

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 September 30, 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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 19, 2024, there were 34,364,400 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**  
(In U.S. dollars)

	<b>As of</b>	<b>As of</b>
	<b>September 30,</b>	<b>December 31,</b>
	<b>2024</b>	<b>2023</b>
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 83,929	\$ 1,101,443
Restricted cash	3,812	3,771
Accounts receivable, net	1,940,638	2,615,458
Inventory, net	3,807,740	2,645,488
Prepayments	125,610	311,402
Other receivables and other current assets	72,905	127,313
<b>Total current assets</b>	<b>6,034,634</b>	<b>6,804,875</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment, net	4,273,607	4,724,105
Construction in progress	1,311,133	962,338
Land use rights, net	1,023,426	1,030,982
Operating lease right-of-use assets, net	1,907,491	87,380
Security deposits	9,030	9,030
<b>Total non-current assets</b>	<b>8,524,687</b>	<b>6,813,835</b>
<b>TOTAL ASSETS</b>	<b>\$ 14,559,321</b>	<b>\$ 13,618,710</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Bank borrowings - current	5,282,296	5,689,721
Operating lease liabilities, current	348,370	31,413
Accounts and other payables and accruals	2,453,034	4,538,322
Taxes payable	574,893	608,679
Unearned revenue	898,259	1,084,484
Amounts due to related parties	1,933,672	302,943
Obligation under secured borrowing arrangement	-	599,664
<b>Total current liabilities</b>	<b>11,490,524</b>	<b>12,855,226</b>
Bank borrowings – non-current	120,519	124,905
Operating lease liabilities, – non-current	1,559,121	55,967
<b>Total non-current liabilities</b>	<b>1,679,640</b>	<b>180,872</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 13,170,164</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, 20,000,000 shares designated, 5,000,000 and 5,000,000 shares issued and outstanding as of September 30, 2024 and December 31, 2023	5,000	5,000
Common stock, \$0.001 par value, 400,000,000 shares authorized, 24,365,903 and 21,380,000 shares issued and outstanding as of September 30, 2024 and December 31, 2023	24,366	21,380
Subscription receivable	(25,000)	(25,000)
Additional paid-in capital	7,850,526	6,671,016
Retained earnings	(5,754,840)	(5,313,943)
Accumulated other comprehensive loss	(710,895)	(775,841)
<b>Total stockholders' equity</b>	<b>1,389,157</b>	<b>582,612</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 14,559,321</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)

	Three months Ended		Nine months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>REVENUES</b>	\$ 2,557,585	\$ 2,160,258	\$ 11,042,009	\$ 9,436,881
<b>COST OF REVENUES</b>	929,002	3,423,295	6,968,809	8,547,213
<b>GROSS PROFIT</b>	1,628,583	(1,263,037)	4,073,200	889,668
<b>OPERATING EXPENSES</b>				
Selling expenses	159,368	193,236	564,805	538,672
General and administrative expenses	575,678	354,902	2,521,940	1,094,228
Research and development expenses	340,072	99,161	1,272,257	609,476
<b>Total operating expenses</b>	1,075,118	647,299	4,359,002	2,242,376
<b>INCOME FROM OPERATIONS</b>	553,465	(1,910,336)	(285,802)	(1,352,708)
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(53,476)	(20,685)	(399,120)	(439,142)
Amortization of debt discounts	-	-	-	(645,576)
Other income	-	134	250,248	681
Other expenses	(3,426)	(990,725)	(3,426)	(990,725)
Total other expenses, net	(56,902)	(1,011,276)	(152,298)	(2,074,763)
<b>INCOME (LOSS) BEFORE TAXES</b>	496,563	(2,921,613)	(438,100)	(3,427,470)
Income tax expense	2	-	(2,797)	(5,764)
<b>NET INCOME (LOSS)</b>	496,565	(2,921,613)	(440,897)	(3,433,234)
<b>Other comprehensive income:</b>				
Foreign currency translation adjustment	(97,305)	(717,044)	64,946	(332,853)
<b>Total comprehensive income (LOSS)</b>	399,260	(3,638,657)	(375,951)	(3,766,087)
Basic and diluted earnings per share*	\$ 0.02	\$ (0.15)	\$ (0.02)	\$ (0.17)
Weighted average number of shares of common stock outstanding – basic*	24,275,972	20,000,000	22,861,075	20,000,000
Weighted average number of shares of common stock outstanding – diluted*	24,275,972	20,000,000	22,861,075	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, 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 loss	-	-	-	-	-	-	(440,897)	-	(440,897)
Issuance of shares			2,985,903	2,986		1,179,510			1,182,496
Foreign currency translation adjustment	-	-	-	-	-	-	-	64,946	64,946
<b>Balance, September 30, 2024</b>	<u>5,000,000</u>	<u>\$ 5,000</u>	<u>24,365,903</u>	<u>\$ 24,366</u>	<u>\$ (25,000)</u>	<u>\$ 7,850,526</u>	<u>\$ (5,754,840)</u>	<u>\$ (710,895)</u>	<u>\$ 1,389,157</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, June 30, 2024</b>	5,000,000	\$ 5,000	24,240,000	\$ 24,240	\$ (25,000)	\$ 7,829,752	\$ (6,251,405)	\$ (613,590)	\$ 968,997
Net loss	-	-	-	-	-	-	496,565	-	496,565
Issuance of common stock			125,903	126		20,774			20,900
Foreign currency translation adjustment	-	-	-	-	-	-	-	(97,305)	(97,305)
<b>Balance, September 30, 2024</b>	<u>5,000,000</u>	<u>\$ 5,000</u>	<u>24,365,903</u>	<u>\$ 24,366</u>	<u>\$ (25,000)</u>	<u>\$ 7,850,526</u>	<u>\$ (5,754,840)</u>	<u>\$ (710,895)</u>	<u>\$ 1,389,157</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, 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 loss	-	-	-	-	-	-	(3,433,234)		(3,433,234)
Foreign currency translation adjustment								(332,853)	(332,853)
<b>Balance, September 30, 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>\$ (1,614,604)</u>	<u>\$ (1,102,744)</u>	<u>\$ (1,792,348)</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, June 30, 2023</b>	5,000,000	\$ 5,000	20,000,000	\$ 20,000	\$ (25,000)	\$ 925,000	\$ 1,307,009	\$ (385,700)	\$ 1,846,309
Net loss	-	-	-	-	-	-	(2,921,613)		(2,921,613)
Foreign currency translation adjustment								(717,044)	(717,044)
<b>Balance, September 30, 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>\$ (1,614,604)</u>	<u>\$ (1,102,744)</u>	<u>\$ (1,792,348)</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)

