NF Energy Saving Corp
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 30, 2018**

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

Commission File Number: 000-50155

NF Energy Saving Corporation

(Exact name of registrant as specified in its charter)

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

Room 3106 Block C, 390 Qingnian Avenue, Heping District

Shenyang, P. R. China 110002

(Address of Principal Executive Offices)

(8624) 25609775

(Registrant's Telephone Number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

Large accelerated filer ¨		Accelerated filer ¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company x
		Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of August 9, 2018, the registrant had 7,573,289 shares of common stock, $0.001 par value, issued and outstanding.

STATEMENT REGARDING FORWARD LOOKING INFORMATION

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

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(UNAUDITED)

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2018 AND DECEMBER 31, 2017

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

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 222,221	$ 282,154
Accounts receivable, net	7,889,050	12,217,790
Retention receivable, current	504,483	545,940
Inventories	4,229,734	2,064,231
Prepayments and other receivables	4,145,662	3,645,652
Total current assets	16,991,150	18,755,767
Non-current assets:		
Property, plant and equipment, net	19,200,447	19,987,116
Land use rights, net	2,587,531	2,664,054
Construction in progress	25,683	26,128
TOTAL ASSETS	$ 38,804,811	$ 41,433,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 3,981,969	$ 3,976,334
Short-term bank borrowings	6,798,559	7,223,681
Amount due to a related party	85,418	431,682
Other payables and accrued liabilities	2,694,561	2,504,556
Total current liabilities	13,560,507	14,136,253
TOTAL LIABILITIES	13,560,507	14,136,253
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 7,573,289 and 7,073,289 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	7,573	7,073

Additional paid-in capital	12,555,325	12,055,825
Statutory reserve	2,227,634	2,227,634
Accumulated other comprehensive income	2,209,758	2,613,829
Retained earnings	8,194,201	10,343,407
Total NFEC stockholders' equity	25,194,491	27,247,768
Non-controlling interest	49,813	49,044
Total equity	25,244,304	27,296,812
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 38,804,811	$ 41,433,065

See accompanying notes to condensed consolidated financial statements.

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NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
REVENUE, NET:				
Product	$ 406,193	$ 1,605,082	$ 497,989	$ 2,574,389
Services	158,146	72,322	213,429	139,056
Total revenues, net	564,339	1,677,404	711,418	2,713,445
COST OF REVENUES:				
Cost of products	132,464	1,321,107	210,995	2,125,186
Cost of services	140,084	62,467	177,195	168,647
Total cost of revenues	272,548	1,383,574	388,190	2,293,833
GROSS PROFIT	291,791	293,830	323,228	419,612
OPERATING EXPENSES:				
Sales and marketing	7,449	36,964	16,389	78,076
General and administrative	1,827,991	419,108	2,267,181	846,530
Total operating expenses	1,835,440	456,072	2,283,570	924,606
LOSS FROM OPERATIONS	(1,543,649)	(162,242)	(1,960,342)	(504,994)
Other (expense) income:				
Other income	894	-	1,224	-
Other expense	(63)	-	(63)	-
Interest income	196	64	196	120
Interest expense	(108,904)	(96,992)	(197,580)	(178,026)
Total other expense	(107,877)	(96,928)	(196,223)	(177,906)
LOSS BEFORE INCOME TAXES	(1,651,526)	(259,170)	(2,156,565)	(682,900)
Income tax expense	(98)	(2,163)	(98)	(2,672)
NET LOSS	$ (1,651,624)	$ (261,333)	$ (2,156,663)	$ (685,572)
Less: net loss attributable to non-controlling interest	(2,117)	-	(7,457)	-

Net loss attributable to the Company	$ (1,649,507)	$ (261,333)	(2,149,206)	(685,572)
Net loss per share:				
– Basic and diluted	$ (0.22)	$ (0.04)	$ (0.29)	$ (0.10)
Weighted average common shares outstanding – Basic and diluted	7,573,289	7,073,289	7,379,919	7,073,289

See accompanying notes to condensed consolidated financial statements.

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NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
NET LOSS	$ (1,651,624)	$ (261,333)	$ (2,156,663)	$ (685,572)
Other comprehensive (loss) income:				
– Foreign currency adjustment (loss) gain	(1,402,589)	442,870	(395,845)	686,029
Total other comprehensive (loss) income	(1,402,589)	442,870	(395,845)	686,029
COMPREHENSIVE (LOSS) INCOME	(3,054,213)	181,537	(2,552,508)	457
Less: Comprehensive (loss) income attributable to non-controlling interests	(4,843)	-	769	-
Comprehensive (loss) income attributable to NF Energy Saving Corporation	$ (3,049,370)	$ 181,537	$ (2,553,277)	$ 457

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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

(Unaudited)

