

NF Energy Saving CORP of America  
Form 10QSB  
August 14, 2007

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**U.S. Securities and Exchange Commission  
Washington, D.C. 20549**

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**FORM 10-QSB**

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- Quarterly Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934 for the Quarterly Period Ended June 30, 2007**
- Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934 for the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 000-50155**

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**NF Energy Saving Corporation of America**

**F/K/A DIAGNOSTIC CORPORATION OF AMERICA**  
(Exact name of small business issuer as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
incorporation or organization)

**02-0563302**  
(I.R.S. Employer  
Identification No.)

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

**(8624) 2560-9750**  
(Issuer's Telephone Number)

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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.

No

Yes

[x]

Number of shares of common stock outstanding as of August 15, 2007: 33,227,328

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Table of Contents

**CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION**

The discussion contained in this 10-QSB 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 or Plan of Operation" as well as those discussed elsewhere in this Form 10-QSB. 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-QSB 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.

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS	4
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	19
ITEM 3. CONTROLS AND PROCEDURES	24

**PART II. OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS	25
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS	25
ITEM 5. OTHER INFORMATION	25
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	25
SIGNATURES	26
INDEX TO EXHIBITS	27

Table of Contents

**ITEM 1. FINANCIAL STATEMENTS**

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)**

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

	<b>Page</b>
Condensed Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006	5
Condensed Consolidated Statements of Operations And Comprehensive Income for the Three and Six Months Ended June 30, 2007 and 2006	6
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 and 2006	7
Condensed Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2007	8
Notes to Condensed Consolidated Financial Statements	9-18

Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006**

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

	June 30, 2007 (Unaudited)	December 31, 2006 (audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,940,258	\$ 796,944
Accounts receivable, trade	1,686,869	1,398,031
Inventories	1,619,523	1,812,184
Prepayments and deposits	1,418,926	276,864
<b>Total current assets</b>	<b>6,665,576</b>	<b>4,284,023</b>
Plant and equipment, net	2,113,138	2,195,512
<b>TOTAL ASSETS</b>	<b>\$ 8,778,714</b>	<b>\$ 6,479,535</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$ 727,217	\$ 676,898
Customer deposits	81,381	17,661
Other payables and accrued liabilities	368,429	153,256
Income tax payable	-	378,069
Value added tax payable	165,106	25,871
<b>Total current liabilities</b>	<b>1,342,133</b>	<b>1,251,755</b>
Stockholders' equity:		
Common stock, \$0.001 par value; 50,000,000 shares authorized; Issued and outstanding: 31,527,328 and 30,527,328 shares as of June 30, 2007 and December 31, 2006	31,527	30,527
To be issued: 1,700,000 shares as of June 30, 2007	870,000	-
Additional paid-in capital	4,844,932	4,335,932
Statutory reserve	115,139	115,139
Accumulated other comprehensive income	142,212	70,360
Retained earnings	1,432,771	675,822
<b>Total stockholders' equity</b>	<b>7,436,581</b>	<b>5,227,780</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 8,778,714</b>	<b>\$ 6,479,535</b>



Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA**  
**(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**AND COMPREHENSIVE INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006**  
**(Currency expressed in United States Dollars ("US\$"), except for number of shares)**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>OPERATING REVENUE:</b>				
Products	\$ 3,013,085	\$ 1,802,659	\$ 3,945,336	\$ 1,827,619
Service	1,015,812	216,331	1,086,047	216,331
Total operating revenues	4,028,897	2,018,990	5,031,383	2,043,950
<b>COST OF REVENUES:</b>				
Cost of products	2,266,486	1,314,097	3,007,717	1,322,349
Cost of service	258,510	101,513	294,734	101,513
Total cost of revenues	2,524,996	1,415,610	3,302,451	1,423,862
<b>GROSS PROFIT</b>	1,503,901	603,380	1,728,932	620,088
<b>OPERATING EXPENSES:</b>				
Sales and marketing	14,709	4,566	14,709	4,566
Stock-based compensation	255,000	-	510,000	-
Research and development	329,906	-	329,906	-
General and administrative	71,759	77,551	129,229	82,225
Total operating expenses	671,374	82,117	983,844	86,791
<b>INCOME FROM OPERATIONS</b>	832,527	521,263	745,088	533,297
<b>OTHER INCOME (EXPENSES):</b>				
Other income	4,867	1,097	11,519	1,097
Interest income	342	170	342	280
Total other income	5,209	1,267	11,861	1,377
<b>INCOME BEFORE INCOME TAXES</b>	837,736	522,530	756,949	534,674
Income tax expenses	-	(176,442)	-	(176,442)
<b>NET INCOME</b>	\$ 837,736	\$ 346,088	\$ 756,949	\$ 358,232
Other comprehensive income:				
- Foreign currency translation gain	35,254	7,831	71,852	7,850
	\$ 872,990	\$ 353,919	\$ 828,801	\$ 366,082