	Nine months Ended September 30,	
	2024 (Unaudited)	2023 (Unaudited)
<b>Cash flows from operating activities</b>		
Net loss	\$ (440,897)	\$ (3,433,234)
<b>Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:</b>		
Depreciation and amortization	504,943	419,690
Amortization of debt discounts	-	645,576
Share-based compensation	1,182,496	
Income from settlement of Convertible Notes	(250,000)	-
<b>Changes in assets and liabilities</b>		
Accounts receivable	674,820	(24,440)
Other receivables	54,408	5,219
Prepayments	185,792	(418,851)
Inventory	(1,162,252)	(1,209,520)
Prepaid expenses	-	77
Right of use assets	(1,820,111)	(76,752)
Deferred tax asset	-	-
Accounts payable	(209,448)	(760,119)
Accruals and other payables	34,161	1,904,642
Unearned revenue	(186,225)	1,178,518
Payroll payable	(12,676)	83,225
Taxes payable	(33,786)	(44,347)
Accrued interest	4,066	205,886
Operating leases	1,820,111	76,752
Other assets	-	115
Net cash provided or (used in) operating activities	<u>345,402</u>	<u>(1,447,563)</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	-	(7,642)
(Payments for ) or transfer from construction	(348,795)	-
Net cash used in investing activities	<u>(348,795)</u>	<u>(7,642)</u>
<b>Cash flows from financing activities</b>		
Proceeds from bank borrowings	756,343	-
Repayment of bank Loan	(1,163,768)	(310,616)
Amount received from secured borrowing arrangement		624,622
Repayment of secured borrowing arrangement	(599,664)	-
Settlement of convertible notes	(500,000)	-
Amounts received from or related party	430,729	977,782
Net cash (used in) provided by financing activities	<u>(1,076,360)</u>	<u>1,291,788</u>
<b>Effect of exchange rates on cash</b>	<u>62,280</u>	<u>2,844</u>
<b>Net change in cash and cash equivalents</b>	<u>(1,017,473)</u>	<u>(160,573)</u>
<b>Cash and restricted cash at beginning of year</b>	<u>1,105,214</u>	<u>251,100</u>
<b>Cash and restricted cash at end of period</b>	<u>\$ 87,741</u>	<u>\$ 90,527</u>
<b>Supplemental of cash flow information</b>		
Cash paid for interest	<u>\$ 145,325</u>	<u>\$ 233,265</u>
Cash paid for income taxes	<u>\$ 40,373</u>	<u>\$ 5,764</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED September 30, 2024 (UNAUDITED) AND**  
**FOR THE YEARS ENDED DECEMBER 31 2023**  
**(In U.S. dollars)**

**I. 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 September 30, 2024, the Company had a working capital deficit of \$5,272,085 and net cash provided by operating activities of \$345,402 for the nine months ended September 30, 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 uncertainty.

## 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 it sets 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. \$966,158 and \$1,178,805 were recognized as revenue from unearned revenue during the nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2024. The Company had no uncertain tax position for the nine months ended September 30, 2024 and December 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>		
September 30, 2024	RMB7.0074 to \$1	HKD7.7705 to \$1
September 30, 2023	RMB7.1798 to \$1	HKD7.8245 to \$1
<b>Income statement and cash flows items</b>		
For the nine months ended September 30, 2024	RMB7.1107 to \$1	HKD7.8088 to \$1
For the nine months ended September 30, 2023	RMB7.0148 to \$1	HKD7.8334 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 September 30, 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>Estimated useful lives (years)</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>Estimated useful lives (years)</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 September 30, 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>Three Months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net income (loss)	496,565	(2,921,613)	\$ (440,897)	\$ (3,433,234)
Weighted average number of shares of common stock outstanding - basic	24,275,972	20,000,000	22,861,075	20,000,000
Weighted average number of shares of common stock outstanding - diluted	24,275,972	20,000,000	22,861,075	20,000,000
Basic and diluted (loss) earnings per share	0.02	(0.15)	\$ (0.02)	\$ (0.17)

