED PARTY

Notes payable consist of the following:

	As of December 31,	
	2012	2011
Note due to related party A	$1,500,000	$1,500,000
Note due to related party B	1,579,139	-
	$3,079,139	$1,500,000

These related parties are controlled by Ms. Lihua Wang (the Company's CFO) and Mr. Gang Li (the Company's CEO).

The note due to related party A is unsecured, carries interest at 2.5% per annum, payable at maturity and due on May 31, 2013.

The note due to related party B is unsecured, interest-free, and originally matured on November 18, 2012. The maturity date of the note was agreed to extend to May 31, 2013. For the year ended December 31, 2012, imputed interest of $19,728 is recorded in additional paid-in capital.

12. AMOUNT DUE TO A RELATED PARTY

As of December 31, 2012 and 2011, the amount due to a related party represented temporary advances made by the Company's major stockholder, Cloverbay International Ltd, which is controlled by Ms. Li Hua Wang (the Company's CFO) and Mr. Gang Li (the Company's CEO), which was unsecured, interest-free with no fixed repayment term. Imputed interest on this amount is considered insignificant.

13. CONVERTIBLE PROMISSORY NOTES

On February 24, 2010 and March 4, 2010, the Company sold, through a private placement to two accredited investors, convertible promissory notes (the "Notes") in the aggregate principal amount of $960,000 and warrants (the "Warrants") to purchase 64,000 shares of its common stock, par value $0.001 per share ("Common Stock"). The Company used the net proceeds of approximately $900,000 from the private placement for working capital and general corporate purposes.

The Notes while outstanding had an effective interest at the rate of 6% per annum and, absent an "event of default," are payable in shares of the Company's Common Stock. Provided no "event of default" has occurred and is not then continuing, the Notes initially were to 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 currently is $7.50 per share. The conversion price is subject to adjustment for stock dividends, splits, combinations and similar events. The Notes while outstanding were secured by a security interest in and lien upon all of the Company's assets.

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On October 4, 2010, the Company entered into a Note Modification Agreement and agreed to amend the terms of the Notes, as follows:

(1) The Notes shall be automatically convert, through no action on the part of the holders of the Notes, into that number of shares of Common Stock equal to the quotient obtained by dividing (a) the then outstanding obligations by (b) the conversion price then in effect;

(2) Interest due under the Notes shall not accrue past October 4, 2010;

(3) The security interest in and lien upon all of the Company's assets is terminated and shall be of no further force or effect.

The Warrants, which were exercisable for shares of Common Stock at an exercise price of $10 per share and were to terminate five years thereafter. The exercise price is subject to adjustment for stock dividends, splits, combinations and similar events. The warrants also contained an exercise price ratchet adjustment in the event the Company issues warrants having an exercise price at less than the exercise price then in effect for the Warrants. The Company had agreed to provide the investors with "piggy-back" registration rights with respect to the shares of Common Stock issuable upon exercise of the Warrants.

The Company engaged an independent appraiser to perform a valuation of the Notes and the Company determined that the Notes should be recorded in accordance with ASC Topic 470-20, "*Debt with conversion and other options*". The Company allocated the proceeds received between the Notes and the Warrants on a relative fair value basis. The relative fair values of the Notes and the Warrants determine the debt discount attributable to the Warrants and are recorded as additional paid-in capital. The resulting discount on the Notes is being amortized over the life of the Notes using the effective interest method. As of December 31, 2012, the carrying value of the convertible promissory notes is amounted to $960,000.

On February 24, 2012, the Company and the holders of the Notes mutually agreed to extend the maturity date to February 24, 2013 and the Warrants were fully cancelled. The maturity date of the Notes was subsequently extend to

February 24, 2013.

Upon the maturity date on February 24, 2013, these promissory notes were fully converted to 132,646 shares of the Company's common stock at a price of $7.50 per share.

14. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	As of December 31,	
	2012	2011
Rent payable	$-	$43,291
Payable to equipment vendors	247,384	130,636
Customer deposits	316,732	381,055
Value-added tax payable	117,360	170,055
Provision for contingent liability	200,000	200,000
Accrued operating expenses	193,177	371,979
Other payable	76,295	7,871
	$1,150,948	$1,304,887

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15. STOCKHOLDERS' EQUITY

(a) Common stock

As of December 31, 2012, the Company had a total of 5,326,501 shares of its common stock issued and outstanding.

