

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended March 31, 2024

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from to

Commission File No. 001-41816

**NORTHANN CORP.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**88-1513509**

(I.R.S. Employer  
Identification No.)

**c/o Northann Distribution Center Inc.  
9820 Dino Drive, Suite 110  
Elk Grove, CA 95624**

(Address of Principal Executive Offices)

**95624**

(Zip Code)

**(916) 573 3803**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	NCL	NYSE American LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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  No

As of May 20, 2024, there were 23,240,000 shares of common stock of the Registrant, par value \$0.001 per share, issued and outstanding.

Northann Corp.  
Quarterly Report on Form 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**NORTHANN CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(In U.S. dollars)

	As of March 31, 2024 <u>(Unaudited)</u>	As of December 31, 2023
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 590,169	\$ 1,101,443
Restricted cash	3,765	3,771
Accounts receivable, net	2,535,962	2,615,458
Inventory, net	2,843,811	2,645,488
Prepayments	317,267	311,402
Other receivables and other current assets	47,257	127,313
Total current assets	6,338,231	6,804,875
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment, net	4,549,995	4,724,105
Construction in progress	1,232,580	962,338
Land use rights, net	1,023,235	1,030,982
Operating lease right-of-use assets, net	79,673	87,380
Security deposits	9,030	9,030
Total non-current assets	6,894,513	6,813,835
<b>TOTAL ASSETS</b>	<b>\$ 13,232,744</b>	<b>\$ 13,618,710</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Bank borrowings - current	4,494,627	5,689,721
Operating lease liabilities, current	31,807	31,413
Accounts and other payables and accruals	4,280,334	4,538,322
Taxes payable	510,968	608,679
Unearned revenue	1,573,969	1,084,484
Amounts due to related parties	1,386,943	302,943
Obligation under secured borrowing arrangement	71,169	599,664
Total current liabilities	12,349,817	12,855,226
Bank borrowings – non-current	122,712	124,905
Operating lease liabilities, – non-current	47,866	55,967
Total non-current liabilities	170,578	180,872
<b>TOTAL LIABILITIES</b>	<b>\$ 12,520,395</b>	<b>\$ 13,036,098</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock – Series A, \$0.001 par value, 100,000,000 shares authorized, 10,000,000 shares issued and outstanding as of March 31, 2024 and December 31, 2023	5,000	5,000
Common stock, \$0.001 par value, 400,000,000 shares authorized, 40,000,000 shares issued and outstanding as of March 31, 2024 and December 31, 2023	21,380	21,380
Subscription receivable	(25,000)	(25,000)
Additional paid-in capital	6,671,016	6,671,016
Retained earnings	(5,253,908)	(5,313,943)
Accumulated other comprehensive loss	(706,139)	(775,841)
Total stockholders' equity	712,349	582,612
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 13,232,744</b>	<b>\$ 13,618,710</b>

The accompanying notes are an integral part of these consolidated financial statements.

**NORTHANN CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**  
**(In U.S. dollars)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
	(Unaudited)	(Unaudited)
<b>REVENUES</b>	\$ 4,595,531	\$ 2,734,933
<b>COST OF REVENUES</b>	3,051,541	1,484,991
<b>GROSS PROFIT</b>	1,543,990	1,249,942
<b>OPERATING EXPENSES</b>		
Selling expenses	218,375	198,491
General and administrative expenses	485,037	355,127
Research and development expenses	512,597	300,212
<b>Total operating expenses</b>	1,216,009	853,830
<b>INCOME FROM OPERATIONS</b>	327,981	396,112
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(267,946)	(87,737)
Amortization of debt discounts	-	(123,288)
Other income	-	159
Exchange loss	-	5,600
Total other (expenses)	(267,946)	(205,266)
<b>INCOME BEFORE TAXES</b>	60,035	190,846
Income tax expense	-	(5,380)
<b>NET INCOME</b>	60,035	185,466
<b>Other comprehensive income :</b>		
Foreign currency translation adjustment	69,702	373,736
<b>Total comprehensive income</b>	129,737	559,202
Basic and diluted earnings per share	0.0028	\$ 0.0100
Weighted average number of shares of common stock outstanding – basic	21,380,000	20,000,000
Weighted average number of shares of common stock outstanding – diluted	21,380,000	20,000,000

The accompanying notes are an integral part of these consolidated financial statements.

**NORTHANN CORP.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)  
(In U.S. dollars)

	<u>Preferred Stock – Series A</u>		<u>Common Stock</u>		<u>Subscription receivable</u>	<u>Additional paid in capital</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Total</u>
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>					
<b>Balance, December 31, 2022</b>	5,000,000	\$ 5,000	20,000,000	\$ 20,000	\$ (25,000)	\$ 925,000	\$ 1,818,630	\$ (769,891)	\$ 1,973,739
Net income	-	-	-	-	-	-	185,466		185,466
Foreign currency translation adjustment								373,736	\$ 373,736
<b>Balance, March 31, 2023</b>	<u>5,000,000</u>	<u>\$ 5,000</u>	<u>20,000,000</u>	<u>\$ 20,000</u>	<u>\$ -25,000</u>	<u>\$ 925,000</u>	<u>\$ 2,004,096</u>	<u>\$ (396,155)</u>	<u>\$ 2,532,941</u>

	<u>Preferred Stock – Series A</u>		<u>Common Stock</u>		<u>Subscription receivable</u>	<u>Additional paid in capital</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Total</u>
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>					
<b>Balance, December 31, 2023</b>	5,000,000	\$ 5,000	21,380,000	\$ 21,380	\$ (25,000)	\$ 6,671,016	\$ (5,313,943)	\$ (775,841)	\$ 582,612
Net income	-	-	-	-	-	-	60,035	-	60,035
Foreign currency translation adjustment	-	-	-	-	-	-	-	69,702	69,702
<b>Balance, March 31, 2024</b>	<u>5,000,000</u>	<u>\$ 5,000</u>	<u>21,380,000</u>	<u>\$ 21,380</u>	<u>\$ (25,000)</u>	<u>\$ 6,671,016</u>	<u>\$ (5,253,908)</u>	<u>\$ (706,139)</u>	<u>\$ 712,349</u>

The accompanying notes are an integral part of these consolidated financial statements.

**NORTHANN CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In U.S. dollars)

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
	(Unaudited)	(Unaudited)
<b>Cash flows from operating activities</b>		
Net income	\$ 60,035	\$ 185,466
<b>Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:</b>		
Allowance for doubtful accounts	13,891	-
Depreciation and amortization	134,823	239,017
Amortization of debt discounts	-	123,288
<b>Changes in assets and liabilities</b>		
Accounts receivable	79,496	478,162
Other receivables	80,056	73,928
Prepayments	(5,865)	(64,164)
Inventory	(198,323)	(1,233,379)
Prepaid expenses	-	-
Right of use assets	7,707	6,769
Deferred tax asset	-	-
Accounts payable	(206,537)	(775,741)
Accruals and other payables	(25,608)	146,435
Unearned revenue	489,485	4
Payroll payable	(29,909)	(4,155)
Taxes payable	(97,711)	(64,249)
Accrued interest	4,066	-
Operating leases	(7,707)	(6,769)
Other assets	-	(52)
Net cash provided or (used in) operating activities	<u>297,897</u>	<u>(895,440)</u>
<b>Cash flows from investing activities</b>		
(Payments for) proceeds from disposal	-	(130,999)
Payments for equipment	-	(15,260)
(Payments for ) or transfer from construction	(270,242)	(13,139)
Net cash used in investing activities	<u>(270,242)</u>	<u>(159,398)</u>
<b>Cash flows from financing activities</b>		
Payment of Bank Loan	(1,197,287)	(28,394)
Payment of secured borrowing arrangement	(528,495)	-
Amounts received from or related party	1,084,000	550,337
Net cash (used in) provided by financing activities	<u>(641,782)</u>	<u>521,943</u>
<b>Effect of exchange rates on cash</b>	<u>102,847</u>	<u>373,736</u>
<b>Net change in cash and cash equivalents</b>	<u>(511,280)</u>	<u>(159,159)</u>
<b>Cash at beginning of year</b>	<u>1,105,214</u>	<u>251,100</u>
<b>Cash at end of year</b>	<u>\$ 593,934</u>	<u>\$ 91,941</u>
<b>Supplemental of cash flow information</b>		
Cash paid for interest	<u>\$ 339,821</u>	<u>\$ 70,244</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 5,380</u>

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2024 (UNAUDITED) AND  
FOR THE YEARS ENDED DECEMBER 31 2023  
(In U.S. dollars)**

**1. ORGANIZATION AND BUSINESS**

The Company commenced operations in August 2013 with the establishment of Northann Building Solutions LLC. (“NBS”) in Delaware. In December 2013, Northann (Changzhou) Construction Products Ltd (“NCP”) was established in China. All of its products were manufactured through NCP.

In March 2014, Benchwich Construction Products Ltd (“Benchwick”) was established in Hong Kong. All wholesales to distributors are conducted through Benchwick.

In April 2014, Changzhou Macro Merit International Trading Co., Ltd. (“MARCO”) was established in China. All the import/export of our products are conducted through MARCO.

In February 2016, Northann Distribution Center Inc. (“NDC”) was established in California. NDC is a distribution center in the United States and maintains a small inventory for retail sales.

In September 2017, Changzhou Ringold International Trading Co., Ltd. (“Ringold”) was established in China. All of the raw material are procured from third parties through Ringold.

In September 2018, Crazy Industry (Changzhou) Industry Technology Co., Ltd. (“Crazy Industry”) was established in China. Crazy Industry is the research and development hub.

In June 2020, Dotfloor Inc. (“Dotfloor”) was established in California. Dotfloor operates dotfloor.com, the online store that offers our vinyl flooring products to retail customers in the United States.

In March 2022, Northann Corp. (“Northann”), the current ultimate holding company, was incorporated in Nevada as part of the restructuring transactions in contemplation of our initial public offering. In connection with its incorporation, in April 2022, we completed a share swap transaction and issued common stock and Series A Preferred Stock of Northann to the then existing shareholders of NBS, based on their then respective equity interests held in NBS. NBS then became our wholly owned subsidiary. In accordance to ASC 805-50-30-5 and ASC 805-50-45-1 through 45-5, the series of restructuring transactions have been accounted for as transactions between entities under common control; accordingly, the Company’s historical capital structure has been retroactively restated to the first period presented.

On October 23, 2023, the Company consummated the initial public offering (the “IPO”) of 1,200,000 shares of common stock, par value \$0.001 per share at an offering price of \$5.00 per share. On October 25, 2023, the underwriters of the IPO fully exercised the over-allotment option granted by the Company and purchased additional 180,000 shares of Common Stock at \$5.00 per share. The closing of the Over-Allotment Option took place on October 26, 2023.

*Going Concern*

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As of March 31, 2024, the Company had a working capital deficit of \$6,011,586 and net cash provided by operating activities of \$93,248 for the three months ended March 31, 2024. The Company may not have adequate liquidity to remain solvent and settle its obligations when payment become due; these factors gave rise to substantial doubt that the Company would continue as a going concern. Management is closely monitoring its financial position, especially its working capital and cash position, as well as its gross profit margins where its positive results of operations will allow the Company to continue as going concern. The company’s foremost plan is to boost revenue and improve profitability. These financial statements do not include any adjustments that might result from the outcome of this uncertainly.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation*

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), and include the assets, liabilities, revenues, expenses and cash flows of all subsidiaries. All significant inter-company transactions and balances between the Company and its subsidiaries are eliminated upon consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

### *Use of Estimates*

The preparation of these consolidation financial statements requires management of the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an on-going basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Identified below are the accounting policies that reflect the Company’s most significant estimates and judgments, and those that the Company believes are the most critical to fully understanding and evaluating its consolidated financial statements.