### ***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 September 30, 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****Accounting Pronouncements Issued But Not Yet Adopted**

In November 2023, the FASB issued ASU 2023-07 “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures” (“ASU 2023-07”). ASU 2023-07 intends to improve reportable segment disclosure requirements, enhance interim disclosure requirements and provide new segment disclosure requirements for entities with a single reportable segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods with fiscal years beginning after December 15, 2024. ASU 2023-07 is to be adopted retrospectively to all prior periods presented. The Company is currently assessing the impact this guidance will have on the consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09 “Improvements to Income Tax Disclosures” (“ASU 2023-09”). ASU 2023-09 intends to improve the transparency of income tax disclosures. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024 and is to be adopted on a prospective basis with the option to apply retrospectively. The Company is currently assessing the impact of this guidance, however, the Company do not expect a material impact to the consolidated financial statements.

In January 2024, the FASB issued ASU 2024-01 “Compensation—Stock Compensation” (“ASU 2024-01”). ASU 2024-01 is intended to improve generally accepted accounting principles (GAAP) by adding an illustrative example to demonstrate how an entity should apply the scope guidance in paragraph 718-10-15-3 to determine whether profits interest and similar awards (“profits interest awards”) should be accounted for in accordance with Topic 718, Compensation—Stock Compensation. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2025, and interim periods within those annual periods. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company is currently assessing the impact of this guidance, however, the Company do not expect a material impact to the consolidated financial statements.

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:

	September 30, 2024	December 31, 2023
Deposit for Bank acceptance bill	\$ 3,812	\$ 3,771
<b>Total</b>	<b>\$ 3,812</b>	<b>\$ 3,771</b>

**4. ACCOUNTS RECEIVABLE, NET**

Accounts receivable consist of the following:

	September 30, 2024	December 31, 2023
Gross accounts receivable	\$ 1,940,638	\$ 2,615,458
Less: allowance for doubtful accounts	-	-
	<b>\$ 1,940,638</b>	<b>\$ 2,615,458</b>

There was no allowance for doubtful accounts recorded as of September 30, 2024 and December 31, 2023.

**5. OTHER RECEIVABLES**

Other receivables consist of the following:

	September 30, 2024	December 31, 2023
Deposit and other assets	72,905	127,313
<b>Total</b>	<b>\$ 72,905</b>	<b>\$ 127,313</b>

**6. INVENTORY, NET**

Inventories, net, consist of the following:

	September 30, 2024	December 31, 2023
Raw materials and components	\$ 1,937,755	\$ 1,654,771
Finished goods	1,869,985	990,717
<b>Total</b>	<b>3,807,740</b>	<b>2,645,488</b>
less: Impairment	-	-
<b>Inventories, net</b>	<b>\$ 3,807,740</b>	<b>\$ 2,645,488</b>

## 7. EQUIPMENT, NET

Equipment, net consist of the following:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Manufacturing equipment	\$ 8,837,761	\$ 8,790,918
Office equipment	321,390	319,624
less: Accumulated depreciation	4,885,544	4,386,437
Total	<u>\$ 4,273,607</u>	<u>\$ 4,724,105</u>

Depreciation expenses charged to the consolidated statements of operations for the nine months ended September 30, 2024 and for the year ended December 31, 2023 were \$499,107 and \$657,556, respectively.

## 8. LAND USE RIGHTS, NET

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Land use right	\$ 1,155,310	\$ 1,143,382
less: Accumulated amortization	131,884	112,400
	<u>\$ 1,023,426</u>	<u>\$ 1,030,982</u>

The Company has pledged its land use rights at No. 199, Newtown, 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 September 30, 2024 and December 31, 2023 represents bank borrowings of \$4,894,825 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 nine months ended September 30, 2024 and 2023 was approximately 6.22% and 5.87%, respectively.

<u>Bank</u>	<u>Loan period</u>	<u>Interest rate</u>	<u>Balance at September 30, 2024</u>	<u>Balance at December 31, 2023</u>
Industrial and Commercial Bank of China	October 24, 2022 - June 12, 2025	4.35%	\$ 1,427,063	\$ 1,411,891
Industrial and Commercial Bank of China	October 26, 2022 - June 10, 2025	4.35%	1,427,063	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 - February 28, 2025	4.79%	385,307	381,211
Jiangnan Rural Commercial Bank	March 24, 2022 - February 28, 2025	4.79%	899,050	889,491
Bank of America	April 28, 2022 - April 30, 2025	Prime rate +0.1%	389,663	857,242
Agricultural Bank of China new gate branch	July 24, 2024 - August 23, 2025	Prime rate +0.1%	756,343	
<b>Total</b>			<u>\$ 5,284,489</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 September 30, 2024</b>	<b>Balance at December 31, 2023</b>
EIDL Loan	From June 26, 2020 to June 25, 2050	3.75%	118,326	124,905
<b>Total</b>			\$ 118,326	\$ 124,905

**10. BALANCES WITH RELATED PARTY**

1) Related party transactions

For the nine months ended September 30, 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>September 30, 2024</b>	<b>December 31, 2023</b>
Amount (due to) from related party	Lin Li, Chief Executive Officer and Chairman of the Board		\$ (1,933,672)	\$ 302,943

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. 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 September 30, 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 nine months ended September 30, 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 \$2,797 and \$5,769 for the nine months ended September 30, 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 nine months ended September 30, 2024 and 2023 was as follows:

The income tax provision consists of the following components:

	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
<b>Current:</b>	-	-
Federal	\$ -	\$ -
State	1,863	5,380
Foreign	933	384
<b>Total current</b>	<b>\$ 2,797</b>	<b>\$ 5,764</b>
<b>Deferred:</b>	-	-
Federal	\$ -	\$ -
State	-	-
Foreign	-	-
<b>Total deferred</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total income tax expense</b>	<b>\$ 2,797</b>	<b>\$ 5,764</b>

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

	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Loss before income tax expense	\$ (438,100)	\$ (3,427,470)
Computed tax benefit with statutory tax rate	29.84%	29.84%
Income tax expense computed at statutory income tax rate	(130,729)	(1,022,757)
Impact of different tax rates in other jurisdictions	(21,222)	710,647
Tax effect of non-deductible expenses	154,748	317,874
<b>Total income tax expense</b>	<b>\$ 2,797</b>	<b>\$ 5,764</b>

The effective tax rate were (0.64)% and (0.20)% for the nine months ended September 30, 2024 and 2023, respectively.

*Uncertain tax positions*

The Company did not have any uncertain tax positions during the nine months ended September 30, 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 June 30, 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.

### 13. 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 nine months ended September 30, 2024 and 2023, the Company contributed a total of \$48,120 and \$38,952, respectively, to these funds.

### 14. 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 September 30, 2024 and December 31, 2023:

<b>Assets/liabilities</b>	<b>September 30, 2024</b>	<b>December 31, 2023</b>
<b>Assets</b>		
Operating lease right-of-use assets	\$ 1,907,491	\$ 87,380
<b>Liabilities</b>		
Operating lease liability - current	\$ 348,370	\$ 31,413
Operating lease liability - non-current	1,559,121	55,967
<b>Total lease liabilities</b>	<b>\$ 1,907,491</b>	<b>\$ 87,380</b>

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

	<b>For the nine months ended September 30, 2024</b>	<b>For the nine months Ended September 30, 2023</b>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 59,617	\$ 21,506
Right-of-use assets obtained in exchange for new lease obligations:	1,876,838	-

The operating lease expenses for the nine months ended September 30, 2024 and 2023 were as follows:

Lease Cost	Classification	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Operating lease expense	General and administrative expenses	\$ 59,617	\$ 21,506

Maturities of operating lease liabilities as of September 30, 2024 were as follows:

Maturity of Lease Liabilities	Operating Leases
Within one year	435,856
Within a period of more than one year but not more than two years	\$ 444,957
Within a period of more than two year but not more than three years	425,195
Within a period of more than three year but not more than four years	437,951
Within a period of more than four years but not more than five years	412,467
More than five years	-
Total lease commitment	\$ 2,156,426
Less: interest	(248,935)
Present value of lease payments	\$ 1,907,491

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

Lease Term and Discount Rate	September 30, 2024	December 31, 2023
Weighted-average remaining lease term (years)		
Operating leases	4.82	2.92
Weighted-average discount rate (%)		
Operating leases	5%	5%

## 15. CONCENTRATIONS AND CREDIT RISK

### (a) Concentrations

During the nine months ended September 30, 2024, two customers accounted for 66% of the Company's revenues. During the nine months ended September 30, 2023, one customers accounted for 54% of the Company's revenues. No other customer accounts for more than 10% of the Company's revenue in the nine months ended September 30, 2024 and 2023.

As of September 30, 2024, five customers accounted for 25% 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 nine months ended September 30, 2024 and for the year ended December 31, 2023.

During the nine months ended September 30, 2024, no supplier accounts for over 10% of the Company's cost of revenues. During the nine months ended September 30, 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 September 30, 2024, no supplier accounted for over 10% of the Company's accounts payable. As of December 31, 2023, no supplier accounted for 10% 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 September 30, 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.

## 16. 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.

## 17. 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. This borrowing was fully repaid in May 2024.

## 18. SHARE-BASED COMPENSATION

On September 4, 2024, the Company issued an aggregate of 125,903 shares of common stock to four of the Company's current and former independent directors. In connection of the above issuance, the Company recognized \$20,900 compensation expense during the three months ended September 30, 2024.

## 19. SUBSEQUENT EVENT

On October 1, 2024, the Company issued an aggregate of 127,187 shares of common stock to the Company's three independent directors.

On October 11, 2024, the Company, approved by its board of directors, entered into a share purchase agreement (the "SPA") with Chuntao Li (the "Seller"), pursuant to which the Seller has agreed to transfer to the Company all of the outstanding shares of Cedar Modern Limited, a company incorporated under the laws of Hong Kong, in exchange for the issuance of 4,484,400 shares (the "Consideration Shares") of the Company's common stock to the Seller (the "Transaction"). The Consideration Shares were offered and sold in a transaction not involving a public offering and in compliance with exemptions from registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended, and/or Rule 506 of Regulation D promulgated thereunder. The Transaction was closed on October 14, 2024.

On October 20, 2024, the Company issued an aggregate of 886,910 shares of common stock to the Company's employees.

On November 7, 2024, as approved by the board of directors of the Company and as agreed by Lin Li, the Company rescinded these 5,000,000 shares of Series A Preferred Stock, effective as of June 22, 2024. As a result, the number of shares of Series A Preferred Stock owned by Lin Li decreased from 10,000,000 to 5,000,000, representing all issued and outstanding shares of Series A Preferred Stock of the Company.