(b) Warrants

Transactions involving warrants during the year ended December 31, 2012 are summarized as follows (warrants were not issued to employees):

	Warrants outstanding			
	Number of warrants	Exercise price range per share	Weighted average exercise price per share	Weighted average grant-date fair value per share
Balance as of December 31, 2012 and 2011	23,334	4.50	$ 4.50	$ 7.93

The warrants were cancelled in relation to the extension of convertible promissory notes. 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	%

16. INCOME TAXES

For the years ended December 31, 2012 and 2011, the local ("United States of America") and foreign components of income (loss) before income taxes were comprised of the following:

	Years ended December 31, 2012	2011
Tax jurisdiction from:		
- Local	$ (2,248)	$ (493,206)
- Foreign	133,554	2,841,199
Income before income taxes	$ 131,306	$ 2,347,993

The provision for income taxes consisted of the following:

	Years ended December 31, 2012	2011
Current:		
- Local	$ -	$ -
- Foreign	43,272	301,533
Deferred:		
- Local	-	-
- Foreign	-	-
Income tax expense	$ 43,272	$ 301,533

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NF ENERGY SAVING CORPORATION

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The effective tax rate in the years presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rate. The Company operates in various countries: United States of America and the PRC that are subject to taxes in the jurisdictions in which they operate, as follows:

United States of America

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

As of December 31, 2012, the operations in the United States of America incurred $2,662,958 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2032, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $905,406 on the expected future tax benefits from the net operating loss carryforwards as management believes it is more likely than not that these assets will not be realized in the future.

The PRC

The Company's subsidiaries operating in the PRC are subject to the Corporate Income Tax Law of the People's Republic of China at a unified income tax rate of 25%. The reconciliation of income tax rate to the effective income tax rate for the years ended December 31, 2012 and 2011 is as follows:

	Years ended December 31, 2012	2011
Income before income taxes from PRC operation	$ 133,554	$ 2,841,199
Statutory income tax rate	25 %	25 %
Income tax expense at statutory rate	33,389	710,300

Tax effect of non-taxable items	-	(4,825)
Tax effect of non-deductible items	9,690	-
Tax effect from tax holiday	-	(355,012)
Tax adjustments	193	(48,930)
Income tax expense	$ 43,272	$ 301,533

The following table sets forth the significant components of the aggregate deferred tax assets of the Company as of December 31, 2012 and 2011:

	As of December 31,	
	2012	2011
Deferred tax assets:		
Net operating loss carryforwards	$ 905,406	$ 904,641
Less: valuation allowance	(905,406)	(904,641)
Deferred tax assets	$ -	$ -

Management believes that it is more likely than not that the deferred tax assets will not be fully realizable in the future. Accordingly, the Company provided for a full valuation allowance against its deferred tax assets of $905,406 as of December 31, 2012. In 2012, the valuation allowance increased by $765, primarily relating to net operating loss carryforwards from the local tax regime.

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(Currency expressed in United States Dollars ("US$"), except for number of shares)

17. NET INCOME PER SHARE

Basic net income per share is computed using the weighted average number of common shares outstanding during the year. The dilutive effect of potential common shares outstanding is included in diluted net income per share. The following table sets forth the computation of basic and diluted net income per share for the years ended December 31, 2012 and 2011:

	Years ended December 31, 2012	2011
Net income attributable to common shareholders	$ 88,034	$ 2,046,460
Weighted average common shares outstanding – Basic	5,326,501	5,326,501
Plus: incremental shares from assumed conversions - Convertible shares from convertible promissory notes	128,000	128,000
Weighted average common shares outstanding – Diluted	5,454,501	5,454,501
Net income per share – Basic	$ 0.02	$ 0.38
Net income per share – Diluted	$ 0.02	$ 0.38

For the years ended December 31, 2012 and 2011, warrants exercisable to 23,334 shares of common stock were excluded from the diluted income per share as the exercise price of the warrants was higher than the average market price of the common stock during the year, thereby making the warrants anti-dilutive under the treasury method.

18. CHINA CONTRIBUTION PLAN

Under the PRC Law, full-time employees of its subsidiaries of the Company in the PRC are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a China government-mandated multi-employer defined contribution plan. These benefits are required to accrue based on certain percentages of the employees' salaries. The total contributions made for such employee benefits were $199,520 and $190,925 for the years ended December 31, 2012 and 2011, respectively.

19. STATUTORY RESERVES

Under the PRC Law the Company's subsidiaries are required to make appropriations to the statutory reserve based on after-tax net earnings and determined in accordance with generally accepted accounting principles of the People's Republic of China (the "PRC GAAP"). Appropriation to the statutory reserve should be at least 10% of the after-tax net income until the reserve is equal to 50% of the registered capital. The statutory reserve is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation.

