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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 2020**

**OR**

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

Commission file number: 011-36259

**NOVA LIFESTYLE, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation  
or organization)

90-0746568

(IRS Employer Identification No.)

6565 E. Washington Blvd. Commerce, CA

(Address of principal executive offices)

90040

(Zip Code)

(323) 888-9999

(Registrant's telephone number, including area code)

Indicate by checkmark 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 last 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, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

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 ☒

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	NVFY	Nasdaq Stock Market

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,546,544 shares of common stock outstanding as of August 12, 2020.

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Nova LifeStyle, Inc.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

NOVA LIFESTYLE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2020 (UNAUDITED) AND DECEMBER 31, 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,470,891	\$ 7,423,198
Accounts receivable, net	387,365	390,241
Advance to suppliers	10,445,577	27,745,184
Inventories	46,331,973	29,724,665
Prepaid expenses and other receivables	523,205	173,607
Current assets of discontinued operations	-	3,041,976
<b>Total Current Assets</b>	<u>67,159,011</u>	<u>68,498,871</u>
<b>Noncurrent Assets</b>		
Plant, property and equipment, net	249,838	136,512
Operating lease right-of-use assets, net	2,502,395	2,658,344
Lease deposit	49,763	43,260
Goodwill	218,606	218,606
<b>Total Noncurrent Assets</b>	<u>3,020,602</u>	<u>3,056,722</u>
<b>Total Assets</b>	<u>\$ 70,179,613</u>	<u>\$ 71,555,593</u>

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**AS OF JUNE 30, 2020 (UNAUDITED) AND DECEMBER 31, 2019**

	<u>2020</u>	<u>2019</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 233,720	\$ 417,918
Operating lease liability, current	582,644	481,068
Advance from customers	75,854	26,450
Accrued liabilities and other payables	539,889	301,764
Other loans	316,096	-
Income tax payable	187,538	22,055
Current liabilities of discontinued operations	-	215,445
<b>Total Current Liabilities</b>	<u>1,935,741</u>	<u>1,464,700</u>
<b>Noncurrent Liabilities</b>		
Other loans	150,000	-
Operating lease liability, non-current	1,964,514	2,211,061
Income tax payable	1,642,051	1,833,286
<b>Total Noncurrent Liabilities</b>	<u>3,756,565</u>	<u>4,044,347</u>
<b>Total Liabilities</b>	<u>5,692,306</u>	<u>5,509,047</u>
<b>Contingencies and Commitments</b>		
<b>Stockholders' Equity</b>		
Common stock, \$0.001 par value; 15,000,000 shares authorized, 5,756,104 and 5,741,604 shares issued and outstanding; as of June 30, 2020 and December 31, 2019, respectively	5,756	5,741
Additional paid-in capital	40,322,661	40,221,062
Statutory reserves	6,241	6,241
Accumulated other comprehensive income	193,893	-
Treasury stock, at cost, 172,870 shares as of June 30, 2020 and December 31, 2019	(616,193)	(616,193)
Retained earnings	24,574,949	26,429,695
<b>Total Stockholders' Equity</b>	<u>64,487,307</u>	<u>66,046,546</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 70,179,613</u>	<u>\$ 71,555,593</u>

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2020 AND 2019 (UNAUDITED)**

	<b>Six Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Net Sales</b>	\$ 4,498,146	\$ 11,769,335	\$ 2,294,926	\$ 2,974,593
<b>Cost of Sales</b>	2,847,220	9,161,060	1,423,029	2,175,251
<b>Gross Profit</b>	1,650,926	2,608,275	871,897	799,342
<b>Operating Expenses</b>				
Selling expenses	577,315	811,752	259,899	422,512
General and administrative expenses	2,433,019	2,901,912	1,150,300	1,206,519
<b>Total Operating Expenses</b>	3,010,334	3,713,664	1,410,199	1,629,031
<b>Loss From Operations</b>	(1,359,408)	(1,105,389)	(538,302)	(829,689)
<b>Other Income (Expenses)</b>				
Non-operating income, net	38,025	37,915	38,025	37,915
Foreign exchange transaction (loss) income	(141,536)	(79)	14,477	281
Interest income, net	22,262	24,421	1,437	59,865
Financial expense	(62,413)	(77,758)	(29,673)	(41,603)
<b>Total Other (Expenses) Income, Net</b>	(143,662)	(15,501)	24,266	56,458
<b>Loss Before Income Taxes and Discontinued operations</b>	(1,503,070)	(1,120,890)	(514,036)	(773,231)
<b>Income Tax Expense</b>	(25,145)	(241,085)	(1,266)	(368,864)
<b>Loss From Continuing Operations</b>	(1,528,215)	(1,361,975)	(515,302)	(1,142,095)
<b>(Loss) Income From Discontinued Operations</b>	(326,531)	1,176,259	-	1,103,910
<b>Net Loss</b>	(1,854,746)	(185,716)	(515,302)	(38,185)
<b>Other Comprehensive Income</b>				
Foreign currency translation	193,893	-	35,678	-
<b>Net Loss and Comprehensive Loss</b>	(1,660,853)	(185,716)	(479,624)	(38,185)
<b>Basic and Diluted weighted average shares outstanding</b>	5,575,729	5,736,890	5,579,261	5,744,543
<b>Loss from continuing operations per share of common stock</b>				
Basic and Diluted	\$ (0.27)	\$ (0.24)	\$ (0.09)	\$ (0.20)
<b>(Loss) Income from discontinued operations per share of common stock</b>				
Basic and Diluted	\$ (0.06)	\$ 0.21	\$ -	\$ 0.19
<b>Net loss per share of common stock</b>				
Basic and Diluted	\$ (0.33)	\$ (0.03)	\$ (0.09)	\$ (0.01)

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019 (UNAUDITED)**

**Three Months Ended June 30, 2020**

	<u>Common stock Shares</u>	<u>Common stock Amount</u>	<u>Additional Paid in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
<b>Balance</b> at beginning of period	5,749,604	\$ 5,749	\$ 40,278,038	\$ (616,193)	\$ 158,215	\$ 6,241	\$ 25,090,251	\$ 64,922,301
Stock issued to employees	1,500	2	3,193	-	-	-	-	3,195
Stock issued to consultants	5,000	5	12,745	-	-	-	-	12,750
Stock options vested to board of directors and employees	-	-	28,685	-	-	-	-	28,685
Foreign currency translation gain	-	-	-	-	35,678	-	-	35,678
Net loss	-	-	-	-	-	-	(515,302)	(515,302)
<b>Balance</b> at end of period	<u>5,756,104</u>	<u>\$ 5,756</u>	<u>\$ 40,322,661</u>	<u>\$ (616,193)</u>	<u>\$ 193,893</u>	<u>\$ 6,241</u>	<u>\$ 24,574,949</u>	<u>\$ 64,487,307</u>

**Three Months Ended June 30, 2019**

	<u>Common stock Shares</u>	<u>Common stock Amount</u>	<u>Additional Paid in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
<b>Balance</b> at beginning of period	5,737,290	\$ 5,737	\$ 40,029,119	\$ -	\$ -	\$ 6,241	\$ 34,882,888	\$ 74,923,985
Stock issued to employees	1,500	2	5,774	-	-	-	-	5,776
Stock issued to consultants	16,377	16	67,484	-	-	-	-	67,500
Stock options vested to board of directors and employees	-	-	60,026	-	-	-	-	60,026
Common stock repurchased	-	-	-	(110,034)	-	-	-	(110,034)
Net loss	-	-	-	-	-	-	(38,185)	(38,185)
<b>Balance</b> at end of period	<u>5,755,167</u>	<u>\$ 5,755</u>	<u>\$ 40,162,403</u>	<u>\$ (110,034)</u>	<u>\$ -</u>	<u>\$ 6,241</u>	<u>\$ 34,844,703</u>	<u>\$ 74,909,068</u>