	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(2,156,663)	$(685,572)
Adjustments to reconcile net loss to net cash used in operating activities		
Allowance for doubtful accounts	1,454,386	-
Depreciation and amortization	495,797	405,163
Gain on disposal of property, plant and equipment	(780)	-
Stock based compensation	-	226,200
Change in operating assets and liabilities:		
Accounts and retention receivable	2,863,247	(403,487)
Inventories	(2,287,919)	(44,954)
Amount due from a related company	(346,264)	-
Prepayments and other receivables	(583,208)	(493,837)
Accounts payable	76,230	954,434
Other payables and accrued liabilities	239,057	(84,737)
Net cash used in operating activities	(246,117)	(126,790)
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment	1,540	-
Payments on construction in progress	-	(2,392)
Net cash provided by (used in) investing activities	1,540	(2,392)
Cash flows from financing activities:		
Issuance of share from private placement	500,000	-
Repayment to bank demand notes	(1,099,496)	-
Proceeds from short-term bank borrowings	7,068,191	5,818,746
Repayment on short-term bank borrowings	(6,282,837)	(5,818,746)
Net cash provided by financing activities	185,858	-
Effect on exchange rate change on cash and cash equivalents	(1,214)	20,712

NET CHANGE IN CASH AND CASH EQUIVALENTS	(59,933)	(108,470)
BEGINNING OF PERIOD	282,154	124,637
END OF PERIOD	$222,221	$16,167
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$197,580	$178,026
Cash paid for tax	$-	$2,672

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

	Common stock				**Accumulated**		**Total NFEC**	Non-	Total
	No. of shares	Amount	**Additional paid-in capital**	**Statutory Reserve**	**other comprehensive income**	**Retained earnings**	stockholders' equity	controlling interest	**stockhol equity**
Balance as of January 1, 2018 (Audited)	7,073,289	$7,073	$12,055,825	$2,227,634	$2,613,829	$10,343,407	$27,247,768	$49,044	$27,296,8
Issuance of shares from private placement	500,000	500	499,500	-	-	-	500,000	-	500,000
Foreign currency translation adjustment	-	-	-	-	(404,071)	-	(404,071)	8,226	(395,84
Net loss for the period	-	-	-	-	-	(2,149,206)	(2,149,206)	(7,457)	(2,156,6
Balance as of June 30, 2018 (Unaudited)	7,573,289	$7,573	$12,555,325	$2,227,634	$2,209,758	$8,194,201	$25,194,491	$49,813	$25,244,3

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

NOTE–1 BASIS OF PRESENTATION

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

In the opinion of management, the consolidated balance sheet as of December 31, 2017 which has been derived from audited financial statements and these unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary to state fairly the results for the periods presented. The results for the period ended June 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2018 or for any future period.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Management’s Discussion and the audited financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE–2 ORGANIZATION AND BUSINESS BACKGROUND

NF Energy Saving Corporation (the “Company” or “NFEC”) was incorporated in the State of Delaware on October 31, 2000.

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.

Description of subsidiaries

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operation**	**Particulars of issued/ registered share capital**		**Effective interest held**	
Liaoning Nengfa Weiye Energy Technology Co. Ltd ("Nengfa Energy")	The PRC, a limited liability company	Production of a variety of industrial valve components which are widely used in water supply and sewage system, coal and gas fields, power generation stations, petroleum and chemical industries in the PRC	US$	5,000,000	100	%
Liaoning Nengfa Tiefa Import & Export Co.Ltd ("Nengfa Tiefa Import & Export")	The PRC, a limited liability company	Development and production of hi-tech and automatic-intelligence valve products	RMB	877,192	57	%

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

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

NOTE–3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

· Use of estimates

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

· Basis of consolidation

The condensed consolidated financial statements include the financial statements of NFEC and its subsidiaries. All significant inter-company balances and transactions within the Company have been eliminated upon consolidation.

· Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in readily available checking and saving accounts. Cash equivalents consist of highly liquid investments that are readily convertible to cash and that mature within three months or less from the date of purchase. The carrying amounts approximate fair value due to the short maturities of these instruments.

· Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest, which are due within contractual payment terms, generally 30 to 90 days from shipment. Credit is extended based on evaluation of a customer's financial condition, the customer 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. As of June 30, 2018 and December 31, 2017, the allowance for doubtful accounts was $2,146,130 and $760,164, respectively.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

· 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 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. Quarterly, the Company reviews historical sales activity to determine excess, slow moving items and potentially obsolete items and also evaluates the impact of any anticipated changes in future demand. The Company provides inventory allowances based on excess and obsolete inventories determined principally by customer demand. As of June 30, 2018, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

· Land use rights

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.

Amortization expense for the three months ended June 30, 2018 and 2017 was $16,181 and $15,043, respectively.

Amortization expense for the six months ended June 30, 2018 and 2017 was $32,412 and $30,017, respectively.

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

Period ending June 30:	
2019	$62,350
2020	62,350
2021	62,350
2022	62,350
2023	62,350
Thereafter	2,275,781
Total:	$2,587,531

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NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

· 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 life	Residual value
Building	30 – 50 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 retired or sold, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the results of operations.

Depreciation expense for the three months ended June 30, 2018 and 2017 was $230,569 and $187,946, respectively.

Depreciation expense for the six months ended June 30, 2018 and 2017 was $463,385 and $375,146, respectively.

· 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 three and six months ended June 30, 2018.