For the years ended December 31, 2012 and 2011, the Company's subsidiaries made appropriation of $9,153 and $238,242 to statutory reserve, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. 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 – 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 years presented.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company had no inter-segment sales for the years ended December 31, 2012 and 2011. 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 years ended December 31, 2012 and 2011:

	Year ended December 31, 2012		
	Heavy manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$6,866,959	$ -	$6,866,959
- Services	2,402,057	-	2,402,057
Total operating revenues	9,269,016	-	9,269,016
Cost of revenues	(7,423,946)	-	(7,423,946)

Gross profit	1,845,070	-	1,845,070
Depreciation and amortization	842,050	-	842,050
Total assets	42,831,702	-	42,831,702
Expenditure for long-lived assets	$63,604	$ -	$63,604

	Year ended December 31, 2011		
	Heavy manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$10,896,009	$ 1,937	$10,897,946
- Services	3,228,931	802,553	4,031,484
Total operating revenues	14,124,940	804,490	14,929,430
Cost of revenues	(10,511,112)	(246,239)	(10,757,351)
Gross profit	3,613,828	$ 558,251	$4,172,079
Depreciation and amortization	556,654	31,624	588,278
Total assets	41,510,530	2,307,393	43,817,923
Expenditure for long-lived assets	$10,992,293	$ -	$10,992,293

All long-lived assets are located in the PRC.

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NF ENERGY SAVING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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21. CONCENTRATIONS OF RISK

The Company is exposed to the following concentrations of risk:

(a) Major customers

For the years ended December 31, 2012 and 2011, the customers who accounted for 10% or more of the Company's revenues and its outstanding accounts receivable balances as at year-end dates, are presented as follows:

	Year ended December 31, 2012			December 31, 2012
Customer	Revenues	Percentage of revenues		Accounts and retention Receivable
Customer A	$ 3,075,963	33 %		$ 3,834,397
Customer B	2,123,796	23 %		1,303,647
Total:	$ 5,199,759	56 %	Total:	$ 5,138,044

	Year ended December 31, 2011			December 31, 2011
Customer	Revenues	Percentage of revenues		Accounts and retention receivable
Customer A	$ 5,753,720	39 %		$ 7,578,206
Customer B	3,186,753	21 %		-
Total:	$ 8,940,473	60 %	Total:	$ 7,578,206

All customers are located in the PRC.

(b) Major vendors

For the year ended December 31, 2012, the vendors who accounted for 10% or more of the Company’s purchases and its outstanding accounts payable balances as at year-end dates, are presented as follows:

	Year ended December 31, 2012			December 31, 2012
Vendor	Purchases	Percentage of purchases		Accounts Payable
Vendor A	$ 2,338,124	34 %		$ -
Vendor B	842,173	12 %		-
Total:	$ 3,180,297	46 %	Total:	$ -

For the year ended December 31, 2011, one vendor represented more than 10% of the Company’s purchases. This vendor accounts for 46% of the Company’s purchase amounting to $4,535,267, with $0 of accounts payable.

All vendors are located in the PRC.

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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 borrowings under related party notes and short-term bank borrowing. 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 December 31, 2012, borrowings under related party notes were at fixed rates and short-term bank borrowing was at variable 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.

22. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

As of December 31, 2012, the Company is committed to the future contingent payments of approximately $0.4 million on the purchase of new equipment and third party contractors relating to its construction project in the next twelve months.

As of December 31, 2012, the Company is committed to the future contingent payments of approximately $0.3 million on the purchase of office premises in the next twelve months.

NF ENERGY SAVING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(b) Litigation

Robert E. Dawley v. NF Energy Corp.of America, M.D. Fla. Case no. 6:10-cv-0115-Orl-22DAB. Robert Dawley ("Dawley") commenced this action in the United States District Court for the Middle District of Florida against the Company, Mr. Gang Li and counsel on October 1, 2011. The allegations in this action are identical to those that Dawley raised in a prior proceeding in which the United States Court of Appeals for the Eleventh Circuit entered judgment against him and in favor of the Company.

The District Court, upon motion by the Defendants, has dismissed six of Dawley's ten claims with prejudice on the grounds that they are precluded by the Eleventh Circuit's prior judgment. Dawley has attempted to appeal the District Court's dismissal to the Eleventh Circuit. (Dawley v NF Energy Saving Corp. of America, U.S.C.A. 11th Cir. Appeal no. 11-10201-F.) However, that Court has questioned whether it has jurisdiction over the matter in light of the continued pendency of four of Dawley's claims before the District Court.