On November 13, 2024, the Company, approved by its board of directors, entered into a share purchase agreement (the "Raleigh SPA") with Jianqun Xu (the "Seller"), pursuant to which the Seller has agreed to transfer to the Company all of the outstanding shares of Raleigh Industries Limited, a company incorporated under the laws of Hong Kong, in exchange for the issuance of 4,500,000 shares of the Company's common stock, par value \$0.001 per share to the Seller (the "Transaction"). The Transaction was closed on November 13, 2024 and the Company issued 4,500,000 shares of common stock.

**20. UNRESTRICTED NET ASSETS**

The following presents condensed financial information of Northann Corp:

Condensed Financial Information on Financial Position

	<u>As of</u> <u>September 30,</u> <u>2024</u> <u>(Unaudited)</u>	<u>As of</u> <u>December 31,</u> <u>2023</u>
Cash	587	370
Amounts due from subsidiaries	4,422,688	5,504,920
Total current assets	4,423,275	5,505,290
Interests in a subsidiary	10,136,046	9,948,890
Total Assets	<u>14,559,321</u>	<u>15,454,180</u>
<b>Liabilities and Stockholders' Deficit</b>		
All other current liabilities	1,515,759	599,664
Amounts due to subsidiaries	10,126,641	10,660,508
Total current liabilities	11,642,400	11,260,172
Non-current liabilities	1,527,764	1,950,000
Total Liabilities	<u>13,170,164</u>	<u>13,210,172</u>
<b>Stockholders' Equity (Deficit)</b>		
Preferred stock – Series A, \$0.001 par value, 100,000,000 shares authorized, 20,000,000 shares designated, 5,000,000 and 5,000,000 shares issued and outstanding as of September 30, 2024 and December 31, 2023*	5,000	5,000
Common stock, \$0.001 par value, 400,000,000 shares authorized, 24,365,903 and 21,380,000 shares issued and outstanding as of September 30, 2024 and December 31, 2023	24,366	21,380
Subscription receivable	(25,000)	(25,000)
Additional Paid-in Capital	7,850,526	6,671,016
Accumulated deficit	(5,754,840)	(3,652,547)
Accumulated other comprehensive income (loss)	(710,895)	(775,841)
Total Stockholders' Equity (Deficit)	<u>1,389,157</u>	<u>2,244,008</u>
Total Liabilities and Stockholders' Deficit	<u>14,559,321</u>	<u>15,454,180</u>

Condensed Financial Information on Results of Operations

	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
	(Unaudited)	
Revenue	-	-
Cost or revenues	-	-
Operating expenses	1,709,858	819,446
Income taxes	933	-
Loss – Parent only	(1,710,791)	819,446
Income(loss) – Subsidiaries with unrestricted net assets	1,470,873	(2,217,332)
Income(loss) – Subsidiaries with restricted net assets	(200,978)	(396,456)
Net loss – Consolidated	(440,897)	(3,433,234)

Condensed Financial Information on Cash Flows

	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
	(Unaudited)	
Cash from operating activities	217	333
Cash used in investing activities	-	-
Cash from financing activities	-	-
Effect of exchange rates on cash	-	-
Net cash flows	217	333
Beginning cash balance	370	224
Ending cash balance	587	557

(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, 2024.

(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

The following discussion and analysis of the financial condition and results of operations of Northann Corp. and its subsidiaries (collectively, the “Company,” “we,” “our,” “us,” or “Northann”) should be read in conjunction with the financial statements included elsewhere in this Quarterly Report and the audited financial statements for the year ended December 31, 2023, included in our Annual Report on Form 10-K. This Quarterly Report contains, in addition to unaudited historical information, forward-looking statements, which involve risk and uncertainties. The words “believe,” “expect,” “estimate,” “may,” “will,” “could,” “plan,” or “continue,” and similar expressions are intended to identify forward-looking statements. Our actual results could differ materially from those anticipated in such forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, those discussed under the headings “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2023 and this Quarterly Report on Form 10-Q, if any. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q. Amounts presented are in thousands, except per share data.

US Dollars are denoted herein by “USD”, “\$” and “dollars”

### Results of Operations

#### Comparison for the three months Ended September 30, 2024 and 2023

The following table sets forth key components of our results of operations for the three months ended September 30, 2024 and 2023, both in dollars and as a percentage of our revenues.

	Three Months Ended September 30,			
	2024		2023	
	Amount	of Revenue	Amount	of Revenue
<b>Revenues</b>	2,557,585	100.00%	2,160,258	100.00%
<b>Cost of revenues</b>	929,002	36.32%	3,423,295	158.47%
<b>Gross profit</b>	1,628,583	64.00%	(1,263,037)	(58.47)%
<b>Operating expenses</b>				
Selling expenses	159,368	6.23%	193,236	8.95%
General and administrative expenses	575,678	25.51%	354,902	16.43%
Research and development expenses	340,072	13.30%	99,161	4.59%
Finance Cost	-	-	-	-%
<b>Income from operations</b>	553,465	0.22%	(1,910,336)	(88.43)%
<b>Other Income (expenses)</b>				
Interest expense	(53,476)	(2.09)%	(20,685)	(0.96)%
Amortization of debt discounts	-	-%	-	-%
Extinguishment loss	-	-%	-	-%
Other income	-	-%	130	0.01%
Other expenses	(3,426)	(0.13)%	(990,725)	(45.86)%
Exchange loss	-	-%	-	0.00%
<b>Net Income before taxes</b>	(56,902)	(2.22)%	(2,921,617)	(135.24)%
Income tax (expenses)	2	-%	5	-%
<b>Net loss</b>	496,563	0.19%	(2,921,612)	(135.24)%
<b>Other comprehensive income</b>				
Foreign currency translation adjustment	(97,305)	(3.80)%	(717,044)	(33.19)%
<b>Total comprehensive loss</b>	399,260	0.16%	(3,638,656)	(168.44)%