### *Basis of Consolidation*

The consolidated financial statements include the financial statements of the Company.

### *Revenue Recognition*

The Company recognizes revenues when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. The Company recognizes revenues following the five-step model prescribed under ASU No. 2014-09: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) the Company satisfies the performance obligation.

Revenue for sales of products which are primarily comprised of hardwood floors and three-dimensional printed flooring are recognized at the time of delivery of the products set forth in contracts with customers. At the time of delivery, physical and legal control of the asset is passed from the Company to its customer, at which time the Company believes it has satisfied the single performance obligation to complete a sales transaction in order to recognize revenue. The Company’s contracts do not allow for returns, refunds, or warranties; however, it is customary in the industry to manufacturers to ship a small portion of extra product to allow for product quality issues. Also, as matter of good business practice, under very specific situations, the Company has historically agreed to provide minor discounts to customers who made complaints on products purchased. The Company has recorded these costs as period expenses when incurred as the Company is not able to reliably estimate such future expenses.

Revenues are recognized when control of the promised goods or services is transferred to our customers, which may occur at a point in time or over time depending on the terms and conditions of the agreement, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.



### Practical expedients and exemption

The Company has not occurred any costs to obtain contracts and does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

The Company typically enters into agreements with its customers where its set forth the product to be sold, the price, payment terms, and any antecedent terms such as shipping and delivery specifications; these terms and conditions are most typically specified in purchase order issued by its customers to the Company. The Company typically recognizes revenue at point in time, which is when physical possession and legal title are transferred to the customer, this may be a shipping port or a specified destination; at this point the Company reasonably expect to paid for the product, or in the event where it was paid advance, the Company's performance obligations have been satisfied and those funds are considered earned by the Company. If the Company sells products on account to customers, they are typically paid within 90 days. Any funds received in advance for the products yet to be transferred to its customer are contract liabilities that are recorded as unearned revenue on the Company's consolidated balance sheets. \$1,084,484 and \$291 were recognized as revenue from unearned revenue during the three months ended March 31, 2024 and 2023.

The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

Under ASC 740, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigations based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted by the U.S. government which included a wide range of tax reform affecting businesses including the corporate tax rates, international tax provisions, tax credits and deduction with majority of the tax provision effective after December 31, 2017. Certain activities conducted in foreign jurisdictions may result in the imposition of U.S. corporate income taxes on the Company when its subsidiaries, controlled foreign corporations ("CFCs"), generate income that is subject to Subpart F or GILTI under the U.S. Internal Revenue Code beginning after December 31, 2017.

The Coronavirus Aid, Relief and Economy Security (CARES) Act ("the CARES Act, H.R. 748") was signed into law on 27 March 2020. The CARES Act temporarily eliminates the 80% taxable income limitation (as enacted under the Tax Cuts and Jobs Act of 2017) for NOL deductions for 2018-2020 tax years and reinstated NOL carry backs for the 2018-2020 tax years. Moreover, the CARES Act also temporarily increases the business interest deduction limitations from 30% to 50% of adjusted taxable income for the 2019 and 2020 taxable year. Lastly, the Tax Act technical correction classifies qualified improvement property as 15-year recovery period, allowing the bonus depreciation deduction to be claimed for such property retroactively as if it was included in the Tax Act at the time of enactment. The Company does not anticipate a material impact on its financial statements as of March 31, 2024 and December 31, 2023 due to the recent enactment.

The Company accounts for an unrecognized tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the tax authorities. The Company considers and estimates interest and penalties related to the gross unrecognized tax benefits and includes as part of its income tax provision based on the applicable income tax regulations.

The Company did not accrue any liability, interest or penalties related to uncertain tax positions in the provision for income taxes line of the consolidated statements of operations for the three months ended March 31, 2024. The Company had no uncertain tax position for the three months ended March 31, 2024 and March 31, 2023.

#### ***Foreign Currency and Foreign Currency Translation***

The functional currency of the Company is the Chinese Yuan (“RMB”), as their functional currencies. An entity’s functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management’s judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the statements of comprehensive loss.

The consolidated financial statements are presented in U.S. dollars. Assets and liabilities are translated into U.S. dollars at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average of the exchange rates in effect during the reporting period. Stockholders’ equity accounts are translated using the historical exchange rates at the date the entry to stockholders’ equity was recorded, except for the change in retained earnings during the period, which is translated using the historical exchange rates used to translate each period’s income statement. Differences resulting from translating functional currencies to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

Translation of amounts from RMB and HKD into U.S. dollars has been made at the following exchange rates:

<b>Balance sheet items, except for equity accounts</b>		
March 31, 2024	RMB7.0950 to \$1	HKD7.8259 to \$1
March 31, 2023	RMB6.8717 to \$1	HKD7.8497 to \$1
<b>Income statement and cash flows items</b>		
For the three months ended March 31, 2024	RMB7.1028 to \$1	HKD7.8199 to \$1
For the three months ended March 31, 2023	RMB6.8476 to \$1	HKD7.8389 to \$1

### ***Cash***

Cash consist of cash on hand and at banks and highly liquid investments, which are unrestricted from withdrawal or use, and which have original maturities of three months or less when purchased.

### ***Accounts Receivable, Net***

Accounts receivable is stated at the historical carrying amount net of allowance for doubtful accounts. The Company determines the allowance for doubtful accounts on an individual basis taking into consideration various factors including but not limited to historical collection experience and creditworthiness of the debtors as well as the age of the individual receivables balance.

Additionally, the Company would make specific bad debt provisions based on any specific knowledge the Company has acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require the Company to use judgment in assessing its collectability.

There was no allowance for doubtful accounts recorded as of March 31, 2024 and December 31, 2023.

### ***Long-Lived Assets***

Long-lived assets consist primarily of equipment and intangible assets.

### ***Equipment***

Equipment is recorded at cost less accumulated depreciation and accumulated impairment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

	<b><u>Estimated useful lives (years)</u></b>
Office and computer equipment	3-5
Manufacturing equipment	10-20

Expenditure for maintenance and repairs is expensed as incurred.

The gain or loss on the disposal of equipment is the difference between the net sales proceeds and the lower of the carrying value or fair value less cost to sell the relevant assets and is recognized in general and administrative expenses in the consolidated statements of comprehensive loss.

### ***Land Use Rights, Net***

Land use rights are a form of intangible assets in the PRC. They are recorded at cost less accumulated amortization with no residual value. Amortization of land use rights are computed using the straight-line method over their estimated useful lives.

The estimated useful lives of the Company's land use rights are as listed below:

	<b><u>Estimated useful lives (years)</u></b>
Land use right	50

### ***Impairment of Long-lived Assets***

In accordance with ASC 360-10-35, the Company reviews the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Based on the existence of one or more indicators of impairment, the Company measures any impairment of long-lived assets using the projected discounted cash flow method at the asset group level. The estimation of future cash flows requires significant management judgment based on the Company's historical results and anticipated results and is subject to many factors. The discount rate that is commensurate with the risk inherent in the Company's business model is determined by its management. An impairment loss would be recorded if the Company determined that the carrying value of long-lived assets may not be recoverable. The impairment to be recognized is measured by the amount by which the carrying values of the assets exceed the fair value of the assets. No impairment has been recorded by the Company March 31, 2024 and December 31, 2023.

### ***Net earnings per share of common stock***

The Company has adopted ASC Topic 260, "Earnings per Share," ("EPS") which requires presentation of basic EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation. In the accompanying consolidation financial statements, basic earnings (loss) per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period.

	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Net income	\$ 60,035	\$ 185,466
Weighted average number of shares of common stock outstanding - basic	21,380,000*	20,000,000*
Add: potentially dilutive effect of shares issuable upon conversion of notes		
Add: potentially dilutive effect of shares issuable upon exercise of warrants		-
Weighted average number of shares of common stock outstanding - diluted	21,380,000*	20,000,000*
Basic and diluted (loss) earnings per share	\$ 0.0028*	\$ 0.0100*

\* Retrospectively restated for the effect of 2-for-1 reverse stock split. (Note 18)

### ***Segments***

The Company evaluates a reporting unit by first identifying its operating segments, and then evaluates each operating segment to determine if it includes one or more components that constitute a business. If there are components within an operating segment that meets the definition of a business, the Company evaluates those components to determine if they must be aggregated into one or more reporting units. If applicable, when determining if it is appropriate to aggregate different operating segments, the Company determines if the segments are economically similar and, if so, the operating segments are aggregated. The Company has only one major reportable segment in the periods presented. The Company's chief operation decision maker is the Company's Chief Executive Officer.

### ***Shipping and Handling Costs***

Outbound shipping and handling costs are expenses as incurred and charged to the selling expense. Inbound shipping and freight are charged for raw material and components are accounted for as cost of revenues.

### ***Fair Value of Financial Instruments***

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 – observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – include other inputs that are directly or indirectly observable in the market place.

Level 3 – unobservable inputs which are supported by little or no market activity.

The carrying value of the Company's financial instruments, including cash, accounts and other receivables, other current assets, accounts and other payables, and other short-term liabilities approximate their fair value due to their short maturities.

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to performance of underlying assets, the Company elected the fair value method at the date of initial recognition and carried these investments at fair value. Changes in the fair value are reflected in the accompanying consolidated statements of operations and comprehensive loss as other income (expense). To estimate fair value, the Company refers to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. The Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

As of March 31, 2024 and December 31, 2023, the Company had no investments in financial instruments.

### ***Leases***

In February 2016, the FASB issued ASU 2016-12, Leases (ASC Topic 842), which amends the leases requirements in ASC Topic 840, Leases. Under the new lease accounting standard, a lessee will be required to recognize a right-of-use asset and lease liability for most leases on the balance sheet. The new standard also modifies the classification criteria and accounting for sales-type and direct financing leases, and enhances the disclosure requirements. Leases will continue to be classified as either finance or operating leases.

The Company adopted ASC Topic 842 using the modified retrospective transition method effective January 1, 2019. There was no cumulative effect of initially applying ASC Topic 842 that required an adjustment to the opening retained earnings on the adoption date nor revision of the balances in comparative periods. As a result of the adoption, the Company recognized a lease liability and right-of-use asset for each of the existing lease arrangement. The adoption of the new lease standard does not have a material impact on the consolidated income statements or the consolidated statements of cash flows.

The Company determines if an arrangement is a lease at inception. The lease payments under the lease arrangements are fixed. Non-lease components include payments for building management, utilities and property tax. It separates the non-lease components from the lease components to which they relate.

Lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate, because the interest rate implicit in the leases is not readily determinable. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company generally uses the base, non-cancelable, lease term when determining the lease assets and liabilities.

## ***Recent Accounting Pronouncements***

### ***Recently Adopted Accounting Standards***

On January 1, 2020, the Company adopted ASU 2016-02, Leases, using the modified retrospective method which allows for the application of the transition provisions at the beginning of the period of adoption, rather than at the beginning of the earliest comparative period presented in these audited consolidated financial statements. As permitted by the guidance, the Company elected to retain the original lease classification and historical accounting for initial direct costs for leases existing prior to the adoption date and did not reassess contracts entered into prior to the adoption date for the existence of a lease. The Company also did not recognize ROU assets and lease liabilities for short-term leases, which are leases in existence as of the adoption date with an original term of twelve months or less.