· 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

Revenues are recognized when control of the promised goods or services are transferred to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its agreements:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations in the contract; and
- recognize revenue as the performance obligation is satisfied.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

(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 and product conditions, 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 three and six months ended June 30, 2018 and 2017.

(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.

· Comprehensive income

ASC Topic 220, *"Comprehensive Income",* establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated other comprehensive income, as presented in the accompanying condensed consolidated statement of stockholders' equity, consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

· Income taxes

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.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

For the six months ended June 30, 2018 and 2017, the Company did not have any interest and penalties associated with tax positions. As of June 30, 2018 and 2017, 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.

· 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 six months ended June 30, 2018 and 2017.

· Net loss per share

The Company calculates net loss per share in accordance with ASC Topic 260, "*Earnings per Share*." Basic income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed similar to basic income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive.

· Foreign currencies translation

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the statement of operations.

The reporting currency of the Company is the United States Dollar ("US$"). The Company's subsidiaries in the PRC maintain their books and records in their local currency, 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 subsidiary 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.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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

(Unaudited)

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

	June 30, 2018	June 30, 2017
Period-end RMB:US$1 exchange rate	6.6191	6.5064
Average period RMB:US$1 exchange rate	6.3666	6.7570

· 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 period ended June 30, 2018 and 2017, the Company operates in one reportable operating segment in the PRC.

· Fair value of financial instruments

The carrying value of the Company's financial instruments (excluding short-term bank borrowing and note payable): cash and cash equivalents, 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 short-term bank borrowings and note payable approximate the carrying amount.

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;

- *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.

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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

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update ("ASU") 2014-09, “Revenue from Contracts with Customers (Topic 606).” The FASB also issued a series of other ASUs, which update ASU 2014-09 (collectively, the “new revenue recognition standard”). This new standard replaces all previous U.S. GAAP guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The impact of the adoption of the new standard was not material to the Company’s condensed consolidated financial statements for the quarter ended June 30, 2018. The Company expects the impact to be immaterial on an ongoing basis.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” The standard provides guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows. For public entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods, and requires a retrospective approach. The Company adopted this standard effective January 1, 2018 and the adoption did not have a material effect on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (“ASC 842”)”. The guidance requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. ASC 842 is effective for fiscal years beginning after December 15, 2018. The Company is evaluating the adoption of ASC 842, but has not determined the effects it may have on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The standard requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents (collectively, "restricted cash"). Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this standard retrospectively effective January 1, 2018 and the adoption did not have a material effect on the Company's consolidated financial statements.

Management has considered all recent accounting pronouncements issued. The Company's management believes that these recent pronouncements will not have a material effect on the Company's financial statements.

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NOTE–4 ACCOUNTS AND RETENTION RECEIVABLES

The majority of the Company's sales are on open credit terms and in accordance with terms specified in the contracts governing the relevant transactions. The Company evaluates the need of an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required.

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Accounts receivable, cost	$ 10,035,180	$ 12,977,954
Retention receivable, cost	504,483	545,940
	10,539,663	13,523,894
Less: allowance for doubtful accounts	(2,146,130)	(760,164)
Accounts and retention receivable, net	$ 8,393,533	$ 12,763,730

Up to August 8, 2018, the Company has subsequently recovered from approximately 7% of accounts and retention receivable as of June 30, 2018.

During the three and six months ended June 30, 2018, the Company made $1,454,386 allowance for doubtful accounts to the potentially impaired balances.

NOTE–5 INVENTORIES

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Raw materials	$ 1,001,278	$ 499,213
Work-in-process	498,633	555,694
Finished goods	2,729,823	1,009,324
	$ 4,229,734	$ 2,064,231

For the three and six months ended June 30, 2018 and 2017, no allowance for obsolete inventories was recorded by the Company.

Finished goods are expected to be delivered to the customers in the next twelve months.

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(Unaudited)

NOTE–6 SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consist of the following:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Payable to financial institutions in the PRC:		
Demand bank notes: Equivalent to RMB7,000,000, due on March 19, 2018, which is guaranteed by its vendor	$ -	$ 1,075,867
Short-term borrowing: Equivalent to RMB40,000,000 with interest rate at 1.28 times of the Bank of China Benchmark Lending Rate, monthly payable, due on March 19, 2019, which is guaranteed by its vendor	6,798,559	6,147,814
Total short-term bank borrowings	$ 6,798,559	$ 7,223,681

The effective Bank of China Benchmark Lending rate is 6% and 6% per annum for the six months ended June 30, 2018 and 2017.

NOTE–7 AMOUNT DUE TO A RELATED PARTY

As of June 30, 2018, the amount due to a related party represented temporary advances made by the Company's major stockholder, Pelaris 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 and had no fixed term of repayment. Imputed interest is not significant.

NOTE–8 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Customer deposits	$ 569,410	$ 513,382
Value added tax payable	594,882	627,290
Accrued operating expenses	640,963	506,944
Other payable	889,306	856,940
	$ 2,694,561	$ 2,504,556

NOTE–9 INCOME TAXES

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

As of June 30, 2018, the operation in the United States of America incurred $4,093,080 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2038, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $859,547 on the expected future tax benefits from the net operating loss carryforwards as the management believes it is more likely than not that these assets will not be realized in the future.