**Revenues.** Our Revenues increased by 18% or \$397,327 to \$2,557,585 for the three months ended September 30, 2024 from \$2,160,258 for the three months ended September 30, 2023, which was primarily resulted from our marketing effort and increase in customer demand.

**Cost of revenues.** Our Cost of revenues decreased by 73% or \$2,494,293 to \$929,002 for the three months ended September 30, 2024 from \$3,423,295 for the three months ended September 30, 2023, which was primarily due to decrease in purchase price of inventories.

**Gross profit and gross margin.** Our Gross profit increased by 229% or \$2,891,620 to \$1,628,583 for the three months ended September 30, 2024 from \$(1,263,037) for the three months ended September 30, 2023. Our gross margin was 64% and (58.5%) for the three months ended September 30, 2024 and September 30, 2023, respectively.



**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 17.53% or \$33,868 to \$159,368 for the three months ended September 30, 2024 from \$193,236 for the three months ended September 30, 2023, which was mainly because we decreased expending the advertisement in the third quarter of 2024.

	Three Months ended September 30,				Fluctuation	
	2024		2023		Amount	%
	Amount	Proportion	Amount	Proportion		
Salaries and Social Insurance	80,290	50.38%	98,493	50.97%	(18,203)	(18.48)%
Freight insurance	15,675	9.84%	12,038	6.23%	3,637	30.21%
Rent	12,416	7.79%	7,575	3.92%	4,841	63.91%
Advertising fee	31,179	19.56%	58,301	30.17%	(27,122)	(46.52)%
Travel fee	19,245	12.08%	16,829	8.71%	2,416	14.36%
Others	563	0.35%	-	-	563	-
<b>Total selling expenses</b>	<b>159,368</b>	<b>100.00%</b>	<b>193,236</b>	<b>100.00%</b>	<b>(33,868)</b>	<b>(17.53)%</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 62% or \$220,776 to \$575,678 for the three months ended September 30, 2024 from \$354,902 for the three months ended September 30, 2023, which was primarily resulted from the increased professional service fees for \$156,062.

	Three Months ended September 30,				Fluctuation	
	2024		2023		Amount	%
	Amount	Proportion	Amount	Proportion		
Salary and Social Insurance	8,202	1.42%	31,640	8.92%	(23,438)	(74.08)%
Service fees	371,946	64.61%	215,884	60.83%	156,062	72.29%
Royalty fee	6,284	1.09%	5,772	1.63%	512	8.87%
Entertainment expenses	10,534	1.83%	6,088	1.72%	4,446	73.03%
Taxation	21,712	3.77%	20,382	5.74%	1,330	0.07%
Depreciation and amortization	23,597	4.10%	27,206	7.67%	(3,609)	(13.27)%
Bad debt	-	0.00%	-	-	-	-
Rent	9,420	1.64%	18,749	5.28%	(9,329)	(49.76)%
Travel fee	4,482	0.78%	233	0.07%	4,249	1823.61%
Office expenses	62,672	10.89%	15,693	4.42%	46,979	299.36%
Other	56,829	9.87%	13,255	3.73%	43,574	328.74%
<b>Total general and administrative expenses</b>	<b>575,678</b>	<b>100.00%</b>	<b>354,902</b>	<b>100.00%</b>	<b>220,776</b>	<b>62.21%</b>

**Research and development expenses.** Our Research and development expenses increased by 243% or \$240,911 to \$340,072 for the three months ended September 30, 2024 from \$99,161 for the three months ended September 30, 2023. The increase was primarily because we carried out more research and development in new material and products.

**Other expenses.** We recognized other expenses of \$3,426 and \$990,725 during the three months ended September 30, 2024 and 2023, respectively. The decrease was because in 2023 we incurred \$990,725 to terminate the Convertible Notes.

**Income tax expense.** Our Income tax expense was \$2 and \$5 which was incurred by our profit making entities in China and the US.

**Net loss.** As a result of the cumulative effect of the factors described above, our net loss was \$364,611 for the three months ended September 30, 2024 and \$2,921,613 for the three months ended September 30, 2023. The decrease was primarily due to the share based compensation recognized in the period

#### Comparison for the nine months Ended September 30, 2024 and 2023

The following table sets forth key components of our results of operations for the nine months ended September 30, 2024 and 2023, both in dollars and as a percentage of our revenues.