In August 2020, the FASB issued ASU No.2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06), which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. The Company adopted ASU 2020-06 on January 1, 2023.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)" ("ASU 2016-13"). ASU 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. Originally, ASU 2016-13 was effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. In November 2019, FASB issued ASU 2019-10, "Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)." This ASU defers the effective date of ASU 2016-13 for public companies that are considered smaller reporting companies as defined by the SEC to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is planning to adopt this standard in the first quarter of fiscal 2023. The Company adopted ASU 2016-13 on January 1, 2023.

### ***Accounting Pronouncements Issued But Not Yet Adopted***

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting", which provides optional expedients and exceptions for applying U.S. GAAP on contract modifications and hedge accounting to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. These optional expedients and exceptions provided in ASU No. 2020-04 are effective for the Company as of March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848 ("ASU 2022-06"), which deferred the application dates of Topic 848 to December 31, 2024. The Company currently does not have any financial instrument that reference to LIBOR and does not anticipate the adoption will have a material impact to the Company's consolidated financial statements.

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-07, Improvements to Reportable Segment Disclosures (Topic 280). This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker ("CODM") and included within each reported measure of a segment's profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted. This ASU will likely result in additional required disclosures when adopted. The Company is currently evaluating the provisions of this ASU and expect to adopt them for the year ending December 31, 2024.

In December 2023, the FASB issued ASU No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The ASU requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. The Company has evaluated this ASU and expects to add additional disclosures to the consolidated financial statements, once adopted.

Except for the above-mentioned pronouncements, there are no new recent issued accounting standards that will have material impact on the consolidated financial position, statements of operations and cash flows.

### 3. RESTRICTED CASH

Restricted cash consist of the following:

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Deposit for Bank acceptance bill	\$ 3,765	\$ 3,771
<b>Total</b>	<b>\$ 3,765</b>	<b>\$ 3,771</b>

### 4. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Gross accounts receivable	\$ 2,535,962	\$ 2,615,458
Less: allowance for doubtful accounts	-	-
	<b>\$ 2,535,962</b>	<b>\$ 2,615,458</b>

There was no allowance for doubtful accounts recorded as of March 31, 2024 and December 31, 2023.

### 5. OTHER RECEIVABLES

Other receivables consist of the following:

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Deposit and other assets	47,258	127,313
<b>Total</b>	<b>\$ 47,258</b>	<b>\$ 127,313</b>

### 6. INVENTORY, NET

Inventories, net, consist of the following:

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Raw materials and components	\$ 1,642,965	\$ 1,654,771
Finished goods	1,200,846	990,717
<b>Total</b>	<b>2,843,811</b>	<b>2,645,488</b>
less: Impairment	-	-
<b>Inventories, net</b>	<b>\$ 2,843,811</b>	<b>\$ 2,645,488</b>

## 7. EQUIPMENT, NET

Equipment, net consist of the following:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Manufacturing equipment	\$ 8,743,884	\$ 8,790,918
Office equipment	319,624	319,624
less: Accumulated depreciation	4,513,513	4,386,437
Total	<u>\$ 4,549,995</u>	<u>\$ 4,724,105</u>

Depreciation expenses charged to the consolidated statements of operations for the years ended March 31, 2024 and December 31, 2023 were \$657,556 and \$650,103, respectively.

## 8. LAND USE RIGHTS, NET

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Land use right	\$ 1,143,382	\$ 1,143,382
less: Accumulated amortization	120,147	112,400
	<u>\$ 1,023,235</u>	<u>\$ 1,030,982</u>

The Company has pledged its land use rights at No. 199, Newtag, Wujin District, Changzhou, Jiangsu Province, China, 213000 to Industrial and Commercial Bank of China Limited as a collateral for securing its loans.

## 9. BANK BORROWINGS

### Current

Short-term loans as of March 31, 2024 and December 31, 2023 represents bank borrowings of \$4,087,385 and \$4,832,479, respectively obtained from financial institutions in the PRC. The short-term bank borrowings were secured by land use right. The weighted average interest rate for the short-term loans for the three months ended March 31, 2024 and 2023 was approximately 4.71% and 5.07%, respectively.

<u>Bank</u>	<u>Loan period</u>	<u>Interest rate</u>	<u>Balance at March 31, 2024</u>	<u>Balance at December 31, 2023</u>
Industrial and Commercial Bank of China	October 24, 2022 - July 17, 2024	4.35%	\$ 1,409,443	\$ 1,411,891
Industrial and Commercial Bank of China	October 26, 2022 - August 17, 2024	4.35%	1,409,443	1,411,891
Bank of Communications	January 28, 2022 - January 26, 2025	4.35%	-	488,514
Bank of Communications	January 28, 2022 - January 26, 2025	4.35%	-	249,481
Jiangnan Rural Commercial Bank	May 9, 2022 - April 3, 2024	4.79%	380,550	381,211
Jiangnan Rural Commercial Bank	March 24, 2022 - March 3, 2024	4.79%	887,949	889,491
Bank of America	April 28, 2022 - April 30, 2024	Prime rate +0.1%	407,242	857,242
<b>Total</b>			<u>\$ 4,494,627</u>	<u>\$ 5,689,721</u>



The loan from Bank of America is secured by the Company's inventory.

*Non-current*

<b>Bank</b>	<b>Loan period</b>	<b>Interest rate</b>	<b>Balance at March 31, 2024</b>	<b>Balance at December 31, 2023</b>
EIDL Loan	From June 26, 2020 to June 25, 2050	3.75%	122,712	124,905
<b>Total</b>			<u>\$ 122,712</u>	<u>\$ 124,905</u>

## 10. BALANCES WITH RELATED PARTY

### 1) Related party transactions

For the three months ended March 31, 2024 and 2023, the Company's related party provided working capital to support the Company's operations when needed. The borrowings were unsecured, due on demand, and interest free. The following table summarizes the balances with the Company's related party.

### 2) Related party balances

<b>Accounts</b>	<b>Name of Related Party</b>	<b>Note</b>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Amount due to related party	Lin Li, Chief Executive Officer and Chairman of the Board		<u>\$ 1,386,943</u>	<u>\$ 302,943</u>

All the above balances are due on demand, interest-free and unsecured. The Company used the funds for its operations.

## 11. EQUITY

### *Preferred Stock*

The Company is authorized to issue 500,000,000 shares of capital stock, consisting of 400,000,000 shares of common stock, par value US\$0.001 per share, and 100,000,000 shares of preferred stock, par value US\$0.001 per share. 20,000,000 shares were designated to be series A preferred stock (the "Series A Preferred Stock") out of the 100,000,000 shares of blank check preferred stock. Each share of common stock is entitled to one vote and each share of Series A Preferred Stock is entitled to ten votes on any matter on which action of the stockholders of the corporation is sought. The Series A Preferred Stock will vote together with the common stock. Common stock and Series A Preferred Stock are not convertible into each other. Holders of Series A Preferred Stock are not entitled to receive dividends. The Series A Preferred Stock does not have liquidation preference over the Company's Common Stock, and therefore ranks pari passu with the Common Stock in the event of liquidation.

### *Common Stock*

The Company is authorized to issue 400,000,000 shares of common stock with par value of US\$0.001 per share. Each share of common stock entitles the holder to one vote. For the sake of comparability, the share structure as of the date of this report has been carried back in the Company's statement of stockholders' equity as if they had been issued and outstanding from the beginning of the first period presented.

## 12. CONVERTIBLE NOTES

On May 16, 2022, the Company entered into a securities purchase agreement with certain investors, pursuant to which the Company sold the investors convertible notes in an aggregate principal amount of \$1,000,000 (the “Convertible Notes”) that are convertible into shares of common stock of the Company (the “Conversion Shares”) with a 100% warrant coverage to purchase common stock (the “Warrants” and such shares underlying the Warrants, the “Warrant Shares”). In the original agreement, the notes were set to be due on May 16, 2024.

As of December 31, 2023, the Company has issued the following securities of the registrant, and believed that each of the issuance was exempt from registration under the Securities Act pursuant to Section 4(a)(2) of the Securities Act regarding transactions not involving a public offering or under Regulation S of the Securities Act.

Purchaser	Date of Issuance	Security Type	Consideration	
Hongyu Wang	May 16, 2022	Convertible Note	US\$	500,000
Sam Yan	May 16, 2022	Convertible Note	US\$	500,000

### *Terms of Conversion or Exercise: Convertible Notes*

The Convertible Note holders are entitled to an option to convert all of part of the outstanding principal of the Convertible Note to the Company’s ordinary shares at any time after the six-month anniversary of the issuance date of the Note or earlier if a Registration Statement covering the conversion shares has been declared effective, at conversion price of \$3.50. The interest rate of the Note is 7% per annum.

### *Terms of Conversion or Exercise: Warrants*

On May 16, 2022, the Company granted Warrants to the same investors of the Convertible exercised, in whole or in part, at any time prior to the fifth anniversary of the date such Warrants are issued. The investors can also choose to exercise the Warrant using a cashless manner based on certain formula stipulated in the Warrant agreement.

The Convertible Notes and Warrants are considered as one unit of accounting which contains two freestanding financial instruments. The proceeds received were allocated between the Notes and the Warrants based on their relative fair value. The beneficial conversion option within the debt instrument was booked to additional paid-in capital, and its book value will not be subsequently adjusted. The warrants were valued using the Black-Scholes Model, and the relative fair value was \$1.21 on a per share basis, for total valuation of \$347,171 based on 285,714 shares issuable if fully exercised. The Company used the following inputs: (1) strike price = \$7.00, (2) fair market value of the Company’s stock = \$10.00, (3) annualized volatility = 10%, (4) annualized dividend = 1.70%, (5) years to expiration = 5 years, and (6) risk free rate = 3.789%. Management determined that convertible note contained a beneficial conversion feature (“BCF”) and recognized a discount to be amortized over the life of the convertible note. The BCF was valued at \$672,761 and was recorded as a debt discount where the offsetting balance was recorded as an increase to additional paid in capital.

On April 27, 2023, the Company signed amendment agreements with the investors to modify the due date of the Convertible Notes to the earlier of July 12, 2023 or the three months anniversary of the completion of the Company’s Initial Public Offering. On October 19, 2023, the Company signed settlement agreements with the investors to settle the Convertible Notes for \$1,950,000 with two installments by November 24, 2023. The balance of \$1,950,000 was reclassified to accounts and other payables and accruals. The debtors agreed to stop accruing interest on the balance.

On May 3, 2024, the Company signed final settlement agreements with the two investors of the Convertible Notes and Warrants to settle the balances of the Convertible Notes and Warrants for \$250,000 each investor, totaling \$500,000 (Note 20), besides an aggregate of \$1,200,000 paid by the Company in 2023.

Convertible Notes	March 31, 2024
Convertible Notes – Face Value	\$ -
Discount – Placement agent commissions – cash	-
Discount – Placement agent commissions – warrants	-
Discount – Detachable warrants	-
Discount – Beneficial conversion feature	-
	\$

### 13. INCOME TAXES

#### *United States of America*

The Coronavirus Aid, Relief and Economy Security (CARES) Act (“the CARES Act, H.R. 748”) was signed into law on March 27, 2020. The CARES Act temporarily eliminates the 80% taxable income limitation (as enacted under the Tax Cuts and Jobs Act of 2017) for NOL deductions for 2018-2020 tax years and reinstated NOL carrybacks for the 2018-2020 tax years. Moreover, the CARES Act also temporarily increases the business interest deduction limitations from 30% to 50% of adjusted taxable income for the 2019 and 2020 taxable year. Lastly, the Tax Act technical correction classifies qualified improvement property as 15-year recovery period, allowing the bonus depreciation deduction to be claimed for such property retroactively as if it was included in the Tax Act at the time of enactment. The Company does not anticipate a material impact on its financial statements as of March 31, 2024 and December 31, 2023 due to the recent enactment.