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019 (UNAUDITED)**

**Six Months Ended June 30, 2020**

	<u>Common stock Shares</u>	<u>Common stock Amount</u>	<u>Additional Paid in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
<b>Balance</b> at beginning of period	5,741,604	\$ 5,741	\$ 40,221,062	\$ (616,193)	\$ -	\$ 6,241	\$ 26,429,695	\$ 66,046,546
Stock issued to employees	4,500	5	9,581	-	-	-	-	9,586
Stock issued to consultants	10,000	10	25,490	-	-	-	-	25,500
Stock options vested to board of directors and employees	-	-	66,528	-	-	-	-	66,528
Foreign currency translation gain	-	-	-	-	193,893	-	-	193,893
Net loss	-	-	-	-	-	-	(1,854,746)	(1,854,746)
<b>Balance</b> at end of period	<u>5,756,104</u>	<u>\$ 5,756</u>	<u>\$ 40,322,661</u>	<u>\$ (616,193)</u>	<u>\$ 193,893</u>	<u>\$ 6,241</u>	<u>\$ 24,574,949</u>	<u>\$ 64,487,307</u>

**Six Months Ended June 30, 2019**

	<u>Common stock Shares</u>	<u>Common stock Amount</u>	<u>Additional Paid in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
<b>Balance</b> at beginning of period	5,713,330	\$ 5,713	\$ 39,864,003	\$ -	\$ -	\$ 6,241	\$ 35,030,419	\$ 74,906,376
Stock issued to employees	3,000	3	11,548	-	-	-	-	11,551
Stock issued to consultants	38,837	39	144,961	-	-	-	-	145,000
Stock options vested to board of directors and employees	-	-	141,891	-	-	-	-	141,891
Common stock repurchased	-	-	-	(110,034)	-	-	-	(110,034)
Net loss	-	-	-	-	-	-	(185,716)	(185,716)
<b>Balance</b> at end of period	<u>5,755,167</u>	<u>\$ 5,755</u>	<u>\$ 40,162,403</u>	<u>\$ (110,034)</u>	<u>\$ -</u>	<u>\$ 6,241</u>	<u>\$ 34,844,703</u>	<u>\$ 74,909,068</u>

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019 (UNAUDITED)**

	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (1,854,746)	\$ (185,716)
Net (loss) income from discontinued operations	(326,531)	1,176,259
Net loss from continuing operations	\$ (1,528,215)	\$ (1,361,975)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	28,258	18,510
Amortization of operating lease right-of-use assets	285,520	234,414
Deferred tax benefit	-	436,449
Stock compensation expense	98,419	309,263
Changes in bad debt allowance	(29)	(219,746)
Changes in operating assets and liabilities:		
Accounts receivable	2,905	59,478,100
Advance to suppliers	17,299,607	(45,028,129)
Inventories	(16,607,308)	511,016
Operating lease liabilities	(275,361)	(216,061)
Other current assets	(354,640)	(384,030)
Accounts payable	(184,198)	(3,933,156)
Advance from customers	49,404	(2,410)
Accrued liabilities and other payables	97,064	(351,984)
Taxes payable	(25,797)	(980,274)
<b>Net Cash (Used in) Provided by Continuing Operations</b>	<b>(1,114,371)</b>	<b>8,509,987</b>
<b>Net Cash Provided by Discontinued Operations</b>	<b>-</b>	<b>91,701</b>
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(1,114,371)</b>	<b>8,601,688</b>
<b>Cash Flows From Investing Activities</b>		
Cash received from sales of subsidiary, net of cash disposed of	1,037,800	-
Purchase of property and equipment	-	(24,911)
<b>Net Cash Provided by (Used in) Continuing Operations</b>	<b>1,037,800</b>	<b>(24,911)</b>
<b>Net Cash Provided by Discontinued Operations</b>	<b>-</b>	<b>-</b>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>1,037,800</b>	<b>(24,911)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from line of credit and bank loan	-	17,512,205
Repayment to line of credit and bank loan	-	(23,760,366)
Proceeds from other loans	466,096	-
Repurchase of treasury stock	-	(110,034)
<b>Net Cash Provided by (Used in) Continuing Operations</b>	<b>466,096</b>	<b>(6,358,195)</b>
<b>Net Cash Provided by Discontinued Operations</b>	<b>-</b>	<b>-</b>
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>\$ 466,096</b>	<b>\$ (6,358,195)</b>

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



**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019 (UNAUDITED)**

	<u>2020</u>	<u>2019</u>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	\$ 195,968	\$ -
<b>Net increase in cash and cash equivalents</b>	585,493	2,218,582
<b>Cash and cash equivalents, beginning of period</b>	8,885,398	890,408
<b>Cash and cash equivalents, ending of period</b>	\$ 9,470,891	\$ 3,108,990
<b>Analysis of cash and cash equivalents</b>		
Included in cash and cash equivalents per consolidated balance sheets	9,470,891	\$ 2,370,432
Included in assets of discontinued operations	-	738,558
<b>Cash and cash equivalents, end of period</b>	\$ 9,470,891	\$ 3,108,990
<b>Supplemental Disclosure of Cash Flow Information</b>		
<b>Continuing operations:</b>		
Cash paid during period for:		
Income tax payments	\$ 55,000	\$ 800,000
Interest expense	\$ 3,124	\$ 37,009
<b>Discontinued operations:</b>		
Cash paid during the period for:		
Income tax payments	\$ -	\$ -
Interest expense	\$ -	\$ -

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2020 AND 2019 (UNAUDITED)**

**Note 1 - Organization and Description of Business**

Nova LifeStyle, Inc. (“Nova LifeStyle” or the “Company”), formerly known as Stevens Resources, Inc., was incorporated in the State of Nevada on September 9, 2009.

The Company is a U.S. holding company with no material assets other than the ownership interests of its subsidiaries through which it markets, designs and sells furniture worldwide: Nova Furniture Limited in the British Virgin Islands (“Nova Furniture”), Nova Furniture Ltd. in Samoa (“Nova Samoa”), Bright Swallow International Group Limited (“Bright Swallow” or “BSI”), Nova Furniture Macao Commercial Offshore Limited (“Nova Macao”), Diamond Bar Outdoors, Inc. (“Diamond Bar”) and Nova Living (M) SDN. BHD. (“Nova Malaysia”).

Nova Macao was organized under the laws of Macao on May 20, 2006, and is a wholly owned subsidiary of Nova Furniture. Diamond Bar was incorporated in California on June 15, 2000. Nova Macao is a trading company, importing, marketing and selling products designed and manufactured by third-party manufacturers for the U.S. and international markets. Diamond Bar markets and sells products manufactured by third-party manufacturers under the Diamond Sofa brand to distributors and retailers principally in the U.S. market. On April 24, 2013, the Company completed the acquisition of Bright Swallow, an established furniture company with a global client base.

On December 7, 2017, Nova LifeStyle, Inc. incorporated i Design Blockchain Technology, Inc. (“i Design”) under the laws of the State of California. The purpose of i Design is to build the Company’s own blockchain technology team. This new company will focus on the application of blockchain technology in the furniture industry, including encouraging and facilitating interactions among designers and customers, and building a blockchain-powered platform that enables designers to showcase their products, including current and future furniture designs. This company is in the planning stage and has had minimal operations to date.

On December 12, 2019, Nova LifeStyle, Inc. acquired Nova Living (M) SDN. BHD (“Nova Malaysia”), which was incorporated in Malaysia on July 26, 2019. The purpose of this acquisition is to market and sell high-end physiotherapeutic jade mats for use in therapy clinics, hospitality, and real estate projects in Malaysia and other regions in Southeast Asia.

On January 7, 2020, the Company transferred its entire interest in Bright Swallow to Y-Tone (Worldwide) Limited, an unrelated third party, for cash consideration of \$2.50 million, pursuant to a formal agreement entered into on January 7, 2020. The Company received the payment on May 11, 2020. As of June 30, 2020, operations of Bright Swallow were reported as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented. Accordingly, assets, liabilities, revenues, expenses and cash flows related to Bright Swallow have been reclassified in the condensed consolidated financial statements as discontinued operations for all periods presented. Additional information with respect to the sale of Bright Swallow is presented at Note 3.