	Nine months Ended September 30,			
	2024		2023	
	Amount	of Revenue	Amount	of Revenue
<b>Revenues</b>	11,042,009	100.00%	9,436,881	100.00%
<b>Cost of revenues</b>	6,968,809	63.11%	8,547,213	90.57%
<b>Gross profit</b>	4,073,200	37.00%	889,668	9.43%
<b>Operating expenses</b>				
Selling expenses	564,805	5.12%	538,672	5.71%
General and administrative expenses	2,521,940	22.84%	1,094,228	11.60%
Research and development expenses	1,272,257	11.52%	609,476	6.46%
Finance Cost	-	-	-	-
<b>Loss from operations</b>	(285,802)	(2.59)%	(1,352,708)	(14.33)%
<b>Other Income (expenses)</b>				
Interest expense	(399,120)	(3.61)%	(439,142)	(4.65)%
Amortization of debt discounts	-	-	(645,576)	(6.84)%
Extinguishment loss	-	-	-	-
Other income	250,248	2.27%	681	0.01%
Other expenses	(3,426)	-	(990,725)	(10.50)%
Exchange loss	-	-	-	-
<b>Net loss before taxes</b>	(438,100)	(3.97)%	(3,427,470)	(36.32)%
Income expenses	(2,797)	(0.03)%	(5,764)	(0.06)%
<b>Net loss</b>	(440,897)	(3.99)%	(3,433,234)	(36.38)%
<b>Other comprehensive income</b>				
Foreign currency translation adjustment	64,946	(75.31)%	(332,853)	(3.53)%
<b>Total comprehensive loss</b>	<b>(375,951)</b>	<b>(3.40)%</b>	<b>(3,766,087)</b>	<b>(39.91)%</b>

**Revenues.** Our Revenues increased by 17% or \$1,605,128 to \$11,042,009 for the nine months ended September 30, 2024 from \$9,436,881 for the nine months ended September 30, 2023. The increase was mainly due to sales orders increased as a result of our marketing effort and increased customer demand.

**Cost of revenues.** Our Cost of revenues decreased by 18% or \$1,578,404 to \$6,968,809 for the nine months ended September 30, 2024 from \$8,547,213 for the nine months ended September 30, 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 decrease of cost of revenues compared to the nine months ended September 30, 2023 was due to decrease in purchase price of inventory.

**Gross profit and gross margin.** Our gross profit increased by 357% or \$3,183,532 to \$4,073,200 for the nine months ended September 30, 2024 from \$889,668 for the nine months ended September 30, 2023 due to increase in revenue. Our gross margin increased to 37% for the nine months ended September 30, 2024 from 9% for the nine months ended September 30, 2023. The increase in gross margin was due to decrease in purchase price of inventory.

**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 increased by 5% or \$26,133 to \$564,805 for the nine months ended September 30, 2024 from \$538,672 for the nine months ended September 30, 2023, which was mainly because 1)we increased spending in advertisement for \$54,821 in order to boost sales; and 2)freight insurance increased for \$16,168 in line with increase in revenue, and offset by decrease in travel fee for \$43,834 and salaries and social insurance for \$24,468 from the nine months ended September 30, 2023 to September 30, 2024.

	Nine months ended September 30,				Fluctuation	
	2024		2023		Amount	%
	Amount	Proportion	Amount	Proportion		
Salaries and Social Insurance	240,403	42.56%	264,871	49.17%	(24,468)	(9.24)%
Freight insurance	56,865	10.07%	33,940	6.30%	22,925	67.55%
Rent	40,110	7.10%	23,942	4.44%	16,168	67.53%
Advertising fee	153,684	27.21%	98,863	18.35%	54,821	55.45%
Travel fee	73,180	12.96%	117,014	21.72%	(43,834)	(37.46)%
Others	563	0.10%	42	0.01%	521	1240.48%
Total selling expenses	564,805	100.00%	538,672	100.00%	26,133	4.85%

**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 130% or \$1,427,712 to \$2,521,940 for the nine months ended September 30, 2024 from \$1,094,228 for the nine months ended September 30, 2023. The increase was mainly because during 2024, we issued 2,860,000 shares of common stock to six of our non-office employees which resulted in compensation expense of \$1,161,596, and we incurred more professional service fees during the nine months ended September 30, 2024.

	Nine months ended September 30,				Fluctuation	
	2024		2023		Amount	%
	Amount	Proportion	Amount	Proportion		
Salary and Social Insurance	1,249,209	49.53%	108,051	9.87%	1,141,158	1,056.13%
Service fees	781,453	30.99%	583,003	53.28%	198,450	34.04%
Royalty fee	18,138	0.72%	18,319	1.67%	(181)	(0.99)%
Entertainment expenses	44,231	1.75%	43,643	3.99%	588	1.35%
Taxation	41,387	1.64%	40,930	3.74%	457	1.12%
Depreciation and amortization	72,189	2.86%	96,334	8.80%	(24,145)	(25.06)%
Bad debt	-	-	-	-	-	-
Rent	27,033	1.07%	39,171	3.58%	(12,138)	(30.99)%
Travel fee	35,900	1.42%	33,967	3.10%	1,933	5.69%
Office expenses	133,284	5.28%	63,829	5.83%	69,455	108.81%
Other	119,116	4.72%	66,981	6.12%	52,135	77.84%
Total general and administrative expenses	2,521,940	100.00%	1,094,228	100.00%	1,427,712	130.48%

**Research and development expenses.** Our Research and development expenses increased by 109% or \$662,781 to \$1,272,257 for the nine months ended September 30, 2024 from \$609,476 for the nine months ended September 30, 2023, because we carried out more research and development activities for new material and products in 2024.

**Other income.** We recognized other income of \$ 250,248 as the result of final settlement of the Convertible Notes in the second quarter of 2024, while there was no such income during the nine months ended September 30 2023.