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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 six months ended June 30, 2018 and 2017 is as follows:

	Six months ended June 30, 2018	2017
Loss before income taxes from PRC operation	$ (2,055,919)	$ (427,675)
Statutory income tax rate	25 %	25 %
Income tax expense at statutory rate	(513,979)	(106,918)
Effect from non-deductible items	514,077	109,590
Income tax expense	$ 98	$ 2,672

The following table sets forth the significant components of the aggregate deferred tax assets of the Company as of June 30, 2018 and December 31, 2017:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Deferred tax assets:		
Net operating loss carryforwards		
- United States – current rate	$ 859,547	$ 1,333,501
- United States – effect of change in statutory rate	-	(509,868)
Less: valuation allowance	(859,547)	(823,633)
Deferred tax assets	$ -	$ -

NOTE–10 STOCKHOLDERS' EQUITY

On March 12, 2018, the Company issued 500,000 shares of its Common Stock, at the price of $1.00 per share for an aggregate consideration of $500,000, to an independent third party.

As of June 30, 2018 and December 31, 2017, the Company had a total of 7,573,289 and 7,073,289 shares of its common stock issued and outstanding, respectively.

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NOTE–11 CONCENTRATIONS OF RISK

The Company is exposed to the following concentrations of risk:

(a) Major customer

For the three and six months ended June 30, 2018, the customers who accounted for 10% or more of the Company's revenues and its outstanding account receivable balances as at year-end dates, are presented as follows:

	Three months ended June 30, 2018			June 30, 2018
Customer	Sales	**Percentage of sales**		**Accounts receivable**
Customer G	$ 231,544	41	%	$ -
Customer H	123,730	22	%	-
Customer A	114,031	20	%	6,396,289
	$ 469,305	83	%	$ 6,396,289

	Six months ended June 30, 2018			June 30, 2018
Customer	Sales	Percentage of sales		Accounts receivable
Customer G	$ 231,544	33	%	$ -
Customer H	123,730	17	%	-

Customer A	114,037	16	%		6,396,289
	$ 469,311	66	%		$ 6,396,289

	Three months ended June 30, 2017				June 30, 2017
Customers	Sales	Percentage of sales			Accounts and retention receivable
Customer A	$ 915,307	55	%		$ 7,740,574
Customer B	444,044	26	%		527,001
	$ 1,359,351	81	%	Total:	$ 8,267,575

	Six months ended June 30, 2017				June 30, 2017
Customers	Sales	Percentage of sales			Accounts and retention receivable
Customer A	$ 1,632,293	60	%		$ 7,740,574
Customer B	444,044	16	%		527,001
	$ 2,076,337	76	%	Total:	$ 8,267,575

All customers are located in the PRC.

(b) Major vendors

For the three and six months ended June 30, 2018, no vendor accounted for 10% of the Company’s purchase.

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For the three and six months ended June 30, 2017, the vendor who accounts for 10% or more of the Company's purchases and its outstanding balances as at period-end dates, are presented as follows:

	Three months ended June 30, 2017				**June 30, 2017**
Vendors	**Purchases**	**Percentage of purchases**			**Accounts payable**
Vendor D	$ 379,415	64	%		$ -
Vendor E	95,325	16	%		109,140
Total	$ 474,740	80	%	Total:	$ 109,140

	Six months ended June 30, 2017				**June 30, 2017**
Vendors	**Purchases**	**Percentage of purchases**			**Accounts payable**
Vendor D	$ 379,415	47	%		$ -
Vendor C	107,376	13	%		72,250
Vendor E	95,325	12	%		109,140
Total:	$ 582,116	72	%	Total:	$ 181,390

All vendors are located in the PRC.

(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 borrowing under notes and bank borrowings. The Company manages interest rate risk by varying the issuance and maturity dates variable rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates. As of June 30, 2018, borrowings under related party notes were at fixed rates and short-term bank borrowings were 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.

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(f) Economic and political risks

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

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

NOTE–12 SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued and filed with this Form 10-Q. There were no subsequent events that required recognition or disclosure.

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

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 Smart Valve Technology 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 in the name of Galli Process, Inc. on October 31, 2000 for the purpose of seeking and consummating a merger or acquisition with a business entity organized as a private corporation, partnership, or sole proprietorship. On December 31, 2001, Galli Process, Inc. became a majority owned subsidiary of City View TV, Inc., a Florida corporation ("City View"). On February 7, 2002, Galli Process, Inc. changed its name to Global Broadcast Group, Inc. On March 1, 2002, City View merged into Global Broadcast Group, Inc., which was the surviving entity. On November 12, 2004, the Company changed its name to Diagnostic Corporation of America. On March 15, 2007, we changed our name to NF Energy Saving Corporation of America, and on August 24, 2009, the Company further changed its name to NF Energy Saving Corporation, in both instances to more accurately reflect our business after a stock exchange transaction with Neng Fa. Our principal place of business is Room 3106, Tower C, 390 Qingnian Avenue, Heping District, Shenyang, P. R. China 110015. Our telephone number is (8624) 2560-9775.