**COMPREHENSIVE INCOME**

Net income per share – Basic and diluted	\$	0.03	\$	0.09	\$	0.02	\$	0.09
Weighted average number of shares outstanding during the period – Basic and diluted		31,527,328		3,877,328		31,388,439		3,877,328

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

	Six Months Ended June 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 756,949	\$ 358,232
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	113,254	73,578
Gain on disposal of plant and equipment	(10,533)	-
Stock-based compensation	510,000	-
Change in operating assets and liabilities:		
Accounts receivable	(288,838)	(1,319,212)
Inventories	192,661	(930,503)
Prepayments and deposits	(1,142,062)	(250,083)
Accounts payable	50,319	110,243
Customer deposits	63,720	-
Other payables and accrued liabilities	215,173	74,968
Income tax payable	(378,069)	176,442
Value added tax payable	139,235	(50,115)
Net cash provided by (used in) operating activities	221,809	(1,756,450)
<b>Cash flows from investing activities:</b>		
Purchase of plant and equipment	(74,170)	(5,274)
Proceeds from disposal of plant and equipment	53,823	-
Net cash used in investing activities	(20,347)	(5,274)
<b>Cash flows from financing activities:</b>		
Proceeds from private placement	870,000	-
Capital contribution from stockholders	-	1,996,529
Net cash provided by financing activities	870,000	1,996,529
<b>Foreign currency translation adjustment</b>	71,852	7,850
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,143,314	242,655
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	796,944	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 1,940,258	\$ 242,655
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	\$ 378,069	\$ -
Cash paid for interest expenses	\$ -	\$ -

**SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:**

Plant and equipment in exchange for loan due to owners	\$	-	\$ 2,369,277
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See accompanying notes to condensed consolidated financial statements.

7

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Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars ("US\$"))  
(Unaudited)**

	Common stock		Common stock to be issued		Additional paid-in capital	Accumulated other comprehensive income	Statutory reserve	Retained earnings	Total Equity
	No. of share	Amount	No. of share	Amount					
Balance as of January 1, 2007	30,527,328	\$ 30,527	-	-	\$ 4,335,932	\$ 70,360	\$ 115,139	\$ 675,822	\$ 5,227,780
Shares issued for service rendered	1,000,000	1,000	-	-	509,000	-	-	-	510,000
Shares issued for private placement	-	-	1,700,000	870,000	-	-	-	-	870,000
Foreign currency transactions adjustment	-	-	-	-	-	71,852	-	-	71,852
Net income for the period	-	-	-	-	-	-	-	756,949	756,949
Balance as of June 30, 2007	31,527,328	\$ 31,527	1,700,000	\$ 870,000	\$ 4,844,932	\$ 142,212	\$ 115,139	\$ 1,432,771	\$ 7,436,581

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

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**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with both generally accepted accounting principles for interim financial information, and the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, considered necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim financial information have read or have access to our annual audited consolidated financial statements for the preceding fiscal year. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes thereto contained in the Annual Report on Form 10-KSB for the year ended December 31, 2006.

**NOTE 2 ORGANIZATION AND BUSINESS BACKGROUND**

NF Energy Saving Corporation of America (formerly Diagnostic Corporation of America) (the “Company” or “NFES”) was incorporated in the State of Delaware in the name of Galli Process, Inc. on October 31, 2000. On February 7, 2002, the Company changed its name to “Global Broadcast Group, Inc.” On November 12, 2004, the Company changed its name to “Diagnostic Corporation of America.” On April 27, 2007, the Company further changed its name to “NF Energy Saving Corporation of America.”

On November 30, 2006, NFES completed a stock exchange transaction with the equity owners of Liaoning Neng Fa Weiye Pipe Network Construction and Operation Co. Ltd. (“Neng Fa”), whereby 12,000,000 shares of the Company’s common stock were issued to the equity owners of Neng Fa in exchange for 100% of the equity ownership in Neng Fa. Neng Fa was organized and existing under the laws of the Peoples’ Republic of China (the “PRC”) on February 8, 2006 and Mr. Li owns 60% of Neng Fa. As a result of the stock exchange, the former owners of Neng Fa own 89.4% of the issued and outstanding shares of the Company.

Neng Fa is a valves manufacturer and involves in the production of a variety of industrial valve components, which are widely used in water supply and sewage system, coal and gas fields, power generation stations, petroleum and chemistry industries. All the customers are located in the PRC.

The stock exchange transaction has been accounted for as a reverse acquisition and recapitalization of the Company whereby Neng Fa is deemed to be the accounting acquirer (legal acquiree) and the Company to be the accounting acquiree (legal acquirer). The accompanying condensed consolidated financial statements are in substance those of Neng Fa, with the assets and liabilities, and revenues and expenses, of the Company being included effective from the

date of stock exchange transaction.