**Other expenses.** We recognized other expenses of \$3,426 and \$990,725 during the nine months ended September 30, 2024 and 2023, respectively. The decrease was because in 2023 we incurred \$\$990,725 to terminate the Convertible Notes.

**Income tax expense.** Our Income tax expense was \$2,797 for the nine months ended September 30, 2024 and \$5,769 for the nine months ended September 30, 2023. The income tax expense was incurred by our profit making entities in China and the US.

**Net loss.** As a result of the cumulative effect of the factors described above, our net loss was \$572,851 for the nine months ended September 30, 2024 and \$3,433,234 for the nine months ended September 30, 2023. The decrease in net loss was primarily due to increase in revenue, decrease in cost of sales and decrease in expenses in relation to settlement of the Convertible Notes during the nine months ended September 30, 2024 as compared with the nine months ended September 30, 2023.

## Liquidity and Capital Resources

As of September 30, 2024 and December 31, 2023, we had cash of \$83,929, 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 our cash flows for the periods indicated:

	For the nine months Ended September 30,	
	2024	2023
Net cash provided by (used in) operating activities	\$ 345,402	\$ (1,447,563)
Net cash used in investing activities	\$ (348,795)	\$ (7,642)
Net cash (used in) provided by financing activities	\$ (1,076,360)	\$ 1,291,788

### Operating Activities

Net cash provided by operating activities was \$345,402 for the nine months ended September 30, 2024, as compared to \$1,447,563 net cash used in operating activities for the nine months ended September 30, 2023.

The net cash provided by operating activities for the nine months ended September 30, 2024 mainly included net loss of \$440,897, adjusted by depreciation and amortization of \$504,943, share based compensation of \$1,182,496 and other income of \$250,000 resulting from the final settlement of the Convertible Notes, and increased in inventories of \$1,162,252, decrease in account receivable of \$674,820, and minor change of other accounts. The net cash used in operating activities for the nine months ended September 30, 2023 mainly included net loss of \$3,433,234, adjusted by depreciation and amortization of \$419,690, amortization of debt discount of \$645,576, an increase in inventory of \$1,209,520, an increase in accruals and other payables of \$1,904,642, increase in unearned revenue of 1,178,518, and minor change of other accounts.

### Investing Activities

Net cash used in investing activities was \$348,795 for the nine months ended September 30, 2024, as compared to \$7,642 net cash used in investing activities for the nine months ended September 30, 2023. The net cash used in investing activities for the nine months ended September 30, 2024 included the payment for construction in progress. The net cash used in investing activities for the nine months ended September 30, 2023 consisted of purchase of property and equipment.

### Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2024 was \$1,076,360, as compared to net cash provided by financing activities of \$1,291,788 for the nine months ended September 30, 2023. Net cash used in financing activities for the nine months ended September 30, 2024 consisted of borrowing amounting \$430,729 from a related party of our Company, and repayment of bank loan and borrowings totaling \$1,007,088 and the payment of \$500,000 to settle the Convertible Notes during the nine months ended September 30, 2024. Net cash provided by financing activities for the nine months ended September 30, 2023 consisted of proceeds from secured borrowing arrangement of \$624,622, and amount of \$977,782 received from related party, and offset by repayment of bank loan for \$310,616.

### Contractual Obligations

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

Operating lease expenses were \$59,617 and \$21,506 for the nine months ended September 30, 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

To the best of our knowledge, we are not currently the subject of any material governmental investigation, private lawsuit or other legal proceeding. From time to time, we may be involved in legal and regulatory proceedings or investigations concerning matters that arise in the ordinary course of our business and that could result in significant fines or penalties, have an adverse impact on our reputation, business and financial condition or results of operations and divert the attention of our management from the operation of our business. The outcome of any future litigation, regulatory or other proceedings cannot be predicted with certainty, and some lawsuits, claims, actions or proceedings may be disposed of unfavorably to us. In addition, intellectual property disputes often have a risk of injunctive relief which, if imposed against us, could materially and adversely affect our business, financial condition or results of operations.

### 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

As previously disclosed, the Company issued 5,000,000 shares of series A preferred stock, par value \$0.001 per share ("Series A Preferred Stock") to Lin Li, the Company's Chairman of the Board, Chief Executive Officer, President, Secretary, and Treasurer, for a consideration of \$5,000, effective June 22, 2024. On November 7, 2024, as approved by the board of directors of the Company and as agreed by Lin Li, the Company rescinded these 5,000,000 shares of Series A Preferred Stock, effective as of June 22, 2024. As a result, the number of shares of Series A Preferred Stock owned by Lin Li decreased from 10,000,000 to 5,000,000, representing all issued and outstanding shares of Series A Preferred Stock of the Company. Each share of Series A Preferred Stock is entitled to ten votes on any matter on which action of the stockholders of the Company is sought. As part of the cancellation, the Company returned the \$5,000 previously paid by Lin Li.

## Item 6. Exhibits

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

### Exhibit

No.	Description
<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.

**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: November 19, 2024

By: /s/ Lin Li  
Name: Lin Li  
Title: Chief Executive Officer  
(Principal Executive Officer)

Date: November 19, 2024

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

**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 September 30, 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: November 19, 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 September 30, 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: November 19, 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 September 30, 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: November 19, 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 September 30, 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: November 19, 2024

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

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