#### *Hong Kong*

##### *Two-tier Profits Tax Rates*

The two-tier profits tax rates system was introduced under the Inland Revenue (Amendment)(No.3) Ordinance 2018 (the “Ordinance”) of Hong Kong became effective for the assessment year 2018/2019. Under the two-tier profit tax rates regime, the profits tax rate for the first HKD 2 million (approximately \$257,868) of assessable profits of a corporation will be subject to the lowered tax rate, 8.25% while the remaining assessable profits will be subject to the legacy tax rate, 16.5%. The Ordinance only allows one entity within a group of “connected entities” is eligible for the two-tier tax rate benefit. An entity is a connected entity of another entity if (1) one of them has control over the other; (2) both of them are under the control (more than 50% of the issued share capital) of the same entity; (3) in the case of the first entity being a natural person carrying on a sole proprietorship business-the other entity is the same person carrying on another sole proprietorship business. Since Benchwick is wholly owned and under the control of Northann, it is a connected entity. Under the Ordinance, it is an entity’s election to nominate the entity that will be subject to the two-tier profits tax rates on its profits tax return. The election is irrevocable. The Company elected Benchwick to be subject to the two-tier profits tax rates.

The provision for current income and deferred taxes of Benchwick has been calculated by applying the new tax rate of 8.25%.

#### *PRC*

In accordance with the relevant tax laws and regulations of the PRC, a company registered in the PRC is subject to income taxes within the PRC at the applicable tax rate on taxable income. All the PRC subsidiaries that are not entitled to any tax holiday were subject to income tax at a rate of 25% for the three months ended March 31, 2024 and 2023. According to PRC tax regulations, the PRC net operating loss can generally carry forward for no longer than five years starting from the year subsequent to the year in which the loss was incurred. Carry back of losses is not permitted. If not utilized, the PRC net operating loss will expire in 2026.

The income tax expense was \$14,361 and \$126,984 for the three months ended March 31, 2024 and 2023, respectively, related primarily to the Company’s subsidiaries located outside of the U.S. The income before provision for income taxes for the three months ended March 31, 2024 and 2023 was as follows:

The income tax provision consists of the following components:

	<b>For the three months ended March 31, 2024</b>	<b>For the three months ended March 31, 2023</b>
Current:	-	-
Federal	\$ -	\$ -
State	-	12,851
Foreign	-	1,509
Total current	<u>\$ -</u>	<u>\$ 14,361</u>
Deferred:	-	-
Federal	\$ -	\$ -
State	-	-
Foreign	-	-
Total deferred	<u>\$ -</u>	<u>\$ -</u>
Total income tax expense	<u>\$ -</u>	<u>\$ 14,361</u>

A reconciliation between the Company's actual provision for income taxes and the provision at the United States statutory rate is as follows:

	<b>For the three months ended March 31, 2024</b>	<b>For the three months ended March 31, 2023</b>
Income before income tax expense	\$ 60,035	\$ 190,846
Computed tax benefit with statutory tax rate	29.84%	29.84%
Income tax expense computed at statutory income tax rate	17,914	56,948
Impact of different tax rates in other jurisdictions	(58,145)	(159,680)
Tax effect of non-deductible expenses	40,231	108,112
Total income tax expense	<u>\$ -</u>	<u>\$ 5,380</u>

The effective tax rate were 2.8% and 1.4% for the three months ended March 31, 2024 and 2023, respectively.

#### *Uncertain tax positions*

The Company did not have any uncertain tax positions during the three months ended March 31, 2024 and 2023.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by the respective jurisdictions, where applicable. The statute of limitations for the tax returns varies by jurisdictions.

The amounts of uncertain tax liabilities listed above are based on the recognition and measurement criteria of ASC Topic 740, and the balance is presented as current liability in the consolidated financial statements as of December 31, 2023. The Company anticipated that the settlements with the taxing authority are remitted within one year.

Our policy is to include interest and penalty charges related to uncertain tax liabilities as necessary in the provision for income taxes. The Company has a liability for accrued interest of \$nil as of March 31, 2024 and 2023, respectively.

The statute of limitations for the Internal Revenue Services to assess the income tax returns on a taxpayer expires three years from the due date of the profits tax return or the date on which it was filed, whichever is later.

In accordance with the Hong Kong profits tax regulations, a tax assessment by the IRD may be initiated within six years after the relevant year of assessment, but extendable to 10 years in the case of potential willful underpayment or evasion.

In accordance with PRC Tax Administration Law on the Levying and Collection of Taxes, the PRC tax authorities generally have up to five years to assess underpaid tax plus penalties and interest for PRC entities' tax filings. In the case of tax evasion, which is not clearly defined in the law, there is no limitation on the tax years open for investigation. Accordingly, the PRC entities remain subject to examination by the tax authorities based on the above.

#### 14. CHINA CONTRIBUTION PLAN

The Company participates in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Company to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Company has no further commitments beyond their monthly contributions. For the three months ended March 31, 2024 and 2023, the Company contributed a total of \$69,131 and \$118,261, respectively, to these funds.

#### 15. OPERATING LEASE

The Company has operating leases for its office facilities. The lease is located at 9820 Dino Drive, Suite 110, Elk Grove, California, 95624, which consist of approximately 3,653 square meters. The Company's leases have remaining terms of approximately 37 months for a lease term commencing on August 1, 2020 and ended on August 31, 2023. The lease was renewed for additional 36 months. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company does not separate non-lease components from the lease components to which they relate, and instead accounts for each separate lease and non-lease component associated with that lease component as a single lease component for all underlying asset classes.

The following table provides a summary of leases by balance sheet location as of March 31, 2024 and December 31, 2023:

Assets/liabilities	March 31, 2024	December 31, 2023
Assets		
Operating lease right-of-use assets	\$ 79,673	\$ 87,380
Liabilities		
Operating lease liability - current	\$ 31,807	\$ 31,413
Operating lease liability - non-current	47,866	55,967
Total lease liabilities	\$ 79,673	\$ 87,380

Cash flow information related to operating leases consists of the following:

	For the three months ended March 31, 2024	For the three months Ended March 31, 2023
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 8,767	\$ 6,069
Right-of-use assets obtained in exchange for new lease obligations:	-	-

The operating lease expenses for the three months ended March 31, 2024 and 2023 were as follows:

<b>Lease Cost</b>	<b>Classification</b>	<b>For the three months ended March 31, 2024</b>	<b>For the three months ended March 31, 2023</b>
Operating lease expense	General and administrative expenses	\$ 8,767	\$ 30,274

Maturities of operating lease liabilities as of March 31, 2024 were as follows:

<b>Maturity of Lease Liabilities</b>	<b>Operating Leases</b>
Within one year	26,302
Within a period of more than one year but not more than two years	\$ 35,069
Within a period of more than two year but not more than three years	23,379
Within a period of more than three year but not more than four years	-
Within a period of more than four years but not more than five years	-
More than five years	-
Total lease commitment	\$ 84,750
Less: interest	(5,077)
Present value of lease payments	\$ 79,673

Lease liabilities include lease and non-lease component such as management fee.

<b>Lease Term and Discount Rate</b>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Weighted-average remaining lease term (years)		
Operating leases	2.67	2.92
Weighted-average discount rate (%)		
Operating leases	5%	5%

## 16. CONCENTRATIONS AND CREDIT RISK

### (a) Concentrations

During the three months ended March 31, 2024, two customers accounted for nearly 81% of the Company's revenues. During the three months ended March 31, 2023, two customers accounted for nearly 33% of the Company's revenues. No other customer accounts for more than 10% of the Company's revenue in the three months ended March 31, 2024 and 2023.

As of March 31, 2024, five customers accounted for 84% of the Company's accounts receivable. As of December 31, 2023, five customers accounted for 72% of the Company's accounts receivable. No other customer accounts for more than 10% of the Company's accounts receivable for the three months ended March 31, 2024 and for the year ended December 31, 2023.

During the three months ended March 31, 2024, no supplier accounts for over 10% of the Company's cost of revenues. During the three months ended March 31, 2023, five suppliers accounted for a total of 73% of the Company's cost of revenues. No other supplier accounts for over 10% of the Company's cost of revenues.

As of March 31, 2024, no supplier accounted for over 10% of the Company's accounts payable. As of December 31, 2023, no supplier accounted for 20% of the Company's accounts payable.

(b) *Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. As of March 31, 2024 and December 31, 2023, substantially all of the Company's cash were held by major financial institutions located in the PRC, Hong Kong, and the United States, which management believes are of high credit quality. Deposits in the United States up to \$250,000 are insured by the Federal Depository Insurance Corporation.

For the credit risk related to trade accounts receivable, the Company performs ongoing credit evaluations of its customers and, if necessary, maintains reserves for potential credit losses. Historically, such losses have been within management's expectations.

## **17. CAPITAL COMMITMENTS**

On July 26, 2021, the Company has contracted Changzhou Wanyuan Construction Engineering Co. to build a second phase of its factory. The amount required in the contract is \$10 million. Construction is expected to take approximately one and half year, and the second phase of the factory will be approximately 250,000 square feet.

## **18. STOCK SPLIT**

Effective on July 6, 2023, the Company implemented a 2-for-1 reverse stock split of the issued and outstanding shares. Under the reverse split, every two shares of outstanding shares issued and outstanding were automatically converted into one share of ordinary share, with a par value of US\$ 0.001 each. Except as otherwise indicated, all information in the consolidated financial statements concerning share and per share data gives retroactive effect to the 2-for-1 reverse stock split. The total number of outstanding common shares immediately before the reverse split was 40,000,000 and immediately after the reverse split was 20,000,000. The total number of outstanding preferred shares immediately before the reverse split was 10,000,000 and immediately after the reverse split was 5,000,000.

## **19. SECURED BORROWING ARRANGEMENT**

In July 2023, the Company signed a secured borrowing agreement with a financial institution in the United States, in which the Company borrowed \$1,000,000 secured by its accounts receivable amounted \$1,491,000.

It is scheduled under the agreement that the Company pays \$49,700 per week for thirty weeks to the financial institution to repay the loan.

## **20. SUBSEQUENT EVENT**

The Company has analyzed its operations subsequent to December 31, 2023 and up through May 20, 2024 which is the date these consolidation financial statements were issued, except as disclosed herein, there is no any material subsequent events to disclose in these consolidated financial statements.

On May 3, 2024, the Company signed final settlement agreements with the two investors of the Convertible Notes and Warrants to settle the balances of the Convertible Notes and Warrants for \$250,000 each investor, totaling \$500,000.