NFES and Neng Fa are hereinafter referred to as (the “Company”).

9

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Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

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**NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1 Basis of presentation

These accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

1 Use of estimates

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

1 Basis of consolidation

The condensed consolidated financial statements include the financial statements of the Company and its subsidiary, Neng Fa.

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

1 Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment. As of June 30, 2007, the Company has determined that no allowance for doubtful accounts is necessary.

1 Inventories

Inventories include material, labor and factory overhead and are stated at lower of cost or market value, cost being determined on a weighted average method. The Company periodically 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, 2007, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

## I Property, plant and equipment, net

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:

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

Expenditure for maintenance and repairs is expensed as incurred.



Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

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1 Impairment of long-lived assets

In accordance with SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*”, long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of assets to estimated discounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. There has been no impairment as of June 30, 2007.

1 Revenue recognition

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

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

(a) Sale of products

The Company recognizes revenue from the sale of products upon delivery to the customers and the transfer of title and risk of loss. The Company experienced no product returns and has recorded no reserve for sales returns for the three and six months ended June 30, 2007.

(b) Service revenue

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

(c) Interest income

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

1 Cost of revenues

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

11

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Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

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1 Stock-based compensation

The Company adopts SFAS No. 123R, “*Accounting for Stock-Based Compensation*” using the fair value method. Under SFAS No. 123R, stock-based compensation expense is measured at the grant date based on the value of the option or restricted stock and is recognized as expense, less expected forfeitures, over the requisite service period, which is generally the vesting period.

1 Income taxes

The Company accounts for income taxes in interim periods as required by Accounting Principles Board Opinion No. 28, “*Interim Financial Reporting*” and as interpreted by FASB Interpretation No. 18, “*Accounting for Income Taxes in Interim Periods*”. The Company has determined an estimated annual effective tax rate. The rate will be revised, if necessary, as of the end of each successive interim period during the Company’s fiscal year to the Company’s best current estimate.

The estimated annual effective tax rate is applied to the year-to-date ordinary income at the end of the interim period.

1 Comprehensive income

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

1 Product warranty

Under the terms of the contracts, the Company will provide a product warranty to its customers for a period of twelve months, free of charge and then at the discretion of the customers, enter into maintenance contracts. The Company has not experienced any material returns where it was under obligation to honor this standard warranty provision. As such, no reserve for product warranty has been provided in the condensed consolidated statement of operations for the period ended June 30, 2007.

1 Net income per share

The Company calculates net income per share in accordance with SFAS No. 128, “*Earnings per Share*”. Basic net income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the three months. Diluted net income per share is computed similar to basic net 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.

#### 1 Foreign currencies translation

The reporting currency of the Company is the United States dollar (“U.S. dollars”). Transactions denominated in currencies other than U.S. dollar at the average rate for the period. Monetary assets and liabilities denominated in currencies other than U.S. dollar are translated into U.S. dollar at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recorded in the other expenses in the condensed consolidated statement of operation and comprehensive income.

Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

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The Company’s subsidiary maintains its books and records in its local currency, the Renminbi Yuan (“RMB”), which is functional currency as being the primary currency of the economic environment in which its operations are conducted. In general, for consolidation purposes, the Company translates the subsidiary’s assets and liabilities into U.S. dollars using the applicable exchange rates prevailing at the balance sheet date, and the statement of operations is translated at average exchange rates during the reporting period. Adjustments resulting from the translation of the subsidiary’s financial statements are recorded as accumulated other comprehensive income.

1 Segment reporting

SFAS No. 131 “*Disclosures about Segments of an Enterprise and Related Information*” establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organization structure as well as information about geographical areas, business segments and major customers in the financial statements. Neng Fa currently operates two business segments in Tieling City, Liaoning Province, the PRC: Valves manufacturing service and Energy-saving related service. (See Note 12.)

1 Fair value of financial instruments

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

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

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

1 Recently issued accounting standards

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

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company’s financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The

Company adopted FIN48 on January 1, 2007. The adoption of FIN 48 did not have an effect on the results of operations or financial condition. The Company did not have any unrecognized tax benefits as of June 30, 2007.

On February 15, 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 159, *“The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115”* (“SFAS 159”). This standard permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to FASB No. 115, *“Accounting for Certain Investments in Debt and Equity Securities,”* applies to all entities that own trading and available-for-sale securities. The fair value option created by SFAS 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (i) makes that choice in the first 120 days of that year, (ii) has not yet issued financial statements for any interim period of such year, and (iii) elects to apply the provisions of FASB 157. Management is currently evaluating the impact of SFAS 159, if any, on the Company’s financial statements.

Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA**  
**(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007**  
**(Currency expressed in United States Dollars (“US\$”))**  
**(Unaudited)**

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**NOTE 4 ACCOUNTS RECEIVABLE, TRADE**

The majority of the Company’s sales are on open credit terms and in accordance with terms specified in the contracts governing the relevant transactions. The Company evaluates the need of an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required. Based upon the aforementioned criteria, management has determined that no allowance for doubtful accounts is required for the three and six months ended June 30, 2007.

**NOTE 5 INVENTORIES**

Inventories consisted of the following:

	June 30, 2007	December 31, 2006 (audited)
Raw materials	\$ 1,167,582	\$ 269,759
Work-in-process	400,915	701,206
Finished goods	51,026	841,219
	<b>\$ 1,619,523</b>	<b>\$ 1,812,184</b>

For the three and six months ended June 30, 2007 and 2006, no allowance for obsolete inventories was recorded by the Company.

**NOTE 6 PREPAYMENTS AND DEPOSITS**

Prepayments and deposits consisted of the following:

	June 30, 2007	December 31, 2006 (audited)
Deposits to equipment suppliers	\$ 1,289,126	\$ 266,183
Prepayment for equipment purchase	122,722	-
Advances to staff	7,078	10,681
	<b>\$ 1,418,926</b>	<b>\$ 276,864</b>





Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

**NOTE 7 PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net, consisted of the following:

	June 30, 2007	December 31, 2006 (audited)
Plant and machinery	\$ 2,303,065	\$ 2,351,240
Furniture, fixture and equipment	106,469	32,885
	2,409,534	2,384,125
Less: accumulated depreciation	(296,396)	(188,613)
Plant and equipment, net	\$ 2,113,138	\$ 2,195,512

Depreciation expense for the three months ended June 30, 2007 and 2006 were \$56,545 and \$55,602, respectively.

Depreciation expense for the six months ended June 30, 2007 and 2006 were \$113,254 and \$73,578 respectively.

**NOTE 8 OTHER PAYABLES AND ACCRUED LIABILITIES**

Other payables and accrued liabilities consisted of following:

	June 30, 2007	December 31, 2006 (audited)
Rental payable	\$ 16,480	\$ 35,200
Government levies payable	43,485	7,295
Welfare payable	68,124	59,495
Accrued expenses	240,340	51,266
	\$ 368,429	\$ 153,256

**NOTE 9 INCOME TAXES**

The Company's subsidiary operating in the PRC, Neng Fa is subject to the PRC Income Tax Laws and Regulations. During 2006, Neng Fa was a domestic company in the PRC and was generally subject to enterprise income tax (“EIT”) at a statutory rate of 33% (30% national income tax plus 3% local income tax).

On May 11, 2007, the Teiling city local government tax bureau in the PRC approved Neng Fa as a foreign investment

enterprise. Hence, effective from January 1, 2007, Neng Fa is entitled to a two-year exemption from enterprise income tax and a reduced enterprise income tax rate of 15% for the following three years.

The Company's effective income tax rates for the three and six months ended June 30, 2007 and 2006 were 0%, 0% and 33.7% and 33%, respectively.

Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

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**NOTE 10 STOCK-BASED COMPENSATION**

On January 26, 2007, the Company issued 1,000,000 restricted shares of common stock for business advisory services to Greentree Financial Group, Inc. The fair value of this restricted stock issuance was determined using the fair value of the Company’s common stock on the grant date, at a price of \$0.51 per share. The Company calculated a stock-based compensation cost of \$510,000 and recognized \$255,000 and \$510,000 for the three and six months ended June 30, 2007, respectively.

**NOTE 11 CAPITAL TRANSACTION**

On April 11, the Company entered into a Subscription and Stock Purchase Agreement with Mr Li Gang ("Mr. Li"), a citizen of the PRC, to consummate a private sale of 1,700,000 shares of its common stock (“the Shares”) for an aggregate purchase price of \$870,000 at a price of \$0.51 per share. The proceeds of this private placement were used to fund the business expansion. As of June 30, 2007, these shares of common stock were to be issued (see Note 15).

As a result of this transaction, Mr. Li owns approximately 60.2% of the issued and outstanding shares of the Company’s Common Stock.

**NOTE 12 SEGMENT INFORMATION**

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

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

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

	Valves manufacturing service	Energy-saving related service	Total
Operating revenues	\$ 3,155,446	\$ 873,451	\$ 4,028,897

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Cost of revenues	2,335,874	189,122	2,524,996
Gross profit	819,572	684,329	1,503,901
Depreciation	44,286	12,259	56,545
Net income	\$ 351,261	\$ 486,475	\$ 837,736

16

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Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA**  
**(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007**  
**(Currency expressed in United States Dollars (“US\$”))**  
**(Unaudited)**

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

	Valves manufacturing service	Energy-saving related service	Total
Operating revenues	\$ 4,157,932	\$ 873,451	\$ 5,031,383
Cost of revenues	3,113,329	189,122	3,302,451
Gross profit	1,044,603	684,329	1,728,932
Depreciation	100,995	12,259	113,254
Net income	\$ 270,474	\$ 486,475	\$ 756,949

**NOTE 13 CONCENTRATION AND RISK**

## (a) Major customers and vendors

For the three and six months ended June 30, 2007, 100% of the Company’s assets were located in the PRC and 100% of the Company’s revenues and purchases were derived from customers and vendors located in the PRC.