Dawley has filed an Amended Complaint in the District Court in an effort to address the deficiencies noted by it with respect to his four remaining claims. Defendants have moved to dismiss the Amended Complaint on the grounds that it still fails to allege facts sufficient to state a claim. Whether or not the District Court agrees, the Company intends to contest Dawley's claims on several grounds, including that he has failed to identify any basis for liability or damages.

In October 19, 2012, The Eleventh Circuit Court of Appeals affirmed the District Court's dismissal of Dawley's claims.

As of December 31, 2012, the Company accrued $200,000 for this contingent liability and the Company's directors, Mr. Gang Li and Ms. Li Hua Wang have personally agreed to guarantee all contingent liabilities and costs to be incurred in connection with this litigation claim.

23. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, "*Subsequent Events*", which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued, the Company has evaluated all events or transactions that occurred after December 31, 2012 up through the date was the Company issued the audited consolidated financial statements. During the period, the Company did not have any material recognizable subsequent events.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) ***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 December 31, 2012. The term "disclosure controls and procedures," as defined in Rule 13a-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, to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of December 31, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were not effective, based on the material weaknesses defined below.

(b) ***Management's Annual Report on Internal Control Over Financial Reporting*** .

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive officer and principal financial officer and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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

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

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- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, the Company’s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on this assessment, our management concluded that, as of December 31, 2012, our internal control over financial reporting is not effective.

In connection with the assessment described above, management identified the following control deficiencies that represent material weaknesses at December 31, 2012:

- Due to the Company’s limited resources, the Company does not have accounting personnel with extensive experience in maintaining books and records and preparing financial statements in accordance with US GAAP which could lead to untimely identification and resolution of accounting matters inherent in the Company’s financial transactions in accordance with US GAAP.

MANAGEMENT’S REMEDIATION PLAN

While management believes that the Company’s financial statements previously filed in the Company’s SEC reports have been properly recorded and disclosed in accordance with US GAAP, based on the control deficiencies identified above, we have designed and plan to implement, or in some cases have already implemented, the specific remediation initiatives described below:

- The Company is currently looking for an outside consultant with considerable public company reporting experience and breadth of knowledge of US GAAP to provide more training in connection with the preparation and review of its financial statements to the employees.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the exemption provided to issuers that are neither "large accelerated filers" nor "accelerated filers" under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

c) Changes in Internal Controls

No change in our internal control over financial reporting occurred during the last fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The persons listed below are the current officers and directors of the Company as of the filing date of this report. Our directors are elected at the annual meeting of shareholders, or may be appointed by the Board to fill an existing vacancy, and hold office for one year and until their successors are elected and qualified. Our officers are appointed by the Board of Directors and serve at the pleasure of the Board. We have not entered into any employment agreements with our executive officers.

Name	Age	Position
Gang, Li	60	Chairman and Chief Executive Officer and President
Lihua, Wang	53	Director, CFO
Mia Kuang, Ching	47	Independent Director, Chair of Audit Committee
Jason, Wang	60	Independent Director, Chair of Nomination Committee
Jiuding, Yan	47	Independent Director, Chair of Compensation Committee

Gang Li — President and Chief Executive Officer

Mr. Gang Li became the Chairman and Chief Executive Officer and President of the Company in November 2006. Mr. Li was born in 1953. He graduated from Tianjin University with a bachelor degree in science and a master degree in law.

Mr. Li was the director of Technology Innovation Department under the Liaoning Province Planning and Economy Commission as well as the Director of the Economic Operation Department under Liaoning Province Economic and Trade Commission. From April 1984 to July 1998, he participated in and helped to prepare the Eighth and the Ninth Five-Year Plan regarding the technological improvement in eight industries including energy, transportation, and other various metallurgical industries. Mr. Li has also helped to organize and implement several projects in connection with technological improvements spanning across over 500 key products, 100 major projects, 100 enterprises and 8 industries, including the famous “115 engineering project”. Due to Mr. Li’s leadership on the “115 engineering project” and as a result of the above-mentioned technological improvements, he was awarded the Enterprise Technology Advancement Award by China’s National Technology Improvement Commission.

Mr. Li is also an accomplished author and with several published papers and books discussing various industry topics. His book “An Introduction to Technological Improvement” was published by the prestigious Xinhua Publishing House. In addition, the Liaoning Provincial Government awarded his paper titled “Macro-indicator Review Systems in Enterprise Technology Improvement” with the National Major Outcome prize and a second-place award in the category of Technological Advancement.