## 21. UNRESTRICTED NET ASSETS

The following presents condensed financial information of Northann Corp:

### Condensed Financial Information on Financial Position

	<b>As of March 31, 2024 (Unaudited)</b>	<b>As of December 31, 2023</b>
Cash	742	370
Amounts due from subsidiaries	4,603,188	5,504,920
Total current assets	4,603,929	5,505,290
All other non-current assets		-
Interests in a subsidiary	8,628,815	9,948,890
Total Assets	<u>13,232,744</u>	<u>15,454,180</u>
<b>Liabilities and Stockholders' Deficit</b>		
All other current liabilities	71,169	599,664
Amounts due to subsidiaries	10,499,226	10,660,508
Total current liabilities	10,570,395	11,260,172
Non-current liabilities	1,950,000	1,950,000
Total Liabilities	<u>12,520,395</u>	<u>13,210,172</u>
<b>Stockholders' Equity (Deficit)</b>		
Preferred stock – Series A, \$0.001 par value, 100,000,000 shares authorized, 10,000,000 shares issued and outstanding as of March 31, 2023 and December 31, 2022	5,000	5,000
Common stock, \$0.001 par value, 400,000,000 shares authorized, 40,000,000 shares issued and outstanding as of March 31, 2023 and December 31, 2022	21,380	21,380
Subscription receivable	(25,000)	(25,000)
Additional Paid-in Capital	6,671,016	6,671,016
Retained earnings (accumulated deficit)	(5,253,908)	(3,652,547)
Accumulated other comprehensive income (loss)	(706,139)	(775,841)
Total Stockholders' Equity (Deficit)	<u>712,349</u>	<u>2,244,008</u>
Total Liabilities and Stockholders' Deficit	<u>13,232,744</u>	<u>15,454,180</u>

\* Retrospectively restated for the effect of 2-for-1 reverse stock split. (Note 18)



Condensed Financial Information on Results of Operations

	For the three months ended March 31, 2024	For the three months ended March 31, 2023
	(Unaudited)	
Revenue	-	-
Cost or revenues	-	-
Operating expenses	372,865	123,288
Income taxes	-	-
Income (loss) – Parent only	(372,865)	(123,288)
Income (loss) – Subsidiaries with unrestricted net assets	577,523	429,006
(Loss) income – Subsidiaries with restricted net assets	(144,623)	(120,252)
Net income – Consolidated	60,035	185,466

Condensed Financial Information on Cash Flows

	For the three months ended March 31, 2024	For the three months ended March 31, 2023
	(Unaudited)	
Cash from operating activities	528,867	5,140
Cash used in investing activities	-	-
Cash from financing activities	(528,495)	(5,000)
Effect of exchange rates on cash	-	-
Net cash flows	372	140
Beginning cash balance	370	224
Ending cash balance	742	364

(i) Basis of presentation

The condensed financial information reflects the accounts of the Company. The condensed financial information should be read in connection with the consolidated financial statements and notes thereto. The condensed financial information is presented as if the incorporation of the Company were in effect since January 1, 2020, and throughout the four years ended December 31, 2023.

(ii) Restricted Net Assets

Schedule I of Rule 5-04 of Regulation S-X requires the condensed financial information of registrant shall be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances or cash dividends without the consent of a third party (i.e., lender, regulatory agency, foreign government, etc.). The Company's only assets are its equity interests in its subsidiaries. Unrestricted net assets are held in the Company's subsidiaries located in the US and Hong Kong. The Company does maintain substantial assets and operating subsidiaries in China; therefore, the ability for operating subsidiaries to pay dividends or transfer assets to the Company may be restricted due to the foreign exchange control policies and availability of cash balances of the Chinese operating subsidiaries.

As of December 31, 2023 and 2022, there were no material contingencies, significant provisions of long-term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of the Company, except for those which have been separately disclosed in the Consolidated Financial Statements, if any.

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

### Results of Operations

#### Comparison for the Three Months Ended March 31, 2024 and 2023

The following table sets forth key components of our results of operations for the three months ended March 31, 2024 and 2023, both in dollars and as a percentage of our revenues.

	Three Months Ended March 31,			
	2024		2023	
	Amount	of Revenue	Amount	of Revenue
<b>Revenues</b>	4,595,531	100.00%	2,734,933	100.00%
<b>Cost of revenues</b>	3,051,541	64.40%	1,484,991	54.30%
<b>Gross profit</b>	1,543,990	34.00%	1,249,942	45.70%
<b>Operating expenses</b>				
Selling expenses	218,375	4.75%	198,491	7.26%
General and administrative expenses	485,037	10.55%	355,127	12.98%
Research and development expenses	512,597	11.15%	300,212	10.98%
Finance Cost	-	-	-	-
<b>Income from operations</b>	327,981	0.07%	396,112	14.48%
<b>Other Income (expenses)</b>				
Interest expense	(267,948)	(5.83)%	(87,737)	(3.21)%
Amortization of debt discounts	-	(0.00)%	(123,288)	(4.51)%
Other income	-	0.00%	159	0.01%
Other expenses	-	0.00%	-	0.00%
Exchange loss	-	0.00%	5,600	0.20%
<b>Net Income before taxes</b>	(267,948)	(5.83)%	190,846	6.98%
Income tax benefit (expenses)	-	0.00%	(5,380)	(0.20)%
<b>Net income</b>	60,033	0.01%	185,466	6.78%
<b>Other comprehensive loss</b>				
Foreign currency translation adjustment	69,702	0.02%	373,736	13.67%
<b>Total comprehensive income</b>	129,735	0.03%	559,202	20.45%

**Revenues.** Our revenues were \$4,595,531 for the three months ended March 31, 2024, representing an increase of \$1,860,598 or 68% from \$2,734,933 for the three months ended March 31, 2023. The increase was mainly due to an increase in customer demand and our sales volume in the three months ended March 30, 2024 as compared to the same period in 2023.

**Cost of revenues.** Our cost of revenues was \$3,051,541 for the three months ended March 31, 2024, compared to \$1,484,991 for the same period in 2023. Cost of revenues refers to the cost of material and labor cost; the percentage of direct material was over 90% of the total cost of revenues. The increase of cost of revenues compared to the three months ended March 30, 2023 was primarily due to the increase in our revenues and increase in purchase price of raw material. We paid tariffs of \$89,390 during the three months ended March 30, 2024, and \$60,309 during the three months ended March 30, 2023. The increase in tariff was mainly due to increase in revenue.

**Gross profit and gross margin.** Our gross profit was \$1,543,990 for the three months ended March 31, 2024, compared with a gross profit of \$1,249,942 for the same period in 2023. Gross margin decreased from 45.70% for the three ended March 31, 2023 to 33.6% for the three months ended March 31, 2024 due to higher purchase price of our raw material.

Selling expenses. As shown below, our selling expenses consist primarily of compensation and benefits to our selling department and other expenses incurred in connection with general operations. Our selling expenses decreased by \$19,884 to \$ 218,375 for the three months ended March 31, 2024, from \$198,481 for the same period in 2023, which was mainly caused by increase of \$46,135 in advertising fee, and partially offset by a decrease in travel fee of \$22,306 and other items with minor changes.

	March 31, 2024		March 31, 2023		Fluctuation	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Salaries and Social Insurance	83,131	38.07%	92,284	46.49%	(9,153)	(9.92)%
Freight insurance	18,240	8.35%	18,286	9.21%	(46)	(0.25)%
Rent	11,924	5.46%	6,627	3.34%	5,297	0.80%
Advertising fee	77,843	35.65%	31,708	15.98%	46,135	1.45%
Travel fee	27,237	12.47%	49,543	24.96%	(22,306)	(45.02)%
Others	-	0.00%	43	0.02%	(43)	(100.00)%
<b>Total selling expenses</b>	<b>218,375</b>	<b>100.00%</b>	<b>198,491</b>	<b>100.00%</b>	<b>19,884</b>	<b>0.10%</b>

**General and administrative expenses.** As shown below, our general and administrative expenses consist primarily of compensation and benefits to our general management, finance and administrative staff, professional fees and other expenses incurred in connection with general operations. Our general and administrative expenses increased by \$129,910 to \$ 485,037 for the three months ended March 31, 2024, from \$355,127 for the same period in 2023. The increase was mainly caused by the increase of service fees for legal, auditing and other professional services in connection with our new public company status starting from the last quarter of 2023.

	March 31, 2024		March 31, 2023		Fluctuation	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Salary and Social Insurance	41,583	8.57%	44,491	12.53%	(2,908)	(6.54)%
Service fees	286,281	59.02%	155,590	43.81%	130,691	84.00%
Royalty fee	5,820	1.20%	6,902	1.95%	(1,082)	(15.68)%
Entertainment expenses	20,928	4.31%	15,530	4.37%	5,398	34.76%
Taxation	11	0.00%	-	0.00%	11	0.00%
Depreciation and amortization	24,633	5.08%	34,975	9.85%	(10,342)	(29.57)%
Bad debt	-	0.00%	-	0.00%	-	0.00%
Rent	8,954	1.85%	11,377	3.20%	(2,423)	(21.30)%
Travel fee	19,689	4.06%	28,666	8.07%	(8,977)	(31.32)%
Office expenses	35,370	7.29%	25,208	7.10%	10,162	40.31%
Other	41,768	8.61%	32,388	9.12%	9,380	28.96%
<b>Total general and administrative expenses</b>	<b>485,037</b>	<b>100.00%</b>	<b>355,127</b>	<b>100.00%</b>	<b>129,910</b>	<b>36.58%</b>

**Research and development expenses.** Our research and development expenses were \$512,597 for the three months ended March 31, 2024, compared to \$300,211 for the same period in 2023. The increase was primarily due to more projects in research and development process during the three months ended March 31, 2024 as compared to the same period in 2023.

**Income tax expense.** Our Income tax expense was \$nil for the three months ended March 31, 2024 and \$5,380 for the three months ended March 31, 2023.

**Net income.** As a result of the cumulative effect of the factors described above, our net income was \$549,800 for the three months ended March 31, 2024 and \$185,466 for the three months ended March 31, 2023. The increase was primarily due to the increase in revenue.

## Liquidity and Capital Resources

As of March 31, 2024 and December 31, 2023, we had cash of \$590,169, and \$1,101,443, respectively. To date, we have financed our operations primarily through our business operations, borrowings from our stockholders, related and unrelated parties, and proceeds from IPO.

The Company believes that its current levels of cash and cash flows from operations will be sufficient to meet its anticipated cash needs for at least the next twelve months. However, it may need additional cash resources in the future if it finds and wishes to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If it determines that its cash requirements exceed its amounts of cash on hand or if it decides to further optimize its capital structure, it may seek to issue additional debt or equity securities or obtain credit facilities or other sources of funding.

The following table set forth a summary of its cash flows for the periods indicated:

	For the Three Months Ended March 31,	
	2024	2023
Net cash provided by (used in) operating activities	\$ 297,897	\$ (895,440)
Net cash (used in) investing activities	\$ (270,242)	\$ (159,398)
Net cash (used in ) provided by financing activities	\$ (641,782)	\$ 521,943

### *Operating Activities*

Net cash provided by operating activities was \$297,897 for the three months ended March 31, 2024, as compared to \$895,440 net cash used in operating activities for the three months ended March 31, 2023.

The net cash provided by operating activities for the three months ended March 31, 2024 mainly included net income of \$60,035, decrease in account payables of \$206,537, and minor change of other accounts. The net cash used in operating activities for the three months ended March 31, 2023 mainly included our net income of \$185,466, an increase in inventories of \$1,233,379, an decrease in accounts payable of \$775,741, and partially offset by an decrease in account receivable of \$478,162.

### *Investing Activities*

Net cash used in investing activities was \$270,242 for the three months ended March 31, 2024, as compared to \$159,398 net cash used in investing activities for the three months ended March 31, 2023. The net cash used in investing activities for the three months ended March 31, 2024 mainly included the payments for construction. The net cash used in investing activities for the three months ended March 31, 2023 mainly consisted of purchase of property and equipment and the payment for construction in process and land used right.

### *Financing Activities*

Net cash used in financing activities for the three months ended March 31, 2024 was \$641,782, as compared to net cash provided by financing activities of \$521,943 for the three months ended March 31, 2023. The change was mainly due to the borrowing amounting \$1,084,000 from the related party of our Company, and repayment of borrowings totaling \$1,725,782 during the three months ended March 31, 2024.

### **Contractual Obligations**

The Company's subsidiary NDC has an operating lease primarily for its corporate office and equipment. The lease contract was within three years and the renewal was at landlord's discretion.

Operating lease expenses were \$8,767 and \$7,569 for the three months ended March 31, 2024 and 2023, respectively.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable as we are a “smaller reporting company” as defined by Item 229.10(f)(1) of Regulation S-K.