On November 15, 2006, we executed a Plan of Exchange ("Plan of Exchange"), among the Company, Neng Fa, the shareholders of Neng Fa (the "Neng Fa Shareholders") and Gang Li, our Chairman and Chief Executive Officer ("Mr. Li"). Pursuant to and at the closing of the Plan of Exchange, which occurred on November 30, 2006, we issued to the Neng Fa Shareholders 12,000,000 shares of our common stock, or 89.4% of our then outstanding common stock, in exchange for all of the shares of capital stock of Neng Fa owned by the Neng Fa Shareholders. Immediately upon the closing, Neng Fa became our 100% owned subsidiary, and the Company ceased all of its other operations and adopted and implemented the business plan of Neng Fa.

Nengfa Energy's area of business includes research and development, processing, manufacturing, marketing and distribution of energy saving flow control equipment; manufacturing, marketing and distribution of energy equipment and fittings; energy saving technical reconstruction; and energy saving technology consulting services, providing comprehensive solutions for energy-saving emission reduction.

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

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

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

On November 26, 2015 , a new company devoting to intelligent products was set up which is named by " Liaoning Nengfa Weiye Smart Valve Technology Co.Ltd". ("Nengfa Smart Valve"). "Liaoning Nengfa Weiye Energy Technology Co.Ltd" owns approximately 40% of the shares in this new company. On March 8, 2017, "Liaoning Nengfa Weiye Smart Valve Technology Co.Ltd was named by "Liaoning Nengfa Tiefa Import and Export Sales Company" in order to make further business activities.

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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 was awarded of "Hi-tech enterprise" by Liaoning Technology bureau in 2013.

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 renew the product, such as large intelligent flow control facility and to provide our Company with more advanced technology to supply high grade energy efficient and safety reliant products for high end markets.

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.

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:

- In 2007, Nengfa Energy received contracts for our products and services to be used in three sections of the Middle Section-Jingshi Section of the national project to redirect the water from China's southern rivers to the north of the country. This phase of the project was 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 Guandong Province, and one for Phase 1 of Guangdong Yuedian Huilai Power Plant.

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- 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).

- In 2013, the Company received contracts from Zheneng Zhenhai gas thermal power Ltd; Chongqing water turbine factory Ltd; Chongqing Wanliu power Ltd ; Dalian Petrochemical Company of Petro of China ; China National Electric Power Engineering Ltd ; Xinyu iron and steel Ltd; Shandong Electric Power Corporation; Jiajie gas-fired cogeneration branch of Shanxi new energy industry group; and the Amedyan Power Ltd of State Grid; Chuangshi Energy Ltd, Beijing; Peiling Water-resource Development Ltd, Chongqing; Iron and Steel Ltd, Maanshan; Oilfield Construction Group Ltd, Daqing ; Harbin Air-condition Ltd; China resources power (haifeng) Ltd.

- In 2014, the Company received contracts from LXB Water Supply Co., Ltd. Shandong Luneng Huaneng Power International Trade Company of Taiyuan Dongshan Gas Turbine Thermal Power Co., Ltd., Beijing Sea of Inner Mongolia Coal Gangue Power Co., Ltd. and other companies. At the same time, the Company has also completed the installation of desulfurization, denigration and dust removal systems at the 660T/h boiler room of the Chinese Aviation Company.

- In 2015, the Company received contracts from Gansu Coal Group Co.Ltd, Nanning Tiefa Valve Co., Ltd, Weinan Dongnan Bureau , Shanxi Ruiguang power Co., Ltd and Harbin Binhe Technology Co., Ltd, Chifeng Jianxi Shangrao water diversion project, Inner Mongolia Caisen hydropower station, Chifeng Xincheng thermal power co., Ltd, Sinkiangr conservancy hub project and Italian Tecnedil International SRL, etc.

- In 2016, the Company received contracts from the 2*660MW project of a subsidiary of State Grid, Shanxin, a 2*660MW low calorific coal power generation project and the Hubei Huanggang cogeneration project, Jiangsu Guohua Chenjia Gang power co.,Ltd, Shandong electric power construction co.,Ltd , 2*350 MW cogeneration project of Shandong Junan Liyuan Thermal Power Co.,Ltd., 2*1000 MW circulating water system project of Guangdong Datang International Leizhou Power Plant , 2*1000 MW of coal-fired power generating project of Shanxin Shentou Power Co.Ltd, 2*660 MW generator project of North China Power Engineering (Beijing) Co.,Ltd and Liaoning Dahufang reservoir water diversion project etc.

- In 2017, the Company received contracts from JATIGATE hydroelectric station, Indonesia, Sinkiang Production and Construction Group and Siehuan Dongfa Electric Co.Ltd,China Nuclear Qiqihar environmental protection technology Co. Ltd., for the first phase of an oxidation pond deep processing project; Chongqing water turbine Co., Ltd., for the huangshan dragon hydropower station renovation project in Vietnam; and Chongqing new century electrical Co. Ltd., for the NHESANJEN hydropower station renovation project in Nepal,Zhejiang Zhenhai power plant coal-fired units move renovation project, Wanhua chemical (Ningbo) electric co., Ltd. Valve supply water system project, Chongqing New Century electrical co., Ltd power projects in Pakistan etc.