Between 1998 and 2006, Mr. Li was the General Manager of Liaoning project company, one of the three pilot and demonstration companies of the GEF/WB/NDRC China Energy Conservation Promotion Project. Mr. Li led the team working on “Energy Management Contract” model of energy saving projects, completed 256 energy saving projects for 216 customers. The accumulated total investment for the projects was 0.452 billion RMB, with an accumulated savings of 1.67 million tons of standard coal, which resulted in a reduction of CO_2 emissions by 1.52 million tons. These achievements have been highly awarded by the World Bank and National Development and Reform Commission (NDRC). In 2006, after the promotion projects were completed, Mr. Li established Liaoning Nengfa Weiye Energy Technology Corporation Ltd. Mr. Li also serves as the Deputy Director of the Liaoning Provincial Resource Saving and Comprehensive Application Association. He also holds the offices of Deputy Director for the China Energy Conservation Association and Deputy Director for the Energy Conservation Committee under the China Energy Research Association. We believe Mr. Li’s qualifications to serve on our Board of Directors include his relationships with various government officials at local and provincial levels, and his experience in consolidating resources and ability to obtaining capital financing.

Lihua Wang —Chief Financial Officer

Ms. Lihua Wang was born in 1960. Ms. Wang has been a Director and the Chief Financial Officer of the Company since November 2006. She is also the general manager of the 100% owned subsidiary Liaoning Nengfa Weiye Energy Technology Company Ltd. in China. She graduated with a master degree in accounting from the Graduate School of the Ministry of Finance in the Peoples Republic of China.

Since May 1996, Ms. Wang has been involved in the building of Liaoning Energy Management Contract (EMC) Project company, which is one of the three pilot and demonstration companies of the GEF/WB/NDRC China Energy Conservation Promotion Project.. Ms. Wang is the chief financial officer of Liaoning EMC. In August 2003, the World Bank recommended her as the premier expert to the Chinese EMC Association. We believe Ms. Wang's qualifications to serve on our Board of Directors include her knowledge of PRC tax policies, her ability to manage corporate risk, and her experience in project assessments.

Mia Kuang Ching — Independent Director, Chairman of Audit Committee

Mr. Mia Kuang Ching is currently a private consultant on merger and acquisition projects. Up until December 2, 2011 he was the managing partner of SBA Stone Forest Corporate Advisory (Shanghai) Co., Ltd. From 1992 to 1994 he was Regional Accountant (South Europe) of Singapore Airlines. From 1994 to 1997, he was the Group Financial Controller of Fullmark Pte. Ltd., and responsible for operating in China, Hong Kong, Malaysia and Vietnam. He was in-charge of strategic investment, group financing and mergers and acquisitions. From 1997 to 2000, he was the Chief Accountant of Dalian Container Terminal, a joint venture formed by PSA Corporation of Singapore and the Port of Dalian Authority.

Mr. Ching became an Independent Director of the Company in August 2009 and is Chairman of the Audit Committee. We believe Mr. Ching's qualifications to serve on our Board of Directors include his years of business experience and his familiarity with financial accounting matters.

Jianxin (Jason) Wang — Independent Director, Chairman of Nomination Committee

Mr. Jianxin Wang, Independent Director of NFEC, is a senior corporate executive with over 15 years of experience in promoting industrial energy efficiency, and strong leadership skills in corporate strategy development, business management and equity investment, as well as in depth knowledge on Chinese government policies and regulations on clean technology, renewable energy and energy efficiency. Mr. Wang has been the General Manager of Gaoping Ronggao PV Solar Development Co. ltd. a privately owned Chinese wafer and PV cell company, since September 2011. From January 2008 until December 2010, Mr. Wang was the Managing Director of China Carbon Corporation (CCC), an international company engaged in carbon trading, and the Managing Director of Cosmos International Corp. a Canadian investment consulting firm in Beijing. Previously, Mr. Wang served as the President of Sparkles International Development Corp. a Virginia based energy efficiency consulting and trading firm from 1993 to December 2007, and a senior consultant for Chicago Climate Exchange in 2006 and a research assistant at the World Bank in 1991. Mr. Wang is the Deputy Director of the Enterprise Energy Saving Committee and the Deputy Secretary General of the Energy Efficiency Investment and Assessment Committee of China Energy Research Society and he is an energy expert for the State Development Bank of China.

Mr. Wang became an Independent Director of the Company in August 2009 and is Chairman of the Nominating Committee. We believe Mr. Wang's qualifications to serve on our Board of Directors include his experience in the areas of climate change and carbon trade and energy efficiency.