**Item 4. Controls and Procedures**

The Company carried out an evaluation under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer (principal executive officer) and Interim Chief Financial Officer (principal financial officer and principal accounting officer), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that as of the end of the period covered by this report, the Company’s disclosure controls and procedures (as defined in § 240.13a-15(e) or 240.15d-15(e) of Regulation S-K) were effective at ensuring that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (1) accumulated and communicated to management, including the Company’s Chief Executive Officer and Interim Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

There have been no changes in the Company’s internal control over financial reporting during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

As a smaller reporting company, we are not required to make disclosures under this item.

### Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

#### Settlement Agreements

On May 3, 2024, the Company entered into separate settlement agreements (each, an “Agreement”, and collectively, the “Agreements”) with each of Hongyu Wang and Sam Yan (each, an “Investor”, and collectively, the “Investors”), and each on similar terms. The Agreements set out the terms for a full and final settlement between the Company and each of the Investors arising out of a number of previous agreements between the Company and each of the Investors, including but not limited to (i) that securities purchase agreement between the Company and each Investor dated May 12, 2022, (ii) that promissory note issued by the Company in favor of each Investor for a principal amount of US\$500,000, dated May 16, 2022, and further amended pursuant to the amendment agreement entered by the parties on April 27, 2023 (each, a “Convertible Note”, and collectively, the “Convertible Notes”), and (iii) that warrant for the purchase of 142,857 of the Company’s shares, issued by the Company in favor of each Investor dated May 16, 2022 (each, the “Warrant” and collectively, the “Warrants”).

Specifically, pursuant to each of the Agreements, the Company and each Investor agrees that, upon the requirements set forth at Section 2 of each Agreement therein, and the payment of the settlement sum of \$250,000 to each Investor within 15 business days after May 3, 2024), the Company and each Investor shall fully and forever, irrevocably and unconditionally, release, waive and discharge the other party, of and from any and all outstanding rights and obligations, that such party may now have, has ever had or may hereafter have, against the other party, in accordance with section 3 of each Agreement, and shall undertake not to sue the other party, in accordance with section 4 of each Agreement.

Additionally, once the settlement sums have been paid, the Convertible Notes and the Warrants shall be terminated in full and rendered null and void, and all past, current, or future obligations of the parties under the Convertible Notes and the Warrants shall be extinguished.

## Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report.

<b>Exhibit No.</b>	<b>Description</b>
<a href="#"><u>10.1*<sup>^†</sup></u></a>	<a href="#"><u>Second Settlement Agreement between Sam Yan and Northann Corp.</u></a>
<a href="#"><u>10.2*<sup>^†</sup></u></a>	<a href="#"><u>Second Settlement Agreement between Hongyu Wang and Northann Corp.</u></a>
<a href="#"><u>31.1*</u></a>	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>31.2*</u></a>	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.1**</u></a>	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.2**</u></a>	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* Furnished herewith. This certification is being furnished solely to accompany this report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filings of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

<sup>^</sup> Certain terms have been omitted pursuant to Item 601(b)(2)(ii) of Regulation S-K. The Registrant hereby undertakes to furnish copies of any of the terms upon request by the SEC.

<sup>†</sup> Exhibits and schedules to this Exhibit have been omitted pursuant to Regulation S-K Item 601(a)(5). The Registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

**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 thereunto duly authorized.

**Northann Corp.**

Date: May 20, 2024

By: /s/ Lin Li

Name: Lin Li

Title: Chief Executive Officer  
(Principal Executive Officer)

Date: May 20, 2024

By: /s/ Sunny S. Prasad

Name: Sunny S. Prasad

Title: Interim Chief Financial Officer  
(Principal Accounting and Financial  
Officer)



[Pursuant to Item 601(b)(2)(ii) of Regulation S-K, certain term to this exhibit have been omitted as they are both not material and of the type that the registrant treats as private or confidential. A copy of unredacted copy of the exhibit will be furnished supplementally to the SEC upon request.]

[Pursuant to Item 601(a)(5) of Regulation S-K, certain schedules and attachments to this exhibit have been omitted. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.]

## SECOND SETTLEMENT AGREEMENT

This Second Settlement Agreement (the “Agreement”), dated as of May 3, 2024, is entered into by and between Northann Corp., a Nevada corporation (the “Company”), and Sam Yan (the “Investor”), and constitutes a full and final settlement between the Company and the Investor in respect of the outstanding rights and obligations of the Company and Investor pursuant to (i) that securities purchase agreement between the Company and the Investor dated May 13, 2022 (the “Securities Purchase Agreement”), (ii) that promissory note issued by the Company in favor of the Investor for a principal amount of US\$500,000, dated May 16, 2022, and further amended pursuant to the amendment agreement entered by the parties on April 27, 2023 (the “Note”), (iii) that warrant for the Company’s shares issued by the Company in favor of the Investor dated May 16, 2022 (the “Warrant”), (iv) that settlement agreement between the Company and the Investor dated October 19, 2023 (“First Settlement Agreement”), and (v) all Other Transaction Documents (as defined below).

### WHEREAS:

- (A) On May 16, 2022, pursuant to the Securities Purchase Agreement, the Company issued and sold to the Investor, through introduction by placement agent Univest Securities, LLC (“Univest”), and the Investor purchased from the Company, the Note in an aggregate principal amount of \$500,000 and the Warrant to purchase 142,857 shares of common stock of the Company, on the terms and conditions set forth in the Securities Purchase Agreement. The Note was amended by the parties on April 27, 2023 (such amendment, the “Amendment Agreement”). On or about May 13, 2022, the parties also entered into a securities agreement, a patent security agreement, a trademark security agreement, and a registration rights agreement and all the subsidiaries of the Company also entered into a guaranty and a guarantors securities agreement with the Investor (“Other Transaction Documents,” and together with the Securities Purchase Agreement, the Note, the Warrant and the First Settlement Agreement, the “Transaction Documents”);
- (B) On May 27, 2022, the following UCC financing statements were filed on behalf of Messrs. Hongyu Wang and Sam Yan as secured parties (as listed below, collectively “UCC Financing Statements”):

<u>Jurisdiction</u>	<u>Financing Statement Number</u>	<u>Debtor(s) identified</u>
DE	[Redacted]	<ul style="list-style-type: none"> <li>· Northann Building Solutions LLC</li> <li>· Dotfloor, Inc.</li> <li>· Northann, Corp.</li> <li>· Northann Distribution Center Inc</li> </ul>
NV	[Redacted]	<ul style="list-style-type: none"> <li>· Northann Building Solutions LLC</li> <li>· Dotfloor, Inc.</li> <li>· Northann, Corp.</li> <li>· Northann Distribution Center Inc</li> </ul>
CA	[Redacted]	<ul style="list-style-type: none"> <li>· Northann Building Solutions LLC</li> <li>· Dotfloor, Inc.</li> <li>· Northann, Corp.</li> <li>· Northann Distribution Center Inc</li> </ul>

- (C) On October 19, 2023, the Company entered into the First Settlement Agreement with the Investor, for the settlement of the outstanding debt due by the Company to the Investor in respect of the Note, on the terms set forth therein;
- (D) On or around October 23, 2023, the Company paid \$600,000 to the Investor in accordance with section 2(a) of the First Settlement Agreement;
- (E) On February 5, 2024, the Investor, through her law firm Sullivan & Worcester LLP, made certain demands (the “Demand Letter”) with respect to amounts owed and outstanding under the First Settlement Agreement to the Company, and on February 9, 2024, the Company responded to such demands (the “Response Letter”) through its law firm Loeb & Loeb LLP;
- (F) On April 8, 2024, the Investor filed a lawsuit in the Supreme Court of the State of New York County of New York seeking damages from the Company in connection with alleged breaches of the Transaction Documents and First Settlement Agreement, entitled *Yan*, [Redacted], No. [Redacted] (the “New York Action”); and
- (G) Subsequent to further negotiations between the Company and the Investor, both parties desire to finally and fully resolve the outstanding disputes concerning the Transaction Documents and First Settlement Agreement and discharge and release each other from all rights and obligations thereunder (“Outstanding R&Os”), pursuant to the terms of this Agreement.

## **AGREED TERMS**

### **1. Definitions and interpretation**

Capitalized terms not otherwise defined herein shall have the meanings set forth in Transaction Documents.

### **2. Settlement**

The parties agree that upon completion of the requirements set forth in this section 2 (“Requirements”), each party shall fully and forever, irrevocably and unconditionally, release, waive and discharge the other party, of and from any and all Outstanding R&Os, that such party may now have, has ever had or may hereafter have, against the other party, in accordance with section 3 herein, and shall undertake not to sue the other party, in accordance with section 4 herein.

The Requirements are:

- (a) The Investor shall file a notice of discontinuance in the New York Action within twenty-four (24) hours of the full execution of this Agreement;
- (b) If the Investor meets his obligation under Section 2(a), the Company shall pay a total of \$250,000 (“Settlement Sum”) to the Investor as full and fair consideration for the termination of: (i) all rights and obligations under the Note and the First Settlement Agreement; and (ii) all rights and obligations under the Warrant;
- (c) If the Investor meets his obligation under Section 2(a), the Company shall pay Settlement Sum to the Investor in fifteen (15) business days after the New York Action is fully withdrawn;
- (d) Within twenty-four (24) hours of the Company performing the obligation under Section 2(c), the Investor shall cause its attorney to release to Company a fully executed Release of Security Interests as set forth in Exhibit B; and
- (e) If the Company fails to meet its obligations under Sections 2(b) and 2(c) of this Agreement, other than because the Investor fails to meet his obligation under Section 2(a) and the New York Action is not fully withdrawn, then this Second Settlement Agreement shall be void and the terms and conditions of the First Settlement Agreement shall remain in effect (and the Investor shall have the right to immediately reinstate the New York Action or other proceeding to enforce the Transaction Documents and First Settlement Agreement).

### **3. Mutual Release**

Upon the execution of this Agreement, the parties and the filing of the notice of discontinuance in the New York Action by the Investor, on behalf of themselves and their respective direct or indirect predecessors, successors, parent companies, divisions, subsidiaries, agents, affiliates, subrogees, insurers, trustees, trusts, administrators, representatives, personal representatives, legal representatives, transferees, assigns and successors in interest of assigns, and any firm, trust, corporation, partnership, and the respective consultants, employees, legal counsel, officers, directors, managers, shareholders, stockholders, owners of any of the foregoing (collectively, in such capacity, the “Releasors”), in consideration of completion of the items contained in Section 2 above, hereby remise, release, acquit and forever discharge the other party and their agents, transferees, consultants, officers, directors, shareholders, stockholders, owners, employees, legal counsel, successors, assigns, successors in interest of assigns, subrogees, insurers, trustees, trusts, administrators, fiduciaries and representatives, legal representatives, personal representatives and any firm, trust, corporation or partnership (collectively, in such capacity, the “Releasees”), of and from any and all federal, state, local, foreign and any other jurisdiction’s statutory or common law claims (including claims for contribution and indemnification), causes of action, complaints, actions, suits, defenses, debts, sums of money, accounts, covenants, controversies, agreements, promises, losses, damages, orders, judgments, professional liability actions, and demands of any nature whatsoever, in law or equity, known or unknown, of any kind, including, but not limited to, claims or other legal forms of action or from any other conduct, act, omission or failure to act, whether negligent, intentional, with or without malice, that the Parties ever had, now have, may have, may claim to have, or may hereafter have or claim to have, against the other Party, from the beginning of time up to and including the date hereof (“Released Claims”). For the avoidance of doubt, any monetary obligations of either party that are a part of the Released Claims shall be deemed fully satisfied under this section. The releases contained in this Agreement shall not operate to release obligations under this Agreement.