The “Company” and “Nova” collectively refer to Nova LifeStyle, the U.S. parent, and its subsidiaries, Nova Furniture, Nova Samoa, Nova Macao, Diamond Bar, i Design, BSI and Nova Malaysia.

**Note 2 - Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The unaudited condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

The interim condensed consolidated financial information as of June 30, 2020 and for the six and three month periods ended June 30, 2020 and 2019 have been prepared without audit, pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures, which are normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The interim condensed consolidated financial information should be read in conjunction with the Financial Statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, previously filed with the SEC on May 12, 2020.

In the opinion of management, all adjustments (which include all significant normal and recurring adjustments) necessary to present a fair statement of the Company's interim condensed consolidated financial position as of June 30, 2020, its interim condensed consolidated results of operations and cash flows for the six and three month periods ended June 30, 2020 and 2019, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Beginning in 2020, a strain of novel coronavirus ("COVID-19") has spread globally and, at this point, the extent to which COVID-19 may adversely impact the operations of the Company is uncertain. The extent of the adverse impact of COVID-19 on the Company's business and operations will depend on several factors, such as the duration, severity, and geographic spread of the pandemic, development of testing and treatments, and government stimulus measures. The Company is monitoring and assessing the evolving situation closely and evaluating its potential exposure. The operating results for the six months ended June 30, 2020 may not be indicative of the future operating results for the fiscal year ending December 31, 2020 or other future periods, particularly in light of the uncertain impact COVID-19 could have on the Company's business.

#### ***Reverse split***

On December 18, 2019, the Company filed a Certificate of Change with the Secretary of State of Nevada with an effective date of December 20, 2019, at which time a 1-for-5 reverse stock split of the Company's authorized shares of common stock, par value \$0.001, accompanied by a corresponding decrease in the Company's issued and outstanding shares of common stock (the "Reverse Stock Split"), was effected. All references to shares and per share data have been retroactively restated to reflect such split.

#### ***Use of Estimates***

In preparing condensed consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management include, but are not limited to, revenue recognition, the allowance for bad debt, valuation of inventories, the valuation of stock-based compensation, income taxes and unrecognized tax benefits, valuation allowance for deferred tax assets, assumptions used in assessing impairment of long-lived assets and goodwill, and loss contingencies. Actual results could differ from those estimates.

#### ***Business Combination***

For a business combination, the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree are recognized at the acquisition date and measured at their fair values as of that date. In a business combination achieved in stages, the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, are recognized at the full amounts of their fair values. In a bargain purchase in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, that excess in earnings is recognized as a gain attributable to the acquirer.

Deferred tax liability and assets are recognized for the deferred tax consequences of differences between the tax bases and the recognized values of assets acquired and liabilities assumed in a business combination in accordance with Accounting Standards Codification ("ASC") Topic 740-10.

#### ***Goodwill***

Goodwill is the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with ASC Topic 350, "Intangibles-Goodwill and Other," goodwill is not amortized but is tested for impairment, annually or more frequently when circumstances indicate a possible impairment may exist. Impairment testing is performed at a reporting unit level. An impairment loss generally would be recognized when the carrying amount of the reporting unit exceeds its fair value, with the fair value of the reporting unit determined using discounted cash flow ("DCF") analysis. A number of significant assumptions and estimates are involved in the application of the DCF analysis to forecast operating cash flows, including the discount rate, the internal rate of return and projections of realizations and costs to produce. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated.

ASC Topic 350 also permits an entity to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step goodwill impairment test is required to be performed. Otherwise, no further testing is required. Performing the qualitative assessment involved identifying the relevant drivers of fair value, evaluating the significance of all identified relevant events and circumstances, and weighing the factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. After evaluating and weighing all these relevant events and circumstances, it was concluded that a positive assertion can be made from the qualitative assessment that it is more likely than not that the fair value of Diamond Bar is greater than its carrying amount. As such, it is not necessary to perform the two-step goodwill impairment test for the Diamond Bar reporting unit. Accordingly, as of June 30, 2020 and 2019, the Company concluded there was no impairment of goodwill of Diamond Bar.

### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Company considers cash, money market funds, investments in interest bearing demand deposit accounts, time deposits and all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### ***Accounts Receivable***

The Company's accounts receivable arises from product sales. The Company does not adjust its receivables for the effects of a significant financing component at contract inception if it expects to collect the receivables in one year or less from the time of sale. The Company does not expect to collect receivables greater than one year from the time of sale.

The Company's policy is to maintain an allowance for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. An analysis of the allowance for doubtful accounts is as follows:

Balance at January 1, 2020	\$	3,942
Provision for the period		-
Reversal – recoveries by cash		(29)
Balance at June 30, 2020	\$	<u>3,913</u>

During the six months ended June 30, 2020 and 2019, bad debts reversal from continuing operations were \$29 and \$219,746; and \$6 and \$50,314 for the three months ended June 30, 2020 and 2019, respectively. During the six and three months ended June 30, 2020 and 2019, bad debt provision and write-offs from discontinued operations were \$0.

### ***Advances to Suppliers***

Advances to suppliers are reported net of allowance when the Company determines that amounts outstanding are not likely to be collected in cash or utilized against purchase of inventories. Based on its historical record and in normal circumstances, the Company receives goods within 5 to 9 months from the date the advance payment is made. Due to the COVID-19 pandemic, freight transportation of products from our international suppliers has been delayed or suspended during the outbreak. As such, no reserve on supplier prepayments had been made or recorded by the Company. Any provisions for allowance for advances to suppliers, if deemed necessary, are included in general and administrative expenses in the condensed consolidated statements of comprehensive income (loss). During the six and three months ended June 30, 2020 and 2019, no provision was made on advances to suppliers.

### ***Inventories***

Inventories are stated at the lower of cost and net realizable value, with cost determined on a weighted-average basis. Write-down of potential obsolete or slow moving inventories is recorded based on management's assumptions about future demands and market conditions. There were no write-downs of inventories for the six and three months ended June 30, 2020 and 2019.

### ***Plant, Property and Equipment***

Plant, property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures for maintenance and repairs are expensed as incurred, while additions, renewals and improvements are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with no salvage value and estimated lives as follows:

Computer and office equipment	5 - 10 years
Decoration and renovation	5 - 10 years

### ***Impairment of Long-Lived Assets***

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Recoverability of long-lived assets to be held and used is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Company conducts its long-lived asset impairment analyses in accordance with ASC 360-10-15, "Impairment or Disposal of Long-Lived Assets." ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows. If the undiscounted cash flows do not indicate the carrying amount of the asset is recoverable, an impairment charge is measured as the amount by which the carrying amount of the asset group exceeds its fair value based on discounted cash flow analysis or appraisals.

### ***Treasury Stock***

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Gains and losses on the subsequent reissuance of shares are credited or charged to additional paid-in capital using the average-cost method. Upon retirement of treasury stock, the amounts in excess of par value are charged entirely to retained earnings.

### ***Research and Development***

Research and development costs are related primarily to the Company designing and testing its new products during the development stage. Research and development costs are recognized in general and administrative expenses and expensed as incurred. Research and development expenses from continuing operations were \$19,393 and \$55,272 for the six months ended June 30, 2020 and 2019, respectively; and \$7,127 and \$38,751 for the three months ended June 30, 2020 and 2019, respectively. During the six and three months ended June 30, 2020 and 2019, research and development costs from discontinued operations were \$0.