For the three months ended June 30, 2007, customers and vendors who account for 10% or more of revenues and purchases are presented as follows:

Customers	Revenues	Percentage of revenues	Accounts receivable
Customer A	\$ 939,455	23%	\$ \$189,908
Customer B	559,953	14%	-
Customer C	479,174	12%	231,081
Customer D	392,490	10%	-
	Total: \$ 2,371,072	59%	Total: \$ \$420,989
Vendors	Purchases	Percentage of purchases	Accounts payable
Vendor A	\$ 1,321,818	52%	\$ \$78,755

For the six months ended June 30, 2007, customers and vendors who account for 10% or more of revenues and

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purchases are presented as follows:

Customers	Revenues	Percentage of revenues	Accounts Receivable
Customer A	\$ 1,696,433	34%	\$ 189,908
Customer B	549,991	11%	-
Customer E	637,234	13%	504,136
	Total: \$ 2,883,658	58%	Total: \$ 694,044
Vendors	Purchases	Percentage of purchases	Accounts Payable
Vendor A	\$ 1,587,815	48%	\$ 78,755

Table of Contents

**NF ENERGY SAVING CORPORATION OF AMERICA  
(FORMERLY DIAGNOSTIC CORPORATION OF AMERICA)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007  
(Currency expressed in United States Dollars (“US\$”))  
(Unaudited)**

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(b) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition, but does not require collateral to support such receivables.

**NOTE 14 COMMITMENT AND CONTINGENCIES**

The Company leased an office premise under a non-cancelable operating lease agreement for a period of one year, ending February 10, 2008. The annual lease payment is \$38,481.

As of June 30, 2007, the Company has contracted for purchase of equipment amounting to \$313,250 (RMB2,376,000), of which \$122,722 was paid to suppliers.

**NOTE 15 SUBSEQUENT EVENT**

On August 8, 2007, the Company entered into a Subscription and Stock Purchase Agreement, dated April 11, 2007, with Mr Li Gang ("Mr. Li"), a citizen of the PRC, to consummate a private sale of 1,700,000 shares of its common stock ("the Shares"). The aggregate purchase price for the Shares was \$870,000 at a price of \$0.51 per share.

Table of Contents

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

**GENERAL DESCRIPTION OF BUSINESS**

As used herein the terms "we", "us", "our," the "Registrant," "NFES" and the "Company" means, NF Energy Saving Corporation of America, a Delaware corporation, formerly known as Diagnostic Corp. of America, Global Broadcast Group, Inc., Galli Process, Inc. These terms also refer to our subsidiary corporation, Liaoning Neng Fa Weiye Pipe Network Construction and Operation Co. Ltd., a corporation organized and existing under the laws of the Peoples' Republic of China ("Neng Fa") acquired in November 2006.

We were incorporated under the laws of the State of Delaware on October 31, 2000 as Galli Process, Inc. 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, we changed our name to Diagnostic Corporation of America. On March 22, 2007, we changed our name to NF Energy Saving Corporation of America to more accurately reflect our business after a stock exchange transaction with Neng Fa.

On November 15, 2006, we executed a Plan of Exchange ("Plan of Exchange"), between and among us, Neng Fa, the shareholders of Neng Fa (the "Neng Fa Shareholders") and Li Gang, our President and Director ("Mr. Li").

Pursuant to and at the closing of the Plan of Exchange, which occurred on November 30, 2006, we issued 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 we ceased all of our current remaining operations and adopted and implemented the business plan of Neng Fa.

We are engaged in industrial valves manufacture and energy saving industry since the acquisition of Neng Fa. Our three core businesses combine and complement each other to constitute our enterprise value, including valve business, contractual energy management and pipeline networks reconstruction.