**4. Covenant Not to Initiate Legal Action**

Effective upon the execution of this Agreement and the filing of the notice of discontinuance in the New York Action by the Investor, each of the Releasers hereby irrevocably and unconditionally covenant and agree to, (i) refrain from, directly or indirectly, asserting any claim or demand, or commencing or instituting, or causing to be commenced or instituted, or otherwise facilitating, encouraging, any action against each of the Releasees based upon the Released Claims, and (ii) immediately terminate and withdraw any and all such legal actions; and each of the parties shall indemnify and hold harmless the other party for any defense costs incurred in conjunction with any such legal actions, except for the purpose of enforcing its rights under this Agreement, and the terms set out herein. For the avoidance of doubt, the parties acknowledge that neither this Section 4 nor Section 3 of this Agreement shall prevent either party from bringing Legal Action to enforce its rights under this Second Settlement Agreement including Investor's right to reinstate the New York Action pursuant to Section 2(d) of this Agreement.

**5. Termination of Note and Warrant**

Once the Company pays the Settlement Sum, the Note and the Warrant shall be terminated in full and rendered null and void, and all past, current, or future obligations of the parties under the Note and the Warrant shall be extinguished, except as otherwise expressly set forth in this Agreement. If the Investor holds a physical copy of the Warrant, he shall return the Warrant, which shall be marked as cancelled, to the Company promptly following the payment of the Settlement Sum. The Investor acknowledges and agrees that upon the payment of the Settlement Sum, he shall have no surviving right, title or interest in or to the Note and the Warrant, any shares purchasable thereunder or any other option, warrant, right or interest to acquire any equity of the Company.

**6. Representations and Warranties**

- (a) The Company represents and warrants to the Investor as of the date of this Agreement that:
- (i) it has the requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement;
  - (ii) it has taken all necessary corporate actions to authorize the execution, delivery and performance of this Agreement and no further action is required by it, its Board of Directors or managers or its stockholders or members in connection therewith; and
  - (iii) the obligations assumed by it in this Agreement are legal, valid, and enforceable obligations binding on it in accordance with its terms.

- (b) The Investor represents and warrants to the Company as of the date of this Agreement that the obligations assumed by it in this Agreement are legal, valid, and enforceable obligations binding on it in accordance with its terms. The Investor further represents and warrants to the Company as of the date of this Agreement that no other UCC financing statements have been filed by Investor against the Company or any of its subsidiaries or affiliates.

**7. Counterparts and delivery**

This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

**8. Non-Disparagement**

After the Investor files a notice of discontinuance in the New York Action, each party shall refrain from making, publishing or communicating to any person or entity or in any public forum any comments or statements (written or oral) that denigrate or disparage, or are detrimental to, the reputation or stature of any other party or any of its employees, directors and officers, and existing and prospective customers, investors, agents and other associated third parties (including Univest and all employees, officers and partners thereof, respectively). Nothing in this Section 7, however, shall prohibit any party from making truthful statements (i) to the extent necessary with respect to any litigation, arbitration, or mediation involving this Agreement, including the enforcement thereof; (ii) pursuant to a court order, subpoena, or legal process; or (iii) as may be required by applicable law or regulation.

**9. Confession of Judgment**

The Company agrees to allow the Investor, and only after the Investor files a notice of discontinuance in the New York Action, upon immediate nonoccurrence of payment of the Settlement Sum to obtain a judgment against the Company without a hearing or any judicial process (the “Confession of Judgment”). The Confession of Judgment may be filed in any jurisdiction permitted under this Agreement. The Company agrees not to oppose, directly or indirectly, the entry of the Confession of Judgment, and not to take any appeal therefrom. A form of the confession of judgment is attached hereto as Exhibit A.

**10. Representation by Counsel.**

Each party hereto has relied, or has had the opportunity to rely, upon the advice and representation of counsel selected by them respecting the legal liabilities and obligations of the parties hereto, including, but not limited to, all claims released hereunder, and the parties hereto have been fully advised, or had the opportunity to be fully advised, as to the legal effect thereof by their respective counsel. The parties hereby represent that they have each entered into this Agreement willingly and voluntarily with full knowledge and understanding of the terms and consequences hereof.

**11. Effectuation**

Each of the parties agrees to execute any and all additional documents necessary to effectuate the intent and purpose of this Agreement.

**12. Governing law**

This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, stockholder, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under the Securities Purchase Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

***[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]***

IN WITNESS WHEREOF, the Company and the Investor have caused this Settlement Agreement to be signed by their duly authorized officers.

NORTHANN CORP.

By: /s/ Lin Li  
Name: Lin Li  
Title: CEO

SAM YAN

By: /s/ Sam Yan  
Name: Sam Yan

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**EXHIBIT A**

**CONFESSION OF JUDGMENT**

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**EXHIBIT B**

**RELEASE OF SECURITY INTERESTS**

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**RELEASE OF SECURITY INTERESTS**

THIS RELEASE OF SECURITY INTERESTS, dated as of May \_\_, 2024, (this "Release") is made by Sam Yan ("Investor"), and in favor of Northann, Corp. (a Nevada corporation) with all affiliates and subsidiaries, including, but not limited to Northann Building Solutions LLC (a Delaware corporation), Dotfloor, Inc. (a California corporation), and Northann Distribution Center Inc (a California corporation) (collectively with Northann, Corp., the "Grantors").

WHEREAS on or about May ---, 2022, the Northann, Corp. and Investor entered into, among other things, a securities agreement, a patent security agreement, and a trademark security agreement ("May 2022 Agreements");

WHEREAS on or about May 27, 2022, the following UCC financing statements were filed on behalf of Messrs. Hongyu Wang and Sam Yan as secured parties (as listed below, collectively "UCC Financing Statements"):

<u>Jurisdiction</u>	<u>Financing Statement Number</u>	<u>Debtor(s) identified</u>
DE	[Redacted]	<ul style="list-style-type: none"><li>· Northann Building Solutions LLC</li><li>· Dotfloor, Inc.</li><li>· Northann, Corp.</li><li>· Northann Distribution Center Inc</li></ul>
NV	[Redacted]	<ul style="list-style-type: none"><li>· Northann Building Solutions LLC</li><li>· Dotfloor, Inc.</li><li>· Northann, Corp.</li><li>· Northann Distribution Center Inc</li></ul>
CA	[Redacted]	<ul style="list-style-type: none"><li>· Northann Building Solutions LLC</li><li>· Dotfloor, Inc.</li><li>· Northann, Corp.</li><li>· Northann Distribution Center Inc</li></ul>

WHEREAS, the Grantors have requested and the Investor has agreed to provide a document evidencing and effecting the release, relinquishment and discharge of its security interest in and lien on the collateral set forth in the May 2022 Agreements (the "Released Collateral") and referenced in the UCC Financing Statements.

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NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Investor does hereby, in each case, without recourse, representation or warranty of any kind whatsoever, (a) terminate the Lien and security interest created under the May 2022 Agreements in the Released Collateral, (b) release its Lien and security interest in the Released Collateral, and (c) discharge any and all rights, title and interest it has in and the security interest granted to the Investor in the Released Collateral.

**IN WITNESS WHEREOF**, the Investor has caused this Release to be signed.

SAM YAN

By: \_\_\_\_\_

Name: Sam Yan

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[Pursuant to Item 601(b)(2)(ii) of Regulation S-K, certain term to this exhibit have been omitted as they are both not material and of the type that the registrant treats as private or confidential. A copy of unredacted copy of the exhibit will be furnished supplementally to the SEC upon request.]

[Pursuant to Item 601(a)(5) of Regulation S-K, certain schedules and attachments to this exhibit have been omitted. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.]

**SECOND SETTLEMENT AGREEMENT**

This Second Settlement Agreement (the “Agreement”), dated as of May 3, 2024, is entered into by and between Northann Corp., a Nevada corporation (the “Company”), and Hongyu Wang (the “Investor”), and constitutes a full and final settlement between the Company and the Investor in respect of the outstanding rights and obligations of the Company and Investor pursuant to (i) that securities purchase agreement between the Company and the Investor dated May 12, 2022 (the “Securities Purchase Agreement”), (ii) that promissory note issued by the Company in favor of the Investor for a principal amount of US\$500,000, dated May 16, 2022, and further amended pursuant to the amendment agreement entered by the parties on April 27, 2023 (the “Note”), (iii) that warrant for the Company’s shares issued by the Company in favor of the Investor dated May 16, 2022 (the “Warrant”), (iv) that settlement agreement between the Company and the Investor dated October 19, 2023 (“First Settlement Agreement”), and (v) all Other Transaction Documents (as defined below).

**WHEREAS:**

- (A) On May 16, 2022, pursuant to the Securities Purchase Agreement, the Company issued and sold to the Investor, through introduction by placement agent Univest Securities, LLC (“Univest”), and the Investor purchased from the Company, the Note in an aggregate principal amount of \$500,000 and the Warrant to purchase 142,857 shares of common stock of the Company, on the terms and conditions set forth in the Securities Purchase Agreement. The Note was amended by the parties on April 27, 2023 (such amendment, the “Amendment Agreement”). On May 12, 2022, the parties also entered into a securities agreement, a patent security agreement, a trademark security agreement, and a registration rights agreement and all the subsidiaries of the Company also entered into a guaranty and a guarantors securities agreement with the Investor (“Other Transaction Documents,” and together with the Securities Purchase Agreement, the Note, the Warrant and the First Settlement Agreement, the “Transaction Documents”);
- (B) On May 27, 2022, the following UCC financing statements were filed on behalf of Messrs. Hongyu Wang and Sam Yan as secured parties (as listed below, collectively “UCC Financing Statements”):

<u>Jurisdiction</u>	<u>Financing Statement Number</u>	<u>Debtor(s) identified</u>
DE	[Redacted]	<ul style="list-style-type: none"> <li>· Northann Building Solutions LLC</li> <li>· Dotfloor, Inc.</li> <li>· Northann, Corp.</li> <li>· Northann Distribution Center Inc</li> </ul>
NV	[Redacted]	<ul style="list-style-type: none"> <li>· Northann Building Solutions LLC</li> <li>· Dotfloor, Inc.</li> <li>· Northann, Corp.</li> <li>· Northann Distribution Center Inc</li> </ul>
CA	[Redacted]	<ul style="list-style-type: none"> <li>· Northann Building Solutions LLC</li> <li>· Dotfloor, Inc.</li> <li>· Northann, Corp.</li> <li>· Northann Distribution Center Inc</li> </ul>

- (C) On October 19, 2023, the Company entered into the First Settlement Agreement with the Investor, for the settlement of the outstanding debt due by the Company to the Investor in respect of the Note, on the terms set forth therein;
- (D) On or around October 23, 2023, the Company paid \$600,000 to the Investor in accordance with section 2(a) of the First Settlement Agreement;
- (E) On February 5, 2024, the Investor, through her law firm Sullivan & Worcester LLP, made certain demands (the “Demand Letter”) with respect to amounts owed and outstanding under the First Settlement Agreement to the Company, and on February 9, 2024, the Company responded to such demands (the “Response Letter”) through its law firm Loeb & Loeb LLP;
- (F) On April 8, 2024, the Investor filed a lawsuit in the Supreme Court of the State of New York County of New York seeking damages from the Company in connection with alleged breaches of the Transaction Documents and First Settlement Agreement, entitled [Redacted], No. [Redacted] (the “New York Action”); and
- (G) Subsequent to further negotiations between the Company and the Investor, both parties desire to finally and fully resolve the outstanding disputes concerning the Transaction Documents and First Settlement Agreement and discharge and release each other from all rights and obligations thereunder (“Outstanding R&Os”), pursuant to the terms of this Agreement.