### ***Income Taxes***

In its interim financial statements, the Company follows the guidance in ASC 270 "Interim Reporting" and ASC 740 "Income Taxes" whereby the Company utilizes the expected annual effective rate in determining its income tax provision. The income tax expenses for the six and three months ended June 30, 2020 are approximately \$8,400 and \$2,400 and are primarily related to quarter-to-date losses generated from U.S. operations. The income tax benefits for the six and three months ended June 30, 2019 are approximately \$770,000 and \$665,000 and are primarily related to release of tax liability reserves from uncertain tax positions offset by valuation allowance provided against federal and CA deferred tax assets.

Income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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The Company follows ASC Topic 740, which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

Under the provisions of ASC Topic 740, when tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Nova Lifestyle, Inc. and Diamond Bar Outdoors, Inc. (“Diamond Bar”) are subject to U.S. federal and state income taxes. Nova Furniture BVI and Bright Swallow International Group Limited (“BSI”) were incorporated in the BVI, Nova Samoa was incorporated in Samoa, and Nova Macau was incorporated in Macau. There is no income tax for companies domiciled in the BVI, Samoa and Macau. Accordingly, the Company’s condensed consolidated financial statements do not present any income tax provisions related to the BVI, Samoa and Macau tax jurisdictions where Nova Furniture BVI and BSI, Nova Samoa and Nova Macau are domiciled. Nova Living (M) SDN. BHD, (“Nova Malaysia”) is incorporated in Malaysia and is subject to Malaysia income taxes.

The Tax Cuts and Jobs Act of 2017 (the “Act”) created new taxes on certain foreign-sourced earnings such as global intangible low-taxed income (“GILTI”) under IRC Section 951A, which is effective for the Company for tax years beginning after January 1, 2018. For the quarter ended June 30, 2020, the Company has calculated its best estimate of the impact of the GILTI in its income tax provision in accordance with its understanding of the Act and guidance available as of the date of this filing.

A reconciliation of the January 1, 2020 through June 30, 2020 amount of unrecognized tax benefits excluding interest and penalties (“Gross UTB”) is as follows:

	<b>Gross UTB 2020</b>
<b>Balance – January 1, 2020</b>	<b>\$ 12,547</b>
Decrease in unrecorded tax benefits taken, related to the Company’s continuing operations	-
Foreign exchange adjustment	-
<b>Balance – June 30, 2020</b>	<b>\$ 12,547</b>

At June 30, 2020 and December 31, 2019, the Company had cumulatively accrued approximately \$1,500 and \$1,278 for estimated interest and penalties related to unrecognized tax benefits, respectively, related to the Company’s continuing operations. The Company recorded interest and penalties related to unrecognized tax benefits as a component of income tax expense (benefit), which totaled \$250 and (\$640,000) for the six months ended June 30, 2020, and 2019, respectively; and \$125 and (\$641,600) for the three months ended June 30, 2020 and 2019, respectively, related to the Company’s continuing operations. The Company does not anticipate any significant changes to its unrecognized tax benefits within the next 12 months.

At December 31, 2019, the Company had cumulatively accrued approximately \$0 for estimated interest and penalties related to unrecognized tax benefits related to the Company’s discontinued operations. The Company recorded interest and penalties related to unrecognized tax benefits as a component of income tax expense, which totaled \$nil and \$24,000 for the six months ended June 30, 2020, and 2019, respectively, and \$nil and (\$556,000) for the three months ended June 30, 2020 and 2019, respectively, related to the Company’s discontinued operations.

As of June 30, 2020, unrecognized tax benefits were approximately \$12,500. The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate was \$12,500 as of June 30, 2020.

Nova Lifestyle and Diamond Bar are subject to U.S. federal and state income taxes and tax years 2016-2019 remain open to examination by tax authorities in the U.S.

### ***Revenue Recognition***

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

Revenues from product sales are recognized when the customer obtains control of the Company's product, which occurs at a point in time, typically upon delivery to the customer. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial.

Revenues from product sales are recorded net of reserves established for applicable discounts and allowances that are offered within contracts with the Company's customers.

Product revenue reserves, which are classified as a reduction in product revenues, are generally characterized in the following categories: discounts, returns and rebates. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable as the amount is payable to the Company's customer.

The Company's sales policy allows for product returns within the warranty period if the product is defective and the defects are the Company's fault. As alternatives to the product return option, the customers have the option of requesting a discount from the Company for products with quality issues or of receiving replacement parts from the Company at no cost. The amount for product returns, the discount provided to the Company's customers, and the costs for replacement parts were immaterial for the six and three months ended June 30, 2020 and 2019.

The Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within selling expenses on the Company's condensed consolidated statements of comprehensive income (loss).

### ***Cost of Sales***

Cost of sales consists primarily of costs of finished goods purchased from third-party manufacturers and write-downs of inventory.

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

Shipping and handling costs related to delivery of finished goods are included in selling expenses. During the six months ended June 30, 2020 and 2019, shipping and handling costs from continuing operations were \$986 and \$863, respectively; and \$637 and \$454 for the three months ended June 30, 2020 and 2019, respectively. During the six and three months ended June 30, 2020 and 2019, shipping and handling costs from discontinued operations were \$0.

### ***Advertising***

Advertising expenses consist primarily of costs of promotion and marketing for the Company's image and products, and costs of direct advertising, and are included in selling expenses. The Company expenses all advertising costs as incurred. Advertising expense from continuing operations was \$19,600 and \$138,694 for the six months ended June 30, 2020 and 2019, respectively; and \$1,602 and \$121,622 for the three months ended June 30, 2020 and 2019, respectively. During the six and three months ended June 30, 2020 and 2019, advertising expense from discontinued operations were \$0.

### ***Share-based compensation***

The Company accounts for share-based compensation awards to officers, directors, employees, and for acquiring goods and services from nonemployees in accordance with FASB ASC Topic 718, "Compensation – Stock Compensation", which requires that share-based payment transactions be measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the vesting period. The Company accounts for forfeitures when they occur.

### Earnings per Share (EPS)

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similar to basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all the potential common shares pertaining to warrants, stock options, and similar instruments had been issued and if the additional common shares were dilutive. Diluted earnings per share are based on the assumption that all dilutive convertible shares and stock options and warrants were converted or exercised. Dilution is computed by applying the treasury stock method for the outstanding unvested restricted stock, options and warrants, and the if-converted method for the outstanding convertible instruments. Under the treasury stock method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later) and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Under the if-converted method, outstanding convertible instruments are assumed to be converted into common stock at the beginning of the period (or at the time of issuance, if later).

The following table presents a reconciliation of basic and diluted (loss) income per share for the six and three months ended June 30, 2020 and 2019:

	<b>Six Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net loss from continuing operations	\$ (1,528,215)	\$ (1,361,975)	\$ (515,302)	\$ (1,142,095)
Net (loss) income from discontinued operations	(326,531)	1,176,259	-	1,103,910
Net loss	(1,854,746)	(185,716)	(515,302)	(38,185)
Weighted average shares outstanding – basic and diluted*	5,575,729	5,736,890	5,579,261	5,744,543
Net loss from continuing operations per share of common stock				
Basic and Diluted	\$ (0.27)	\$ (0.24)	\$ (0.09)	\$ (0.20)
Net (loss) income from discontinued operations income per share of common stock				
Basic and Diluted	\$ (0.06)	\$ 0.21	\$ -	\$ 0.19
Net loss per share of common stock				
Basic and Diluted	\$ (0.33)	\$ (0.03)	\$ (0.09)	\$ (0.01)

\* Including 47,807 and 190,870 shares that were granted and vested but not yet issued for the six months ended June 30, 2020 and 2019, respectively.

For the six and three months ended June 30, 2020, 171,667 shares purchasable under warrants, 25,300 shares of unvested restricted stock and stock options to purchase 340,500 shares of the Company's stock were excluded from the EPS calculation, as their effects were anti-dilutive.

For the six and three months ended June 30, 2019, 171,667 shares purchasable under warrants, 11,500 shares of unvested restricted stock and stock options to purchase 273,500 shares of the Company's stock were anti-dilutive and were excluded from EPS calculation.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of accounts and other receivables. The Company does not require collateral or other security to support these receivables. The Company conducts periodic reviews of the financial condition and payment practices of its customers to minimize collection risk on accounts receivable.