Jiuding Yan- Independent Director-Chairman of Compensation Committee

Mr. Jiuding Yan has been the Vice President of Zhong Tian Securities Corporation Limited since July 2004. From 1996 to July 2004, Mr. Yan was the Deputy General Manager of Liaoning Orient Securities Company. Mr. Yan has degrees from Shenyang Agricultural University and the California State University, Hayward.

Mr. Yan became an Independent Director of the Company in September 2009 and is Chairman of the Compensation Committee. We believe Mr. Yan's qualifications to serve on our Board of Directors include his experience as a financial consultant to public and non-public companies operating in the People's Republic of China and in other countries.

Family Relationships

None.

Audit Committee

The current members of our audit committee are Mia Kuang Ching (Chairman), Jason Wang and Jiuding Yan, each of whom we believe satisfies the independence requirements of the Securities and Exchange Commission. We believe Mr. Ching is qualified as an audit committee financial expert under the regulations of the SEC by reason of his work experience. Our audit committee assists our Board of Directors in its oversight of:

- The integrity of our financial statements;
- Our independent registered public accounting firm's qualifications and independence; and
- The performance of our independent auditors.

Code of Ethics

The Company has adopted a code of ethics (the "Code of Ethics") that applies to the Company's principal chief executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics is attached as Exhibit 14.1 hereto. The Code of Ethics is designed with the intent to deter wrongdoing, and to promote the following:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

- Full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the SEC and in other public communication made by the Company;

- Compliance with applicable governmental laws, rules and regulations;

- The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and

- Accountability for adherence to the Code.

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Exchange Act, all executive officers, directors, and each person who is the beneficial owner of more than 10% of the common stock of a company that files reports pursuant to Section 12 of the Exchange Act, are required to report the ownership of such common stock, options, and stock appreciation rights (other than certain cash-only rights) and any changes in that ownership with the SEC. Specific due dates for these reports have been established, and the Company is required to report, in this Form 10-K, any failure to comply therewith during the fiscal year ended December 31, 2012. The Company believes that all of these filing requirements were satisfied by its executive officers, directors and by the beneficial owners of more than 10% of the Company’s common stock. In making this statement, the Company has relied solely on copies of any reporting forms received by it, and upon any written representations received from reporting persons that no Form 5 (Annual Statement of Changes in Beneficial Ownership) was required to be filed under applicable rules of the SEC.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Executive Officers

We did not provide any compensation to our executive officers for the years ended December 31, 2012 or 2011.

Compensation of Directors

As at December 31, 2012, we had three non-employee directors, to whom we provided a total amount of $72,000 in compensation, as set forth in the table below. As employees of the Company and/or its subsidiaries, Gang Li and Lihua Wang received no additional compensation for their services as directors.

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NON-EMPLOYEE DIRECTOR COMPENSATION TABLE FOR YEAR ENDED DECEMBER 31, 2011

Name	Fees Earned or Paid in Cash ($)	All Other Compensation ($)	Total ($)
Mia Kuang Ching	24,000	N/A	24,000
Jianxin (Jason) Wang	24,000	N/A	24,000
Jiuding Yan	24,000	N/A	24,000

Outstanding equity awards at fiscal year-end

We have not implemented a stock option plan at this time and since inception, have issued no stock options, SARs or other equity awards. We may decide, at a later date, and reserve the right to, initiate such a plan as deemed necessary by the Board.

Pension benefits

We have not entered into any pension benefit agreements with our executive officers or directors. We contribute to the social insurance for our employees each month, which includes pension, medical insurance, unemployment insurance, occupational injuries insurance and housing provision funds in accordance with PRC regulations.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information concerning the ownership of NF Energy Saving Corporation's Common Stock as of March 11, 2013, with respect to: (i) each person known to us to be the beneficial owner of more than five percent of NF Energy Saving Corporation's Common Stock, (ii) each director and executive officer; and (iii) all directors and named executive officer of the Company as a group. The notes accompanying the information in the table below are necessary for a complete understanding of the figures provided below. As of March 11, 2013, there were 5,459,147 shares of common stock outstanding. As of March 11, 2013, there were no preferred shares outstanding.