- In 2018, the Company received from the chemical pulp project of One Paper Co.,Ltd IN Shandong province, the renewable energy utilization center project of One Comprehensive Development Co.,Ltd in Shanghai etc.

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FORWARD LOOKING STATEMENTS

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

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

Revenues are recognized when control of the promised goods or services are transferred to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its agreements:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations in the contract; and
- recognize revenue as the performance obligation is satisfied.

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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, 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 over a period from one to six months. When the Company completes production in accordance with the customer’s specification, the customer is required to inspect the finished products at the Company’s plant to approve quality and conformity and make final acceptance. Once the product is accepted by the customer, the Company undertakes delivery to the customer, usually within a month.

The Company recognizes revenue from the sale of such finished products upon delivery to the customers, when the title and risk of loss are fully transferred to the customers. The Company records its revenues, net of value added taxes (“VAT”). The VAT rate is 17%.

(b) Service revenue

Service revenue is derived from energy-saving technical services, project management or sub-contracting services. These services are generally billed on a time-cost plus basis, for the period of service provided, which is generally from two to nine months. Revenue is recognized 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.

Accounts Receivable

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

For most of our contracts, our customers are generally large or stated-owned construction contractors or developers mainly engaged in government-sponsored infrastructure projects such as large hydraulic/aqua-engineering projects, power plants and urban sewage network projects in the PRC. Usually, these infrastructure projects are undertaken in a number of phrases over a certain period of time. Our flow control equipment components are generally considered as major or significant components in the development phase of these infrastructure projects. As is standard in our industry practice, we are paid by these 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 each construction phrase. Given that the construction of these infrastructure projects are very large, complex, and requires a high of quality level at completion, the inspection process may take a considerable amount of time. Therefore, we may not collect the accounts receivable in 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 customers' credit-worthiness and their payment history. These customers are usually large state-owned corporations with good credit ratings. At the end of each period, we specifically evaluate the structure and collectability of accounts receivable and for receivables that are past due or not being paid according to the payment terms, we take appropriate action to exhaust all means of collection, including seeking legal resolution in a court of law. For customers with large amounts of accounts receivable, we may take other steps, such as limiting sales and changing payment terms and requesting forms of security. We will consider an adjustment to the allowance for doubtful accounts for any estimated losses resulting from the inability of our customers to make required payments.

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

Product Warranties

Under the terms of its contracts, the Company offers a free 12 to 24 months of product warranty on a case-by–case basis, depending upon the type of customer, and the nature and size of the infrastructure project. Under such arrangements, a portion of the project contract balance (usually 5-10% of contract value) is withheld by a customer from 12 to 24 months, until the product warranty has expired. The Company has not experienced any material returns under this warranty provision.

Inventories

Inventories are stated at the lower of cost or market (net realizable value), with the cost being determined on a weighted average method. Costs include material, labor and manufacturing overhead costs. Quarterly, the Company reviews historical sales activity to determine excess, slow moving items and potentially obsolete items and also evaluates the impact of any anticipated changes in future demand. The Company provides inventory allowances based on excess and obsolete inventories determined principally by customer demand.

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 life	Residual value
Building	30 -50 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 Rights

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.

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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.

Foreign Currencies Translation

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the condensed consolidated statement of operations.

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

In general, for consolidation purposes, assets and liabilities of its subsidiaries whose functional currency is not the US$ are translated into US$, in accordance with ASC Topic 830-30, "*Translation of Financial Statement*", using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the period. The gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as a separate component of accumulated other comprehensive income within the statement of stockholders' equity.

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

	June 30, 2018	June 30, 2017
Period-end RMB:US$1 exchange rate	6.6191	6.5064
Average period RMB:US$1 exchange rate	6.3666	6.7570

RESULTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Total Revenues

Total revenues were $564,339 and $711,418 for the three and six months ended June 30, 2018, respectively, as compared to $1,677,404 and $2,713,445 for the corresponding period in 2017. Total revenues decreased by $1,113,065 and $2,002,027 for the three and six months ended June 30, 2018, respectively, as compared to total revenues for the three and six months ended June 30, 2017. The decrease in product revenue was due to the delivered inventories in the end of 2017 were recognized without the invoices as the revenues of 2017. As a result, the Company deducted these revenues that have been recognized as the revenues of 2017 when received the invoices in the first quarter and the second quarter of 2018.

Product Revenues

Product revenues are derived principally from the sale of manufactured products relating to energy- saving flow control equipment. Product revenues were $406,193 and $497,989 or 71.97% and 69.99% of total revenues for the three and six months ended June 30, 2018, respectively, as compared to $1,605,082 and $2,574,389, or 95.68% and 94.87% of total revenues, for the corresponding period in 2017. Product revenues decreased by $1,198,889 and $2,076,400, or 74.69% and 80.65%, for the three and six months ended June 30, 2018, respectively, as compared to the same period in 2017. The decrease in product revenue was due to the delivered inventories in the end of 2017 were recognized without the invoices as the revenues of 2017. As a result, the Company deducted these revenues that have been recognized as the revenues of 2017 when received the invoices in the first quarter and the second quarter of 2018.