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One customer accounted for 10% of the Company's sales from our continuing operations for the six months ended June 30, 2020 and one customer accounted for 58% of the Company's sales from our continuing operations for the same period of 2019. One customer accounted for 12% of the Company's sales from our continuing operations for the three months ended June 30, 2020 and one customer accounted for 19% of the Company's sales from continuing operations for the same period of 2019. Gross accounts receivable from these customers were \$30,625 and \$6,834,461 as of June 30, 2020 and 2019, respectively.

Three customers accounted for 91% (50%, 24% and 17%) of the Company's sales from our discontinued operations for the six months ended June 30, 2019. Three customers accounted for 93% (49%, 26% and 18% each) of the Company's sales from our discontinued operations for the three months ended June 30, 2019. Gross accounts receivable from these customers were \$1,030,016 as of June 30, 2019.

The Company purchased its products from four major vendors during the six months ended June 30, 2020 and 2019, accounting for a total of 82% (31%, 19%, 19% and 13% each) and 81% (31%, 19%, 18% and 13% each) of the Company's purchases from continuing operations, respectively. The Company purchased its products from four and five major vendors during the three months ended June 30, 2020 and 2019, accounting for a total of 87% (32%, 21%, 20% and 14% each) and 90% (27%, 21%, 19%, 12%, and 11% each) of the Company's purchases from continuing operations, respectively. Advances made to these vendors were \$8,228,652 and \$4,453,901 as of June 30, 2020 and 2019, respectively. Accounts payable to these vendors were \$0 and \$111,351 as of June 30, 2020 and 2019, respectively.

The Company purchased its products from one supplier for its purchases from discontinued operations. Advances made to this vendor were \$988,870 as of June 30, 2019. Accounts payable to this vendor was \$0 as of June 30, 2019.

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

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the condensed consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The carrying value of cash, accounts receivable, advances to suppliers, other receivables, accounts payable, advance from customers, other payables and accrued liabilities approximate estimated fair values because of their short maturities.

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

The condensed consolidated financial statements are presented in United States Dollar (" \$" or "USD"), which is also the functional currency of Nova LifeStyle, Nova Furniture, Nova Samoa, Nova Macao, Bright Swallow, Diamond Bar and I Design.

The Company's subsidiary with operations in Malaysia uses its local currency, Malaysian Ringgit ("RM"), as its functional currency. An entity's functional currency is the currency of the primary economic environment in which it operates, which 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.

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The 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 balance sheets.

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

### Balance sheet items, except for equity accounts

June 30, 2020	RM4.28 to 1
December 31, 2019	RM4.09 to 1

### Income statement and cash flows items

For the six months ended June 30, 2020	RM4.25 to 1
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## ***Segment Reporting***

ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's chief operating decision maker organizes segments within the company for making operating decisions assessing performance and allocating resources. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

Management determined that the Company's operations constitute a single reportable segment in accordance with ASC 280. The Company operates exclusively in one business and industry segment: the design and sale of furniture.

Management concluded that the Company had one reportable segment under ASC 280 because Diamond Bar is a furniture distributor based in California focusing on customers in the US, Bright Swallow is a furniture distributor focusing on customers in Canada, and Nova Macao is a furniture distributor based in Macao focusing on international customers, and Nova Malaysia is a furniture retailer and distributor focusing on customers primarily in Malaysia. They are all operated under the same senior management of the Company, and management views the operations of Diamond Bar, Bright Swallow, Nova Macao and Nova Malaysia as a whole for making business decisions.

After the disposal of Nova Dongguan and its subsidiaries in October 2016, all of the Company's long-lived assets are mainly property, plant and equipment located in the United States for administrative purposes.

Net sales to customers by geographic area are determined by reference to the physical locations of the Company's customers. For example, if the products are delivered to a customer in the US, the sales are recorded as generated in the U.S.; if the customer directs us to ship its products to China, the sales are recorded as sold in China.

## ***New Accounting Pronouncements***

### *Recent Adopted Accounting Standards*

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements for Level 1, Level 2 and Level 3 instruments in the fair value hierarchy. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. The Company applied the new standard beginning January 1, 2020.

### *Recently issued accounting pronouncements not yet adopted*

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. Adoption of the ASUs is on a modified retrospective basis. As a smaller reporting company, the standard will be effective for the Company for interim and annual reporting periods beginning after December 15, 2022. The Company is currently evaluating the impact that the standard will have on its condensed consolidated financial statements and related disclosures.

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In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis. As a smaller reporting company, the standard will be effective for the Company for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistent application among reporting entities. The guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. Upon adoption, the Company must apply certain aspects of this standard retrospectively for all periods presented while other aspects are applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company is evaluating the impact this update will have on its financial statements.

### **Note 3 - Discontinued Operations**

On January 7, 2020, the Company transferred its entire interest in Bright Swallow to Y-Tone (Worldwide) Limited, an unrelated third party, for cash consideration of \$2.50 million, pursuant to a formal agreement entered into on January 7, 2020. The Company received the payment on May 11, 2020.

As of June 30, 2019, operations of Bright Swallow were reported as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented. Accordingly, assets, liabilities, revenues, expenses and cash flows related to Bright Swallow have been reclassified in the condensed consolidated financial statements as discontinued operations for all periods presented.

The following table summarizes the net assets of Bright Swallow at the date of disposal (January 7, 2020):

Cash and cash equivalents	\$	1,462,200
Accounts receivable, net		969,841
Advance to suppliers		609,935
Accounts payable		(948)
Advance from customers		(126,916)
Accrued liabilities and other payables		(2,553)
Income tax payable		(85,028)
<b>Net assets of Bright Swallow upon disposal</b>		<b>2,826,531</b>
Cash received as of June 30, 2020		(2,500,000)
Loss on disposal of subsidiary	\$	(326,531)

The following table presents the components of discontinued operations in relation to Bright Swallow reported in the condensed consolidated statements of operations:

	For the six months ended		For the three months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Sales	\$ -	\$ 3,485,675	\$ -	\$ 1,619,609
Cost of sales	-	(3,114,779)	-	(1,448,044)
Operating expenses	-	(205,901)	-	(102,455)
Other expense, net	-	(268)	-	408
Loss on disposal of subsidiary	(326,531)	-	-	-
(Loss) Income before income taxes	(326,531)	164,727	-	69,518
Income tax benefit	-	1,011,532	-	1,034,392
(Loss) income from discontinued operations	<u>\$ (326,531)</u>	<u>\$ 1,176,259</u>	<u>\$ -</u>	<u>\$ 1,103,910</u>

**Note 4 - Inventories**

The inventories as of June 30, 2020 and December 31, 2019 totaled \$46,331,973 and \$29,724,665, respectively, and were all finished goods.

**Note 5 - Plant, Property and Equipment, Net**

As of June 30, 2020, and December 31, 2019, plant, property and equipment consisted of the following:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Computer and office equipment	\$ 354,055	\$ 346,141
Decoration and renovation	251,412	118,858
Less: accumulated depreciation	(355,629)	(328,487)
	<u>\$ 249,838</u>	<u>\$ 136,512</u>

Depreciation expense from continuing operations was \$28,258 and \$18,510 for the six months ended June 30, 2020 and 2019, respectively; and \$12,816 and \$9,141 for the three months ended June 30, 2020 and 2019, respectively. Depreciation expense from discontinued operations was \$0 for the six and three months ended June 30, 2020 and 2019.

**Note 6 - Advances to Suppliers**

The Company makes advances to certain vendors for inventory purchases. The advances on inventory purchases were \$10,445,577 and \$27,745,184 as of June 30, 2020 and December 31, 2019, respectively. No impairment charges were made on advances to suppliers for the six and three months ended June 30, 2020 and 2019.