Name and Address of Beneficial Owner(s)	**Amount and Nature of Beneficial Owner(s)** (1) (2)	Percentage of Beneficial Ownership	
Pelaria(3) P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola	2,540,118	46.5	%
Gang, Li(4) Chairman, CEO and President	2,032,095	37.2	%
Lihua Wang(5) Director and CFO	508,023	9.3	%
Mia Kuang Ching Independent Director Chair of Audit Committee	0	0	%
Jianxin (Jason) Wang Independent Director Chair of Nomination Committee	0	0	%
Jiuding Yan Independent Director Chair of Compensation Committee	0	0	%
All officers and directors as a group (five persons)	2,540,118	46.5	%

(1) Pursuant to Rule 13-d-3 under the Securities Exchange Act of 1934, as amended, beneficial ownership of a security consists of sole or shared voting power (including the power to vote or direct the voting) and/or sole or shared investment power (including the power to dispose or direct the disposition) with respect to a security whether through a contract, arrangement, understanding, relationship or otherwise. Unless otherwise indicated, each person indicated above has sole power to vote, or dispose or direct the disposition of all shares beneficially owned. We are unaware of any shareholders whose voting rights would be affected by community property laws. Unless as otherwise set forth in the table, the address of each beneficial owner is 3106, Tower C, 390 Qingnian Avenue, Heping District, Shenyang City, Liaoning Province, P. R. China 110015.

(2) This table is based upon information obtained from our stock records. Unless otherwise indicated in the footnotes to the above tables and subject to community property laws where applicable, we believe that each shareholder named in the above table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

(3) Pelaria International Ltd. ("Pelaria") is the record owner of the stated number of shares. Pelaria is a wholly-owned subsidiary of Liaoning Nengfa Weiye New Energy Application Co., Ltd. ("Weiye Energy"). Weiye Energy is 80% owned by Gang Li and 20% owned by Lihua Wang. Mr. Li and Ms. Wang are two of the three directors of Weiye Energy, and therefore, effectively share the voting and dispositive authority over the shares.

(4) Represents the 80% beneficial ownership of the shares of Weiye Energy, described in footnote 3 above.

(5) Represents the 20% beneficial ownership of the shares of Weiye Energy, described in footnote 3 above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with related persons, promoters and certain control persons

In June 2011, the Company obtained a new short-term loan of $1,500,000 from Cloverbay International Ltd, its major stockholder which is controlled by Ms. Lihua Wang (the Company's CFO) and Mr. Gang Li (the Company's CEO). This note is unsecured, carries interest at 2.5% per annum, payable at maturity, and is due on May 31, 2013. As of December 31, 2012, the total amount outstanding under the loan was $1,500,000.

Director Independence

We undertook a review of the independence of our directors and, using the definitions and independence standards for directors provided in the rules of The NASDAQ Stock Market, considered whether any director has a material relationship with us that could interfere with his or her ability to exercise independent judgment in carrying out their responsibilities. As a result of this review, we determined that Mia Kuang Ching, Jianxin (Jason) Wang and Jiuding Yan were "independent directors" as defined under the rules of The NASDAQ Stock Market.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees Billed For Audit and Non-Audit Services

The following table represents the aggregate fees billed for professional audit services rendered by our independent auditor, HKCMCPA Company Limited ("HKCMCPA") for their audit of our annual financial statements during the years ended December 31, 2012 and 2011. Audit fees and other fees of auditors are listed as follows:

Year Ended December 31	2012	2011
Audit Fees	$74,500	$74,500
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total Accounting Fees and Services	$74,500	$74,500

Audit Fees. These are fees for professional services for the audit of the Company's annual financial statements, and for the review of the financial statements included in the Company's filings on Form 10-Q, and for services that are normally provided in connection with statutory and regulatory filings or engagements, The amounts $74,500 shown for HKCMCPA in 2012 related to (i) the audit of the Company's annual financial statements for the fiscal year ended December 31, 2011, and (ii) the review of the financial statements included in the Company's filings on Form 10-Q for the first, second and third quarters of 2012. The amounts $74,500 shown for HKCMCPA in 2011 related to (i) the audit of the Company's annual financial statements for the fiscal year ended December 31, 2010, and (ii) the review of the financial statements included in the Company's filings on Form 10-Q for the first, second and third quarters of 2011.

Audit-Related Fees. These are fees for the assurance and related services reasonably related to the performance of the audit or the review of the Company's financial statements. There were no audit-related fees billed during the years ended December 31, 2012 or 2011.

Tax Fees. These are fees for professional services with respect to tax compliance, tax advice, and tax planning. There were no tax fees billed during the years ended December 31, 2012or 2011.

All Other Fees. These are fees for permissible work that does not fall within any of the other fee categories, i.e. Audit Fees, Audit-Related Fees, Tax Fees and allowable working costs. There were no other fees billed during the years ended December 31, 2012 or 2011.