At present, our valve business holds a leading position in China. We intend to continue to introduce products in existing markets by enhancing our preferred brands, developing new complementary products, and continually improving merchandising in both the public utilities projects and wholesale distribution channels. We continually target selected new product and geographic markets based on growth potential, including our ability to leverage our existing distribution channels. Additionally, we continually leverage our distribution channels through the introduction of new products, as well as the integration of existing brand products. Our products are sold to wholesale distributors, municipal projects for pipeline networks and original equipment manufacturers (OEMs). Most of our sales are for products that have been approved under regulatory standards incorporated into state and municipal plumbing, heating, building and fire protection codes in China. We have consistently advocated the development of energy saving technology and are committed to providing products to meet these standards. Additionally, our manufacturing facilities are ISO 9001 certified by the International Organization for Standardization. We have been the member of Chicago Climate Exchange since 2006. Based on the reputation of our brand and our proven manufacturing capability and experience, we are continually growing our business in the fields of energy-saving technological service and public utilities, covering water supply, sewage systems, coal mine, natural gas fields, power plants, petroleum and chemistry industries.





Table of Contents

We also supply energy-efficient solutions to utilities networks in cities across China, including energy-saving reconstruction of pipeline networks and contractual energy management, by employing our patented low voltage and large calibre valves. We expect Contractual Energy Management and Pipeline Networks Reconstruction will become our main development directions in the future. This constitutes our new multiplied operation system which is expected to realize the long-term profitability and steady growth. The gross margin of energy-efficient management and service is estimated to be pegged at 50 to 60%

**RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007**

**FORWARD LOOKING STATEMENTS**

Certain statements in this report, including statements of our expectations, intentions, plans and beliefs, including those contained in or implied by "Management's Discussion and Analysis" and the Notes to Consolidated Financial Statements, are "forward-looking statements", within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are subject to certain events, risks and uncertainties that may be outside our control. The words "believe", "expect", "anticipate", "optimistic", "intend", "will", and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. 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, our dependence on network infrastructure, capacity, telecommunications carriers and other suppliers, industry pricing and technology trends, evolving industry standards, domestic and international regulatory matters, general economic and business conditions, the strength and financial resources of our competitors, our ability to find and retain skilled personnel, the political and economic climate in which we conduct operations and the risk factors described from time to time in our other documents and reports filed with the Securities and Exchange Commission (the "Commission"). Additional factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to: 1) our ability to successfully develop, manufacture and deliver our products on a timely basis and in the prescribed condition; 2) our ability to compete effectively with other companies in the same industry; 3) our ability to raise sufficient capital in order to effectuate our business plan; and 4) our ability to retain our key executives.

**CRITICAL ACCOUNTING POLICIES**

*Revenue recognition*

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

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

(a) Sale of products

The Company recognizes revenue from the sale of products upon delivery to the customers and the transfer of title and risk of loss. The Company experienced no product returns and has recorded no reserve for sales returns for the three and six months ended June 30, 2007.

(b) Service revenue

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

Table of Contents

## (c) Interest income

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

*Inventories*

Inventories include material, labor and factory overhead and are stated at lower of cost or market value, cost being determined on a weighted average method. The Company periodically 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, 2007, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

*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:

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

Expenditure for maintenance and repairs is expensed as incurred.

**Revenues**

We recorded revenues of \$4,028,897 and \$5,031,383 for the three and six months ended June 30, 2007, respectively, increasing by \$2,009,907 and \$2,987,433 compared to the revenues of \$2,018,990 and \$2,043,950 for the same periods ended June 30, 2006, respectively. The significant increase in revenue during the first half year of 2007, especially in the second quarter of 2007, was due primarily to the expansion of our sales networks, which cover approximately ten provinces throughout China. In addition, the second quarter of each year is the hot season for the sales of valves. Our revenues during the second quarter of 2006 failed to maintain the same level as 2007 due primarily to the inception of the subsidiary on February 8, 2006. The revenues during the six months ended June 30, 2007 consisted of \$4,157,932 from sales of self-manufactured valves components, and \$873,451 generated by provision of energy-saving related service. We recognized revenue from the sale of self-manufactured products upon delivery to the customers and the transfer of title and risk of loss. Because the majority of products are customized to meet customer's specifications, no product returns have occurred and have recorded no reserve for sales returns for the six months ended June 30, 2007. Service revenue is primarily derived from engineering and technical services that are not an element of an arrangement for the sale of products. These services are generally billed on a time-cost plus basis. Revenue is recognized when service is rendered and accepted by the customers.

We expect revenues to increase during the second half year of 2007 because we have successfully signed the contracts with the government as one of the designated suppliers for the state infrastructure projects. The contracts are expected to be consummated in the third quarter of 2007 with total amount of approximately \$3,900,000.



Table of Contents

**Income / Loss**

We had net income of \$837,736 and \$756,949 for the three and six months ended June 30, 2007, respectively. Compared to net income of \$346,088 and \$358,232 for the same periods ended June 30, 2006, respectively, the increase in net income during the six months ended June 30, 2007 was due primarily to the increase in revenues in this period, resulting in the sufficient gross profit to cover the increasing operating expenses. The net income for the three and six months ended June 30, 2006 was due to the low operating expenses at the beginning of the operation. We expect to be profitable during fiscal year 2007 through the implementation of our marketing strategies. However, we cannot be certain that we will be able to successfully implement our marketing strategies and there can be no assurance for the achievement. We cannot guarantee our projection in revenue growth, neither.