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. Service revenues were $158,146 and $213,429, or 28.03% and 30.01%, of total revenues for the three and six months ended June 30, 2018 respectively, as compared to $72,322 and $139,056, or 4.31% and 5.12%, of total revenues for the corresponding period in 2017. Service revenues increased by $85,824 and $74,373, or

118.66% and 53.48%, for the three and six months ended June 30, 2018, respectively, compared to the corresponding period in 2017. The increase in service revenue was primarily due to the increase in orders relating to product collaboration processing services.

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 manufacturing of products and the rendering of services. Total cost of revenues was $272,548 and $388,190 for the three and six months ended June 30, 2018, respectively, as compared to $1,383,574 and $2,293,833 for the corresponding three and six months in 2017, a decrease of $1,111,026 and $1,905,643, respectively, or 80.30% and 83.07%. The decrease in cost of revenues was primarily due to the decrease in total revenues.

The overall gross profit for the Company was $291,791 and 323,228 (51.70% and 45.43% margin) for the three and six months ended June 30, 2018, respectively, as compared to $293,830 and $419,612 (17.51% and 15.46% margin) for the corresponding three and six months in 2017, respectively, a decrease of $2,039 and $96,384, or 0.69% and 22.96%, compared to the corresponding period in 2017. The increase in gross profit margin was primarily due to the decrease in cost of revenues.

Cost of Products

Total cost of products was $132,464 and $210,995 for the three and six months ended June 30, 2018, respectively, as compared to $1,321,107 and $2,125,186 for the corresponding period in 2017, a decrease of $1,188,643 and $1,914,191, respectively, or 89.97% and 90.07%. This decrease is primarily due to the decrease of product revenue which led to the decrease in the cost of products.

The gross profit for products was $273,729 and $286,994 (67.38% and 57.63% margin) for the three and six months ended June 30, 2018, respectively, as compared to $283,975 and $449,203 (17.69% and 17.45% margin) for the corresponding three and six months in 2017, a decrease of $10,246 (3.6%) and $162,209 (36.11%). This decrease is primarily due to the decrease in product revenues.

Cost of Services

The cost of services was $140,084 and $177,195 for the three and six months ended June 30, 2018, respectively, as compared to $62,467 and $168,647 for the corresponding period in 2017, an increase of $77,617 and $8,548, respectively, or 124.25% and 5.06%. This increase is primarily due to the increase in the service revenue which lead to the increase in the cost of services.

The gross profit for services was $18,062 (11.42% margin) and $36,234 (16.97% margin) for the three and six months ended June 30, 2018, respectively, as compared to $9,855 (13.62% margin) and -$29,591 (-21.27% margin) for the corresponding period in 2017. This increase is primarily due to the decrease in the fixed fee that should be amortized in cost of services.

Operating Expenses

Total operating expenses were $1,835,440 and $2,283,570 for the three and six months ended June 30, 2018, respectively, as compared to $456,072 and $924,606 for the corresponding period in 2017, an increase of $1,379,368 and $1,358,964, respectively, or 302.44% and 146.97%. The increase of operating expenses is primarily due to the increase in the service fees as a listed company and the general and administrative expenses of the Company's subsidiaries.

Selling and Marketing Expenses

The selling and marketing expenses were $7,449 and $ 16,389 for the three and six months ended June 30, 2018, respectively, as compared to $36,964 and $78,076 for the corresponding period in 2017, a decrease of $29,515 and $61,687, respectively, or 79.84% and 79%. This decrease is primarily due to the decrease in the consulting fees related to operating expenses in the Company's subsidiaries.

General and Administrative Expenses

General and administrative expenses were $1,827,991 and $2,267,181 for the three and six months ended June 30, 2018, respectively, as compared to $419,108 and $846,530 for the corresponding period in 2017, an increase of $1,408,883 and $1,420,651, respectively, or 336.16% and 167.82%. The increase of general and administrative expenses is primarily due to the increase in the service fees as a listed company and the general and administrative expenses in the Company's subsidiaries.

LOSS FROM OPERATIONS

As a result of the factors mentioned above, loss from operations was $1,543,649 and $1,960,342 for the three and six months ended June 30, 2018, respectively, as compared to loss from operations of $162,242 and $504,994 for the corresponding three and six months period in 2017, an increase of $1,381,407 and $1,455,348 respectively. This increase is primarily due to the decrease of gross profit related to the decrease in product revenues.

Other Expense

Other expense was $107,877 and $196,223 for the three and six months ended June 30, 2018, respectively, as compared to $96,928 and $177,906 for the corresponding period in 2017, an increase of $10,949 and $18,317 respectively. This increase is primarily due to the increase in interest expense.