Pre-Approval Policy and Procedures for Audit and Non-Audit Services

The audit committee has the sole and direct responsibility for appointing, evaluating and retaining our independent registered public accounting firm and overseeing their work. All audit services to be provided to us and all non-audit services, other than de minims non-audit services, to be provided to us by our independent auditors must be approved in advance by our audit committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements.

For a list of the financial information included herein, see “Index to Financial Statements” on page 49.

(a)(2) Financial Statement Schedules.

All schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or Notes thereto.

(a)(3) Exhibits. The list of Exhibits filed as a part of this Form 10-K are set forth on the Exhibit Index immediately preceding such Exhibits and is incorporated herein by this reference.

SIGNATURES

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

NF ENERGY SAVING CORPORATION
(Registrant)

Date: March 29, 2013 By: /s/ Gang Li
Gang Li
President and Chief Executive Officer

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

Signature	**Title**	**Date**
/s/ Gang Li Gang Li	President, Chief Executive Officer and Chairman (principal executive officer)	March 29, 2013
/s/ Lihua Wang Lihua Wang	Chief Financial Officer and Director (principal financial officer and principal accounting officer)	March 29, 2013
/s/ Mia Kuang Ching Mia Kuang Ching	Independent Director, Chair of Audit Committee	March 29, 2013
/s/ Jason Wang Jason Wang	Independent Director, Chair of Nomination Committee	March 29, 2013
/s/ Jiuding Yan Jiuding Yan	*Independent Director* *Chair of Compensation Committee*	March 29, 2013

INDEX TO EXHIBITS

Exhibit Number	Description	Incorporated by Reference to
3.1	Certificate of Incorporation	Exhibits with the corresponding numbers filed with our registration statement on Form 10-SB filed January 17, 2003. (File No. 000-50155).
3.2	Certificate of Amendment	Exhibits submitted with our registration statement on Form 10-SB filed January 17, 2003. (File No. 000-50155)
3.3	Certificate of Amendment to Certificate of Incorporation	Exhibits submitted with our registration statement on Form 10-SB filed January 17, 2003. (File No. 000-50155) Incorporated by reference from the Company's Definitive Information Statement on Schedule 14C, filed July 23, 2009
3.4	Certificate of Amendment to Certificate of Incorporation	Incorporated by reference from the Company's Current Report on Form 8-K, filed on September 16, 2010
3.5	Bylaws	Exhibits submitted with our registration statement on Form 10-SB filed January 17, 2003. (File No. 000-50155)
10.1	Form of Securities Purchase Agreement among NF Energy Saving Corporation of America, South World Ltd. (investor), Oriental United Resources Ltd. (investor), Mr. Gang Li (guarantor), Ms. Lihua Wang (guarantor), Pelaria International Ltd. (guarantor), and Cloverbay International Ltd. (guarantor)	Exhibits submitted with our Current Report on Form 8-K/A filed April 30, 2008. (File No. 000-50155)
10.2	Form of Director Retainer Agreement with Mr. Mia Kuang Ching, including Proprietary Information and Inventions Agreement and Indemnity Agreement	Incorporated by reference from the Company's Current Report on Form 8-K, filed August 12, 2009
10.3	Form of Director Retainer Agreement with Mr. Jianxin Wang, including Proprietary Information and Inventions Agreement and Indemnity Agreement	Incorporated by reference from the Company's Current Report on Form 8-K, filed August 12, 2009
10.4	Form of Director Retainer Agreement with Mr. Zhongmin Wang, including Proprietary Information and Inventions Agreement and Indemnity Agreement 4	Incorporated by reference from the Company's Current Report on Form 8-K, filed September 14, 2009

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10.5	Form of Director Retainer Agreement with Mr. Jiuding Yan, including Proprietary Information and Inventions Agreement and Indemnity Agreement	Incorporated by reference from the Company's Current Report on Form 8-K, filed September 14, 2009
10.6	Form of Director Retainer Agreement with Mr. John C. MacLean, including Proprietary Information and Inventions Agreement and Indemnity Agreement	Incorporated by reference from the Company's Current Report on Form 8-K, filed September 14, 2009
10.7	Form of Securities Purchase Agreement (including form of Convertible Promissory Note and Form of Warrant	Incorporated by reference from the Company's Current Report on Form 8-K, filed on March 3, 2010
14.1	Code of ethics of NF Energy Saving Corporation	
21.1	Subsidiaries of Registrant	
23.1	Consent of Independent Registered Public Accounting Firm	
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	