## **AGREED TERMS**

### **1. Definitions and interpretation**

Capitalized terms not otherwise defined herein shall have the meanings set forth in Transaction Documents.

### **2. Settlement**

The parties agree that upon completion of the requirements set forth in this section 2 (“Requirements”), each party shall fully and forever, irrevocably and unconditionally, release, waive and discharge the other party, of and from any and all Outstanding R&Os, that such party may now have, has ever had or may hereafter have, against the other party, in accordance with section 3 herein, and shall undertake not to sue the other party, in accordance with section 4 herein.

The Requirements are:

- (a) The Investor shall file a notice of discontinuance in the New York Action within twenty-four (24) hours of the full execution of this Agreement;
- (b) If the Investor meets his obligation under Section 2(a), the Company shall pay a total of \$250,000 (“Settlement Sum”) to the Investor as full and fair consideration for the termination of: (i) all rights and obligations under the Note and the First Settlement Agreement; and (ii) all rights and obligations under the Warrant;
- (c) If the Investor meets his obligation under Section 2(a), the Company shall pay Settlement Sum to the Investor in fifteen (15) business days after the New York Action is fully withdrawn;
- (d) Within twenty-four (24) hours of the Company performing the obligation under Section 2(c), the Investor shall cause its attorney to release to Company a fully executed Release of Security Interests as set forth in Exhibit B; and
- (e) If the Company fails to meet its obligations under Sections 2(b) and 2(c) of this Agreement, other than because the Investor fails to meet his obligation under Section 2(a) and the New York Action is not fully withdrawn, then this Second Settlement Agreement shall be void and the terms and conditions of the First Settlement Agreement shall remain in effect (and the Investor shall have the right to immediately reinstate the New York Action or other proceeding to enforce the Transaction Documents and First Settlement Agreement).

### **3. Mutual Release**

Upon the execution of this Agreement, the parties and the filing of the notice of discontinuance in the New York Action by the Investor, on behalf of themselves and their respective direct or indirect predecessors, successors, parent companies, divisions, subsidiaries, agents, affiliates, subrogees, insurers, trustees, trusts, administrators, representatives, personal representatives, legal representatives, transferees, assigns and successors in interest of assigns, and any firm, trust, corporation, partnership, and the respective consultants, employees, legal counsel, officers, directors, managers, shareholders, stockholders, owners of any of the foregoing (collectively, in such capacity, the “Releasors”), in consideration of completion of the items contained in Section 2 above, hereby remise, release, acquit and forever discharge the other party and their agents, transferees, consultants, officers, directors, shareholders, stockholders, owners, employees, legal counsel, successors, assigns, successors in interest of assigns, subrogees, insurers, trustees, trusts, administrators, fiduciaries and representatives, legal representatives, personal representatives and any firm, trust, corporation or partnership (collectively, in such capacity, the “Releasees”), of and from any and all federal, state, local, foreign and any other jurisdiction’s statutory or common law claims (including claims for contribution and indemnification), causes of action, complaints, actions, suits, defenses, debts, sums of money, accounts, covenants, controversies, agreements, promises, losses, damages, orders, judgments, professional liability actions, and demands of any nature whatsoever, in law or equity, known or unknown, of any kind, including, but not limited to, claims or other legal forms of action or from any other conduct, act, omission or failure to act, whether negligent, intentional, with or without malice, that the Parties ever had, now have, may have, may claim to have, or may hereafter have or claim to have, against the other Party, from the beginning of time up to and including the date hereof (“Released Claims”). For the avoidance of doubt, any monetary obligations of either party that are a part of the Released Claims shall be deemed fully satisfied under this section. The releases contained in this Agreement shall not operate to release obligations under this Agreement.

**4. Covenant Not to Initiate Legal Action**

Effective upon the execution of this Agreement and the filing of the notice of discontinuance in the New York Action by the Investor, each of the Releasers hereby irrevocably and unconditionally covenant and agree to, (i) refrain from, directly or indirectly, asserting any claim or demand, or commencing or instituting, or causing to be commenced or instituted, or otherwise facilitating, encouraging, any action against each of the Releasees based upon the Released Claims, and (ii) immediately terminate and withdraw any and all such legal actions; and each of the parties shall indemnify and hold harmless the other party for any defense costs incurred in conjunction with any such legal actions, except for the purpose of enforcing its rights under this Agreement, and the terms set out herein. For the avoidance of doubt, the parties acknowledge that neither this Section 4 nor Section 3 of this Agreement shall prevent either party from bringing Legal Action to enforce its rights under this Second Settlement Agreement including Investor's right to reinstate the New York Action pursuant to Section 2(d) of this Agreement.

**5. Termination of Note and Warrant**

Once the Company pays the Settlement Sum, the Note and the Warrant shall be terminated in full and rendered null and void, and all past, current, or future obligations of the parties under the Note and the Warrant shall be extinguished, except as otherwise expressly set forth in this Agreement. If the Investor holds a physical copy of the Warrant, he shall return the Warrant, which shall be marked as cancelled, to the Company promptly following the payment of the Settlement Sum. The Investor acknowledges and agrees that upon the payment of the Settlement Sum, he shall have no surviving right, title or interest in or to the Note and the Warrant, any shares purchasable thereunder or any other option, warrant, right or interest to acquire any equity of the Company.

**6. Representations and Warranties**

- (a) The Company represents and warrants to the Investor as of the date of this Agreement that:
- (i) it has the requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement;
  - (ii) it has taken all necessary corporate actions to authorize the execution, delivery and performance of this Agreement and no further action is required by it, its Board of Directors or managers or its stockholders or members in connection therewith; and
  - (iii) the obligations assumed by it in this Agreement are legal, valid, and enforceable obligations binding on it in accordance with its terms.



- (b) The Investor represents and warrants to the Company as of the date of this Agreement that the obligations assumed by it in this Agreement are legal, valid, and enforceable obligations binding on it in accordance with its terms. The Investor further represents and warrants to the Company as of the date of this Agreement that no other UCC financing statements have been filed by Investor against the Company or any of its subsidiaries or affiliates.

**7. Counterparts and delivery**

This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

**8. Non-Disparagement**

After the Investor files a notice of discontinuance in the New York Action, each party shall refrain from making, publishing or communicating to any person or entity or in any public forum any comments or statements (written or oral) that denigrate or disparage, or are detrimental to, the reputation or stature of any other party or any of its employees, directors and officers, and existing and prospective customers, investors, agents and other associated third parties (including Uninvest and all employees, officers and partners thereof, respectively). Nothing in this Section 7, however, shall prohibit any party from making truthful statements (i) to the extent necessary with respect to any litigation, arbitration, or mediation involving this Agreement, including the enforcement thereof; (ii) pursuant to a court order, subpoena, or legal process; or (iii) as may be required by applicable law or regulation.

**9. Confession of Judgment**

The Company agrees to allow the Investor, and only after the Investor files a notice of discontinuance in the New York Action, upon immediate nonoccurrence of payment of the Settlement Sum to obtain a judgment against the Company without a hearing or any judicial process (the “Confession of Judgment”). The Confession of Judgment may be filed in any jurisdiction permitted under this Agreement. The Company agrees not to oppose, directly or indirectly, the entry of the Confession of Judgment, and not to take any appeal therefrom. A form of the confession of judgment is attached hereto as Exhibit A.

**10. Representation by Counsel.**

Each party hereto has relied, or has had the opportunity to rely, upon the advice and representation of counsel selected by them respecting the legal liabilities and obligations of the parties hereto, including, but not limited to, all claims released hereunder, and the parties hereto have been fully advised, or had the opportunity to be fully advised, as to the legal effect thereof by their respective counsel. The parties hereby represent that they have each entered into this Agreement willingly and voluntarily with full knowledge and understanding of the terms and consequences hereof.

**11. Effectuation**

Each of the parties agrees to execute any and all additional documents necessary to effectuate the intent and purpose of this Agreement.

**12. Governing law**

This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, stockholder, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under the Securities Purchase Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]*

IN WITNESS WHEREOF, the Company and the Investor have caused this Settlement Agreement to be signed by their duly authorized officers.

NORTHANN CORP.

By: /s/ Lin Li  
Name: Lin Li  
Title: CEO

HONGYU WANG

By: /s/ Hongyu Wang  
Name: Hongyu Wang

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**EXHIBIT A**

**CONFESSION OF JUDGMENT**

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**EXHIBIT B**

**RELEASE OF SECURITY INTERESTS**

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**RELEASE OF SECURITY INTERESTS**

THIS RELEASE OF SECURITY INTERESTS, dated as of May \_\_, 2024, (this "Release") is made by Hongyu Wang ("Investor"), and in favor of Northann, Corp. (a Nevada corporation) with all affiliates and subsidiaries, including, but not limited to Northann Building Solutions LLC (a Delaware corporation), Dotfloor, Inc. (a California corporation), and Northann Distribution Center Inc (a California corporation) (collectively with Northann, Corp., the "Grantors").

WHEREAS on or about May ---, 2022, the Northann, Corp. and Investor entered into, among other things, a securities agreement, a patent security agreement, and a trademark security agreement ("May 2022 Agreements");

WHEREAS on or about May 27, 2022, the following UCC financing statements were filed on behalf of Messrs. Hongyu Wang and Sam Yan as secured parties (as listed below, collectively "UCC Financing Statements"):

<u>Jurisdiction</u>	<u>Financing Statement Number</u>	<u>Debtor(s) identified</u>
DE	[Redacted]	<ul style="list-style-type: none"><li>· Northann Building Solutions LLC</li><li>· Dotfloor, Inc.</li><li>· Northann, Corp.</li><li>· Northann Distribution Center Inc</li></ul>
NV	[Redacted]	<ul style="list-style-type: none"><li>· Northann Building Solutions LLC</li><li>· Dotfloor, Inc.</li><li>· Northann, Corp.</li><li>· Northann Distribution Center Inc</li></ul>
CA	[Redacted]	<ul style="list-style-type: none"><li>· Northann Building Solutions LLC</li><li>· Dotfloor, Inc.</li><li>· Northann, Corp.</li><li>· Northann Distribution Center Inc</li></ul>

WHEREAS, the Grantors have requested and the Investor has agreed to provide a document evidencing and effecting the release, relinquishment and discharge of its security interest in and lien on the collateral set forth in the May 2022 Agreements (the "Released Collateral") and referenced in the UCC Financing Statements.

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NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Investor does hereby, in each case, without recourse, representation or warranty of any kind whatsoever, (a) terminate the Lien and security interest created under the May 2022 Agreements in the Released Collateral, (b) release its Lien and security interest in the Released Collateral, and (c) discharge any and all rights, title and interest it has in and the security interest granted to the Investor in the Released Collateral.

**IN WITNESS WHEREOF**, the Investor has caused this Release to be signed.

HONGYU WANG

By: \_\_\_\_\_

Name: Hongyu Wang

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lin Li, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2024 of Northann Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) (Paragraph omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a));
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2024

By: */s/ Lin Li*

Lin Li

Chief Executive Officer

(Principal Executive Officer)

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sunny S. Prasad, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2024 of Northann Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) (Paragraph omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a));
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2024

By: /s/ Sunny S. Prasad

Sunny S. Prasad  
Interim Chief Financial Officer  
(Principal Accounting and Financial Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northann Corp. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Lin Li, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 20, 2024

By: /s/ Lin Li  
\_\_\_\_\_  
Lin Li  
Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northann (the "Company") on Form 10-Q for the quarterly period ended March 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Sunny S. Prasad, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 20, 2024

By: /s/ Sunny S. Prasad  
Sunny S. Prasad  
Interim Chief Financial Officer  
(Principal Accounting and Financial Officer)

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