Income Tax Expense

For the three and six months ended June 30, 2018, income tax expense was $98 and $98 respectively, as compared to $2,163 and $2,672 for the same period in 2017, a decrease of $2,065 and $2,574, or 95.46% and 96.33%. This decrease was primarily due to the decrease of profit before income tax.

As of June 30, 2018, the operations in the United States of America incurred $4,093,080 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2038, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $859,547 on the expected future tax benefits from the net operating loss carryforwards as the management believes it is more likely than not that these assets will not be realized in the future.

The Company's effective income tax rate for the three months and six month ended June 30, 2018 was 25%.

Net loss

As a result of the factors mentioned above, net loss was $1,651,624 and $2,156,663 for the three and six months ended June 30, 2018, respectively, as compared to net loss of $261,333 and $685,572 for the corresponding period in 2017, an increase of $1,390,291 and $1,471,091. This increase is primarily due to the decrease in the product revenue and corresponding decrease in gross profit.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended June 30, 2018, net cash used in operating activities was $246,117. This was attributable primarily to a net loss of $2,156,663, adjusted by non-cash items of allowance of doubtful accounts of $1,454,386, depreciation and amortization of $495,797, gain on disposal of property, plant and equipment of $780, a decrease in accounts and retention receivable by $2,863,247, an increase in inventories by $2,287,919, an increase in prepayment and other receivable by $583,208, an increase in the accounts payable by $76,230 and an increase in other payable and accrued liabilities by $239,057.

For the six months ended June 30, 2017, net cash used in operating activities was $126,790. This was attributable primarily to a net loss of $685,572, adjusted by non-cash items of depreciation and amortization of $405,163, an increase in accounts and retention receivable by $403,487, an increase in inventories by $44,954, an increase in prepayment and other receivable by $493,837, an increase in the accounts payable by $954,434 and a decrease in other payable and accrued liabilities by $84,737.

We have followed ASC 230-10-45-28 and choose to provide information about major classes of cash flow items by the indirect method. In the statement of cash flows, we have reported the same amount for net cash flow from operating activities indirectly by adjusting net loss to reconcile it to net cash flow from operating activities. The reconciliation has separately reported all major classes of reconciling items, for example, changes during the period in accounts receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities.

As of June 30, 2018, the increase of inventories was primarily due to the delayed project so as to preventing us to deliver these inventories to our clients.

As of June 30, 2018, accounts and retention receivable was $10,539,663, 99.95% and 0.05% of the product revenue and service revenue, respectively.

The Company is highly aware the risk of default, and as a result, we actively monitor accounts receivable with aging above 1 year and those that account for about 17% 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 and retention receivable aging was as follows:

Item	Total	0-90 days	91-180 days	181-365 days	Above 365 days
Product	10,534,828	1,423,906	2,991,395	2,107,231	4,012,296
Service	4,835	-	-	3,324	1,511
Total	10,539,663	1,423,906	2,991,395	2,110,555	4,013,807
Less: retention	504,483	83,722	66,724	143,245	210,792
Less: allowance for doubtful accounts	2,146,130	-	-	-	2,146,130
Accounts receivable, net	7,889,050	1,340,184	2,924,671	1,967,310	1,656,885

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. The Company takes appropriate actions to exhaust all means of collection, including seeking legal resolution in a court of law, for our collection efforts. Meanwhile, the Company also adopted strict sales polices according to the signed contracts. The Company evaluated the existing customers and potential customers; as well as reducing their credit in the sales and raising the quality of contracts and controls on the doubtful accounts. This year, we have strengthened the team makeup of accounts receivable settlement, and we have organized nearly 30 professional people to track the accounts receivable and resident the customer until the accounts receivable have been recovered. We believe that these measures should improve the collection of the accounts receivable.

As of June 30, 2018, the accounts receivable of the major customer with aging above 365 days are expected to be collected between September and December, 2018:

Customer	**AR with aging above 365 days**	**Expected amount to be collected by the end of September 2018**	**Expected amount to be collected by the end of December 2018**
“A”	3,142,137	1,885,280	1,256,857

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.

Investing activities

For the six months ended June 30, 2018, net cash provided by investing activities was $1,540.

Financing activities

For the six months ended June 30, 2018, net cash provided by financing activities was $185,858.

INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

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

IMPACT OF RECENTLY ISSUED NEW ACCOUNTING STANDARDS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation and the identification of a material weakness in internal control over financial reporting described below, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures, as of June 30, 2018, and during the period prior were not effective.

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:

- 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
- 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.

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 .This material weakness was identified by our Chief Executive Officer and Chief Financial Officer and our plans for remediation are described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which was filed with the SEC on March 30, 2018.

Changes in Internal Control over Financial Reporting

Subject to the foregoing disclosure, there were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors

Not Applicable

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

None

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

SIGNATURES

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

NF Energy Saving Corporation
(Registrant)

Date: August 14, 2018 By:/s/ Gang Li
Gang Li
Chairman, Chief Executive Officer and President

Date: August 14, 2018 By: /s/ Lihua Wang
Lihua Wang
Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	**Description**
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Stockholders' Equity (iv) the Statements of Cash Flows, and (v) the Notes to Financial Statements