**Note 7 - Intangible Assets, net**

The Company acquired a customer relationship with a fair value of \$50,000 on August 31, 2011, as part of its acquisition of Diamond Bar. Concurrently with its acquisition of Diamond Bar, the Company entered into a trademark purchase and assignment agreement for all rights, title and interest in two trademarks (Diamond Sofa and Diamond Furniture) for \$200,000 paid in full at the closing. Amortization of said customer relationship and the trademarks is provided using the straight-line method and estimated lives were 5 years each.

The Company acquired a customer relationship with a fair value of \$6,100,559 on April 24, 2013, as part of its acquisition of Bright Swallow. Amortization of said customer relationship is provided using the straight-line method and its estimated life was 15 years.

Intangible assets consisted of the following as of June 30, 2020 and December 31, 2019:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Customer relationship	\$ 50,000	\$ 50,000
Trademarks	200,000	200,000
Less: accumulated amortization	(250,000)	(250,000)
	<u>\$ -</u>	<u>\$ -</u>

Amortization of intangible assets from continuing operations was \$0 for the six and three months ended June 30, 2020 and 2019. Amortization of intangible assets from discontinued operations was \$0 and \$203,352 for the six months ended June 30, 2020 and 2019, respectively; and \$0 and \$101,676 for the three months ended June 30, 2020 and 2019, respectively.

**Note 8 - Prepaid Expenses and Other Receivables**

Prepaid expenses and other receivables consisted of the following at June 30, 2020 and December 31, 2019:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Prepaid expenses	\$ 417,261	\$ 148,750
Other receivables	105,944	24,857
	<u>\$ 523,205</u>	<u>\$ 173,607</u>

As of June 30, 2020, and December 31, 2019, prepaid expenses and other receivables mainly represented prepaid insurance, credit card payments and a Paypal account balance.

**Note 9 - Accrued Liabilities and Other Payables**

Accrued liabilities and other payables consisted of the following as of June 30, 2020 and December 31, 2019:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Other payables	\$ 12,546	\$ 33,115
Salary payable	19,352	16,419
Financed insurance premiums	311,634	102,354
Accrued rents	17,820	17,733
Accrued commission	95,439	53,850
Accrued expenses, others	83,098	78,293
	<u>\$ 539,889</u>	<u>\$ 301,764</u>

As of June 30, 2020, and December 31, 2019, other accrued expenses mainly included legal and professional fees, utilities and unpaid operating expenses incurred in Malaysia. Other payables represented other tax payable and rebate.

**Note 10 - Lines of Credit**

On September 19, 2017, Diamond Bar extended the line of credit up to a maximum of \$8,000,000 to mature on June 1, 2019. The annual interest rate was 5.50% as of December 31, 2019. The line of credit was secured by all of the assets of Diamond Bar and is guaranteed by Nova LifeStyle. We paid off our lines of credit upon expiration on June 30, 2019. As of June 30, 2020, and December 31, 2019, Diamond Bar had \$0 outstanding on the line of credit. During the six months ended June 30, 2020 and 2019, the Company recorded interest expense of \$0 and \$35,444, respectively; and \$0 for the three months ended June 30, 2020 and 2019.

As of June 30, 2020, and December 31, 2019, we do not have any credit facilities.

**Note 11 - Other Loans**

On May 4, 2020, the Company received loan proceeds in the amount of approximately \$139,802 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. On June 5, 2020, Congress passed a new law that allowed current PPP borrowers can choose to extend the eight-week period to 24 weeks to use the funds, but cannot extended beyond December 31, 2020.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% per annum, with a deferral of payments for the first six months. Diamond Bar intends to use the proceeds for purposes consistent with the PPP.

On May 5, 2020, Diamond Bar was granted a loan from Cathay Bank in the aggregate amount of \$176,294, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The Loan, which was in the form of a Note dated May 5, 2020 matures on May 5, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on May 5, 2020. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations. The Company intends to use the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. On June 5, 2020, Congress passed a new law that allowed current PPP borrowers can choose to extend the eight-week period to 24 weeks to use the funds, but cannot extended beyond December 31, 2020.

The Company most likely will use up all the PPP loan proceeds within 24 weeks.

On June 19, 2020, Diamond Bar was granted a U.S. Small Business Administration (SBA) loan in the aggregate amount of \$150,000, pursuant to the Economic Injury Disaster Loan. The Loan, which was in the form of a promissory note dated June 19, 2020, matures on June 18, 2050 and bears interest at a rate of 3.75% per annum, payable monthly beginning 12 months from the date of the promissory note. Funds from the Loan may only be used for working capital. The loan was secured by all tangible and intangible property of the Diamond Bar.

#### **Note 12 - Related Party Transactions**

On September 30, 2011, Diamond Bar leased a showroom in High Point, North Carolina from the Company’s president who is currently also the Chief Executive Officer and Chairman of the Board. The lease is to be renewed and has been renewed each year since 2011. On April 1, 2020, the Company renewed the lease for an additional one year term. The lease was for the amount of \$34,561, with a term of one year. During the six months ended June 30, 2020 and 2019, the Company paid rental amounts of \$17,281 that are included in selling expenses; and \$17,281 and \$0 for the three months ended June 30, 2020 and 2019, respectively.

On January 4, 2018, the Company entered into a sales representative agreement with a consulting firm, which is owned by the Chief Executive Officer and Chairman of the Board, for sales representative service for a term of two years. On January 4, 2020, the Company renewed the agreement for an additional two years. The Company agreed to compensate the sales representative via commission at predetermined rates of the relevant sales amount. During the six months ended June 30, 2020 and 2019, the Company recorded \$65,503 and \$69,111 as commission expense to this sales representative consulting firm, respectively; and \$38,004 and \$25,069 for the three months ended June 30, 2020 and 2019, respectively.

#### **Note 13 - Stockholders’ Equity**

##### ***Share repurchase program***

On December 12, 2017, the Company issued a press release announcing that the Board of Directors of the Company had approved a 10b-18 share repurchase program to repurchase up to \$5 million of its outstanding common stock. Under the repurchase program, shares of the Company’s common stock may be repurchased from time to time over the next 12 months. The program expired on December 8, 2018 and no shares have been repurchased under the program.

On June 4, 2019, the Board of Directors of the Company adopted a 10b-18 share repurchase program to repurchase up to \$2 million of its common stock. The share repurchase authorization permits shares to be repurchased from time to time at the discretion of the Company’s management, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The program is effective as of June 5, 2019 and will expire on June 4, 2020. During the six and three months ended June 30, 2020 and 2019, the Company repurchased 0 and 29,138 shares of its common stock, respectively. On December 11, 2019, the Company closed out this repurchase program. As of December 31, 2019, the Company repurchased a total of 172,740 shares of its common stock.

## Warrants

The following is a summary of the warrant activity for the six months ended June 30, 2020:

	Number of Warrants	Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Outstanding at January 1, 2020	171,667	\$ 13.55	0.92
Exercisable at January 1, 2020	171,667	\$ 13.55	0.92
Granted	-	-	-
Exercised / surrendered	-	-	-
Expired	-	-	-
Outstanding at June 30, 2020	171,667	\$ 13.55	0.42
Exercisable at June 30, 2020	171,667	\$ 13.55	0.42

## Shares Issued to Consultants

On June 30, 2017, the Company entered into a consulting agreement with a consultant for business advisory service for a term of 12 months. The Company agreed to compensate the consultant a one-time amount of \$10,000 worth of shares of the Company's common stock based on the price per share on June 30, 2017. The Company also granted the consultant \$10,000 worth of shares of the Company's common stock per month starting from July 1, 2017 for a period of 12 months. The shares were issued pursuant to Nova LifeStyle, Inc.'s 2014 Omnibus Long-Term Incentive Plan (the "Plan") approved by the Board of Directors ("Board") of the Company on May 13, 2014 and ratified at the annual shareholder meeting on June 30, 2014. The Plan was registered under Form S-8 on July 30, 2014. On June 12, 2018, the Company renewed the agreement with the consultant for an additional year and agreed to compensate the consultant \$10,000 worth of shares of the Company's common stock per month starting from July 1, 2018 for a period of 12 months. The shares will be issued pursuant to the Plan. On January 31, 2019, the Company terminated the agreement. During the six and three months ended June 30, 2019, the Company recorded \$10,000 and \$0 as consulting expense, respectively.