**Expenses**

Operating expenses for the three and six months ended June 30, 2007 were \$671,374 and \$983,844, respectively. The increases by \$589,257 and \$897,053, compared to operating expenses of \$82,117 and \$86,791 for the three and six months ended June 30, 2006, respectively, were due primarily to the research and development expense of \$329,906 incurred in the second quarter of 2007 for the project of grand electronic flow control system, and the non-cash consulting expenses resulting from the issuance of 1,000,000 shares of common stock for services in connection with general management consulting and advisory services including, but not limited to, the following:

- Advise on matters relating to our structure, management, operation and subsidiaries;
- The preparation and implementation of a new business plan and a future growth strategy;
- Assistance with preparation of applicable filings with the SEC;
- Assistance with preparation of financial statements;
- EDGAR services
- Assistance with preparation of applicable filings with the SEC;
- Assistance with preparation of financial statements;
- EDGAR services

Advise on procedures, regulations, and compliance of a public listed company;

The shares were valued based on the market price on the date of the stock grant and booked pro rata due to the service periods completed as of June 30, 2007, which were \$255,000 and \$510,000 for the three and six months ended June 30, 2007, respectively.

**Cost of Sales**

Cost of sales consists primarily of material costs, direct labor, depreciation and manufacturing overheads, which are directly attributable to the manufacture of products and the provision of services. Product delivery and direct labor would be examples of cost of sales items. During the three months ended June 30, 2007, we had \$2,524,996 in cost of revenue, of which \$2,266,486 in connection with production, or approximately 75.2% of sales revenues, and \$258,510 in connection with services provided, or approximately 25.4% of service revenue. During the comparative period ended June 30, 2006, we had \$1,415,610 in cost of revenue, of which \$1,314,097 in connection with production, or approximately 72.9% of sales revenues, and \$101,513 in connection with services provided, or approximately 46.9% of service revenue.



Table of Contents

During the six months ended June 30, 2007, we had \$3,302,451 in cost of revenue, of which \$3,007,717 in connection with production, or approximately 76.2% of sales revenues, and \$294,734 in connection with services provided, or approximately 27.1% of service revenue. During the comparative period ended June 30, 2006, we had \$1,423,862 in cost of revenue, of which \$1,322,349 in connection with production, or approximately 72.3% of sales revenues, and \$101,513 in connection with services provided, or approximately 46.9% of service revenue.

The markups typically range between 20-30% in valve production industry. The cost of production as a percentage of sales revenue was normal during all four comparative periods, compared to industry ratio. Simultaneously, the cost of services as a percentage of services revenue was low due to good profit margin existing in value-added services. We expect to lower the cost of revenue by devoting more time and effort to the segment of valves improvement, maintenance and engineering services in 2007.

**Impact of Inflation**

We believe that inflation has had a negligible effect on operations during these periods. We believe that we can offset inflationary increases in the cost of sales by increasing sales and improving operating efficiencies.

**Liquidity and Capital Resources**

Cash flows provided by operating activities were \$221,809 for the six months ended June 30, 2007, compared to cash flows of \$1,756,450 used in operating activities for the six months ended June 30, 2006. Positive cash flows from operations for the six months ended June 30, 2007 were due primarily to the net income of \$756,949, decrease in inventories by \$192,661 and increase in other payable and accrued liabilities by \$215,173, partially offset by the increase in accounts receivable and prepayments, which were \$288,838 and \$1,142,062, respectively. Cash flows used in operating activities for the six months ended June 30, 2006 were due primarily to the increase in accounts receivable, inventories and prepayments and deposits, which were \$1,319,212, \$930,503 and \$250,083, respectively.

Cash flows used in investing activities were \$20,347 for the six months ended June 30, 2007, due to the purchase of plant and equipment, offset by the proceeds from disposition, compared to cash flows of \$5,274 used in the same period of 2006, which were due primarily to the purchase of property and equipment in the six months ended June 30, 2006.

Cash flows provided by financing activities were \$870,000 for the six months ended June 30, 2007, due to the private sale of 1,700,000 shares of common stock of the Company to a related party at the market price of \$.51 per share, compared to cash flows of \$1,996,529 provided by financing activities for the six months ended June 30, 2006 due primarily to shareholder loans of \$1,872,159 and capital contribution of \$124,370 required by Chinese corporation laws.

We project that we will need additional capital to fund operations over the next 12 months. We anticipate we will need an additional \$1,500,000 in working capital during 2007 and \$2,000,000 for the two years thereafter.