On November 16, 2018, the Company entered into a consulting agreement with a consultant for consulting and strategy services effective on November 16, 2018 for one year. The Company agreed to grant the consultant 20,000 shares of the Company's common stock. Twenty-five percent (25%) of those shares vested on February 15, 2019 and 25% on May 15, 2019; 25% vested on August 15, 2019 and the remaining 25% vested on November 15, 2019. The fair value of 20,000 shares was \$90,000 which was calculated based on the stock price of \$4.50 per share on November 16, 2018 and was amortized over the service term. The shares were issued pursuant to the Plan. During the six and three months ended June 30, 2019, the Company amortized \$45,000 and \$22,500 as consulting expenses, respectively.

On December 1, 2018, the Company entered into a consulting agreement with a consultant for business advisory services effective as of January 1, 2019 and ending on December 31, 2019. The Company granted the consultant \$15,000 worth of shares of the Company's common stock per month starting from January 1, 2019 for 12 months. The shares were granted pursuant to the Plan. On January 1, 2019, the consultant terminated the agreement for personal reasons.

On November 16, 2019, the Company entered into a consulting agreement with a consultant for consulting and strategy services effective on November 16, 2019 for a one year term. The Company agreed to grant the consultant 20,000 shares of the Company's common stock. Twenty-five percent (25%) of those shares vested on February 15, 2020, 25% will vest on May 15, 2020; 25% will vest on August 15, 2020 and the remaining 25% will vest on November 15, 2020. The fair value of 20,000 shares was \$51,000 which was calculated based on the stock price of \$2.55 per share on November 18, 2019 and will be amortized over the service term. The shares would be issued pursuant to the Plan. During the six and three months ended June 30, 2020, the Company amortized \$25,500 and \$12,750 as consulting expenses, respectively.



## ***Shares and Warrants Issued through Private Placement***

### ***Private Placement on May 28, 2015***

On May 28, 2015, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain purchasers (the “Purchasers”) pursuant to which the Company offered to the Purchasers, in a registered direct offering, an aggregate of 594,102 shares of common stock, par value \$0.001 per share. Of these, 400,000 shares were sold to the Purchasers at a negotiated purchase price of \$10.00 per share, for aggregate gross proceeds to the Company of \$4,000,002, before deducting fees to the placement agent and other estimated offering expenses payable by the Company. In accordance with the terms of the Purchase Agreement, the Company exchanged outstanding 2014 Series A Warrants with their holders for 132,006 shares of common stock, and exchanged the outstanding 2014 Series C Warrants with their holders for 62,096 shares of common stock.

In a concurrent private placement, the Company also sold to the Purchasers a warrant to purchase one share of the Company’s common stock for each share purchased for cash in the offering, pursuant to that certain Common Stock Purchase Warrant, by and between the Company and each Purchaser (the “2015 Warrants”). The 2015 Warrants became exercisable beginning on the six month anniversary of the date of issuance (the “Initial Exercise Date”) at an exercise price of \$13.55 per share and will expire on the five year anniversary of the Initial Exercise Date. The purchase price of one share of the Company’s common stock under the 2015 Warrants is equal to the exercise price.

The warrants issued in the private placement described above are exercisable for a fixed number of shares, and are classified as equity instruments under ASC 815-40-25-10. The Company accounted for the warrants issued in the 2015 private placement based on the fair value method under ASC Topic 505, and the fair value of the warrants was calculated using the Black-Scholes model under the following assumptions: estimated life of 5 years, volatility of 107%, risk-free interest rate of 1.55% and dividend yield of 0%. No estimate of forfeitures was made as the Company has a short history of granting options and warrants. The fair value of the warrants issued to investors at grant date was \$3,147,530.

### ***Shares and Options Issued to Independent Directors***

On November 7, 2018, the Company entered into stock option agreements under the 2014 Omnibus Long-Term Incentive Plan with the three independent members of the board of directors. The Company agreed to grant the Company’s three independent directors options to purchase an aggregate of 60,000 shares of the Company’s common stock at an exercise price of \$5.90 per share, with a term of 5 years. Twenty-five percent (25%) of those stock options vested on November 30, 2018, 25% vested on February 28, 2019, 25% on May 31, 2019, and the remaining 25% vested on August 31, 2019. The fair value of the stock options granted is estimated on the date of the grant using the Black-Scholes option pricing model (“BSOPM”) as described above. The fair value of the options was calculated using the following assumptions: estimated life of ten years, volatility of 84%, risk free interest rate of 3.07%, and dividend yield of 0%. The fair value of 60,000 stock options was \$240,105 at the grant date. During the six and three months ended June 30, 2019, the Company recorded \$120,052 and \$60,026 as directors’ stock compensation expenses, respectively.

On November 4, 2019, the Company entered into stock option agreements under the 2014 Omnibus Long-Term Incentive Plan with the three independent members of the board of directors. The Company agreed to grant the Company’s three independent directors options to purchase an aggregate of 60,000 shares of the Company’s common stock at an exercise price of \$2.80 per share, with a term of 5 years. Twenty-five percent (25%) of those stock options vested on November 30, 2019, 25% vested on February 28, 2020, 25% on May 31, 2020, and the remaining 25% will vest on August 31, 2020. The fair value of the stock options granted is estimated on the date of the grant using the Black-Scholes option pricing model (“BSOPM”) as described above. The fair value of the options was calculated using the following assumptions: estimated life of ten years, volatility of 87%, risk free interest rate of 1.60%, and dividend yield of 0%. The fair value of 60,000 stock options was \$114,740 at the grant date. During the six and three months ended June 30, 2020, the Company recorded \$57,370 and \$28,685 as directors’ stock compensation expenses, respectively.

### ***Shares Issued to Employees and Service Providers***

On February 27, 2018, the Company renewed an employment agreement with the Company’s Corporate Secretary for a term of one year. The Company agreed to grant an award of 6,000 restricted Stock Units to the officer pursuant to the Company’s 2014 Omnibus Long-Term Incentive Plan. The fair value of these shares was \$68,100, which was calculated based on the stock price of \$11.35 per share on February 27, 2018, the date the awards were determined by the Compensation Committee of the Board. 25% of those shares vested on February 27, 2018, 25% on March 31, 2018, 25% on June 30, 2018 and the remaining 25% vested on September 30, 2018. During the six and three months ended June 30, 2019, the Company amortized \$10,821 and \$0 as stock compensation, respectively.



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On December 13, 2018, the Company extended an employment agreement with the Company's Corporate Secretary for a term of one year. The Company agreed to grant an award of 6,000 restricted Stock Units to the officer pursuant to the Company's 2014 Omnibus Long-Term Incentive Plan. The fair value of these shares was \$23,100, which was calculated based on the stock price of \$3.85 per share on December 13, 2018, the date the awards were determined by the Compensation Committee of the Board. Twenty-five percent (25%) of those shares vested on December 13, 2018, 25% on March 31, 2019, 25% on June 30, 2019 and the remaining 25% vested on September 30, 2019. During the six and three months ended June 30, 2019, the Company amortized \$11,550 and \$5,775 as stock compensation, respectively.

On December 14, 2019, the Company extended an employment agreement with the Company's Corporate Secretary for a term of one year. The Company agreed to grant an award of 6,000 restricted Stock Units to the officer pursuant to the Company's 2014 Omnibus Long-Term Incentive Plan. The fair value of these shares was \$12,780, which was calculated based on the stock price of \$2.13 per share on January 31, 2020, the date the awards were determined by the Compensation Committee of the Board. Twenty-five percent (25%) of those shares vested on January 31, 2020, 25% on March 31, 2020, 25% on June 30, 2020 and the remaining 25% vested on September 30, 2020. During the six and three months ended June 30, 2020, the Company amortized \$6,390 and \$3,195 as stock compensation, respectively.