Overall, we have funded our cash needs from inception through June 30, 2007 with a series of debt and equity transactions, primarily with related parties. If we are unable to receive additional cash from our related parties, we may need to rely on financing from outside sources through debt or equity transactions. Our related parties are under no legal obligation to provide us with capital infusions. Failure to obtain such financing could have a material adverse effect on operations and financial condition.





Table of Contents

We had cash of \$1,940,258 on hand and a working capital of \$5,323,443 as of June 30, 2007. Currently, we have enough cash to fund our operations for about twelve months. This is based on current working capital and projected revenues. However, if the projected revenues fall short of needed capital we may not be able to sustain our capital needs. We will then need to obtain additional capital through equity or debt financing to sustain operations for an additional year. Our current level of operations would require capital of approximately \$1,500,000 to sustain operations through year 2007 and approximately \$2,000,000 per year thereafter. Modifications to our business plans may require additional capital for us to operate. For example, if we are unable to raise additional capital in the future we may need to curtail our number of product offers or limit our marketing efforts to the most profitable geographical areas. This may result in lower revenues and market share for us. In addition, there can be no assurance that additional capital will be available to us when needed or available on terms favorable.

On a long-term basis, liquidity is dependent on continuation and expansion of operations, receipt of revenues, and additional infusions of capital and debt financing. Our current capital and revenues are insufficient to fund such expansion. If we choose to launch such an expansion campaign, we will require substantially more capital. The funds raised from this offering will also be used to market our products and services as well as expand operations and contribute to working capital. However, there can be no assurance that we will be able to obtain additional equity or debt financing in the future, if at all. If we are unable to raise additional capital, our growth potential will be adversely affected and we will have to significantly modify our plans. For example, if we unable to raise sufficient capital to develop our business plan, we may need to:

- \* Curtail new product launches
- \* Limit our future marketing efforts to areas that we believe would be the most profitable.

Demand for the products and services will be dependent on, among other things, market acceptance of our products, industrial valves market in general, and general economic conditions, which are cyclical in nature. Inasmuch as a major portion of our activities is the receipt of revenues from the sales of our products, our business operations may be adversely affected by our competitors and prolonged recession periods.

Our success will be dependent upon implementing our plan of operations and the risks associated with our business plans. We manufacture and sell industrial valves to factories and wholesale buyers and provide valves improvement, maintenance and engineering services. We plan to strengthen our position in these markets. We also plan to expand our operations through aggressively marketing our products.

**ITEM 3. CONTROLS AND PROCEDURES.**

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within the specified time periods. The Company’s Chief Executive Officer and its Chief Financial Officer (collectively, the “Certifying Officers”) are responsible for maintaining disclosure controls and procedures for the Company. The controls and procedures established by the Company are designed to provide reasonable assurance that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms.

As of the end of the period covered by this report, the Certifying Officers evaluated the effectiveness of the Company’s disclosure controls and procedures. Based on the evaluation, the Certifying Officers concluded that the Company’s disclosure controls and procedures were effective to provide reasonable assurance that information

required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Robert Dawley vs NF Energy Saving Corp. of America, etal. On May 21, 2007, there was a civil complaint filed against the Company in the United States District Court, Middle District of Florida, Orlando, Civil No. 6:07-cv-872-Orl-19DAB. The complaint faults the Company for breach of contract, based on a one page “document of understanding” which was signed by Sam Winer, former Chief Executive Officer, prior to the commencement of reverse merger with our subsidiary. The plaintiff, a shareholder named Robert Dawley, is representing himself pro se, and claims he is owed a “consulting fee” of \$60,000 for the rest of his life pursuant to the one page “document of understanding” signed by Mr. Winer. The case was dismissed on August 13, 2007 without prejudice for improper service of process and lack of jurisdiction.

**ITEM 2. CHANGES IN SECURITIES**

On August 8, 2007, pursuant to the terms and conditions of a Subscription and Stock Purchase Agreement, dated April 11, 2007, we consummated a private sale of 1,700,000 shares of our Common Stock ( the “Shares”) to Mr. Li Gang (“Mr. Li”), our President. The aggregate purchase price for the Shares was \$870,000 or approximately \$.51 per share.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

- (1) Exhibits: Exhibits required to be attached by Item 601 of Regulation S-B are listed in the Index to Exhibits Beginning on page 8 of this Form 10-QSB, which is incorporated herein by reference.

Reports on Form 8-K filed in the second quarter of 2007

None.

Reports on Form 8-K filed subsequent to the second quarter of 2007

- (1) On August 8, 2007, we filed an 8-K report under Item 3.02, Unregistered Sales of Equity Securities reporting stock issuance for cash investment.



Table of Contents

**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 of America**

Date: August 15, 2007

By:

/s/ Li, Gang

Li, Gang

President and Chief Executive Officer

Table of Contents

**INDEX TO EXHIBITS**

**Exhibit No. Description**

- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Statement required by 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Statement required by 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