### ***Options Issued to Employees***

On August 24, 2018 (the "Grant Date"), the Board approved an option grant to the Company's CFO to purchase an aggregate of 7,000 shares of the Company's common stock at an exercise price of \$9.25 per share, with a term of 5 years, pursuant to the Company's 2014 Omnibus Long-Term Incentive Plan. Fifty percent (50%) of those stock options vested immediately, and the remaining 50% vested on the six-month anniversary of the Grant Date.

The fair value of the option granted to the CFO in 2018 is recognized as compensation expense over the vesting period of the stock option award. The fair value of the options was calculated using the following assumptions: estimated life of ten years, volatility of 84%, risk free interest rate of 2.72%, and dividend yield of 0%. The fair value of 7,000 stock options was \$43,680 at the grant date. During six and three months ended June 30, 2019, the Company recorded \$21,840 and \$0 as stock compensation, respectively.

On August 12, 2019, the Board approved an option grant to the Company's CFO to purchase an aggregate of 7,000 shares of the Company's common stock at an exercise price of \$3.85 per share, with a term of 5 years, pursuant to the Company's 2014 Omnibus Long-Term Incentive Plan. Fifty percent (50%) of those stock options vested immediately, and the remaining 50% vested on the six-month anniversary of the Grant Date.

The fair value of the option granted to the CFO in 2019 is recognized as compensation expense over the vesting period of the stock option award. The fair value of the options was calculated using the following assumptions: estimated life of ten years, volatility of 87%, risk free interest rate of 1.49%, and dividend yield of 0%. The fair value of 7,000 stock options was \$18,318 at the grant date. During the six and three months ended June 30, 2020, the Company recorded \$9,159 and \$0 as stock compensation, respectively.

As of June 30, 2020, unrecognized share-based compensation expense was \$52,467.

Stock option activity under the Company's stock-based compensation plans is shown below:

	<b>Number of Shares</b>	<b>Average Exercise Price per Share</b>	<b>Aggregate Intrinsic Value(1)</b>	<b>Weighted Average Remaining Contractual Term in Years</b>
Outstanding at January 1, 2020	340,500	\$ 5.97	\$ -	3.33
Exercisable at January 1, 2020	292,000	6.48	\$ -	3.08
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at June 30, 2020	340,500	\$ 5.97	\$ -	2.83
Exercisable at June 30, 2020	325,500	\$ 6.11	\$ -	2.76

- (1) The intrinsic value of the stock options at June 30, 2020 is the amount by which the market value of the Company's common stock of \$1.93 as of June 30, 2020 exceeds the exercise price of the option.

### Statutory Reserves

As a U.S. holding company, the Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiary, Nova Macao, only out of the subsidiary's retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of Nova Macao. Pursuant to the corporate laws of the PRC and Macao, including the PRC Regulations on Enterprises with Foreign Investment, Nova Macao is required to maintain a statutory reserve by appropriating from after-tax profit before declaration or payment of dividends. The statutory reserve represents restricted retained earnings. As a result of the Macao laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as a general statutory reserve fund until such reserve balance reaches 50% of the subsidiary's registered capital. Nova Macao is restricted in its ability to transfer a portion of its net assets to the Company as a dividend.

### Surplus Reserve Fund

At June 30, 2020 and December 31, 2019, Nova Macao had surplus reserves of \$6,241, representing 50% of its registered capital.

### Common Welfare Fund

The common welfare fund is a voluntary fund to which Nova Macao can elect to transfer 5% to 10% of its net income. This fund can only be utilized on capital items for the collective benefit of the subsidiary's employees, such as construction of dormitories, cafeteria facilities, and other staff welfare facilities. This fund is non-distributable other than upon liquidation. Nova Macao does not participate in this voluntary fund.

### Note 14 - Geographical Sales

Geographical distribution of sales consisted of the following for the six and three months ended June 30, 2020 and 2019:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2020	2019	2020	2019
<b>Geographical Areas</b>				
North America	\$ 4,266,617	\$ 4,666,939	\$ 2,081,761	\$ 2,150,901
China	-	6,834,461	-	555,757
Asia*	208,382	-	208,382	-
Hong Kong	-	267,935	-	267,935
Other countries	23,147	-	4,783	-
	<u>\$ 4,498,146</u>	<u>\$ 11,769,335</u>	<u>\$ 2,294,926</u>	<u>\$ 2,974,593</u>

\* excluding China and Hong Kong

### Note 15 - Lease

On June 17, 2013, the Company entered into a lease agreement for office, warehouse, storage, and distribution space with a five year term, commencing on November 1, 2013 and expiring on October 31, 2018. The lease agreement also provides an option to extend the term for an additional six years. On April 23, 2018, the Company extended the lease for another 36 months with an expiration date of October 31, 2021. The monthly rental payment is \$42,000 with an annual 3% increase.

The Company has entered into several lease agreements for office and warehouse space in Commerce, California and showroom space in Las Vegas, Nevada and High Point, North Carolina on monthly or annual terms.

On July 15, 2019, Nova Malaysia entered into a sublease agreement for warehouse space with a two year term, expiring on July 14, 2021. The monthly rental payment is 20,000 Malaysia Ringgit (\$4,704).

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On October 29, 2019, Nova Malaysia entered into a lease agreement for office space with a two year term, commencing on December 1, 2019 and expiring on November 30, 2021. The monthly rental payment is 9,280 Malaysia Ringgit (\$2,182).

The operating lease expense for the six and three months ended June 30, 2020 and 2019 were as follows:

	<b>Six months ended June 30,</b>		<b>Three months ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Operating lease cost	\$ 276,363	\$ 310,490	\$ 100,111	\$ 146,068

The following is a schedule, by years, of maturities of lease liabilities as of June 30, 2020:

	<b>Operating Leases</b>
12 months ending June 30,	
2021	\$ 695,916
2022	643,093
2023	651,221
2024	670,758
Thereafter	169,333
Total undiscounted cash flows	2,830,321
Less: imputed interest	(283,163)
Present value of lease liabilities	2,547,158

**Lease Term and Discount Rate**

	<b>June30, 2020</b>
Weighted-average remaining lease term - years	
Operating leases - USA	4.34
Operating leases - Malaysia	1.21
Weighted-average discount rate (%)	
Operating leases - USA	5.00%
Operating leases - Malaysia	3.73%

**Note 16 - Commitments and Contingencies**

**Legal Proceedings**

On December 28, 2018, a federal putative class action complaint was filed by George Barney against the Company and its former and current CEOs and CFOs (Thanh H. Lam, Ya Ming Wong, Jeffery Chuang and Yuen Ching Ho) in the United States District Court for the Central District of California, claiming the Company violated federal securities laws and pursuing remedies under Sections 10(b) and 20(a) of the Security Exchange Act of 1934 and Rule 10b-5 (the “Barney Action”). Richard Deutner and ITENT EDV were subsequently substituted as plaintiffs and, on June 18, 2019, they filed an Amended Complaint. In the Amended Complaint, plaintiffs seek to recover compensatory damages caused by the Company’s alleged violations of federal securities laws during the period from December 3, 2015 through December 20, 2018. Plaintiffs claim that the Company: (1) overstated its purported strategic alliance with a customer in China to operate as lead designer and manufacturer for all furnishings in such customer’s planned \$460 million senior care center in China; (2) the Company inflated its reported sales in 2016 and 2017 with the Company’s two major customers; and (3) as a result, the Company’s public statements were materially false and misleading at all relevant times. In support of these claims, plaintiffs rely primarily upon a blog appearing in *Seeking Alpha* on December 21, 2018 in which it was claimed that an investigation of the Company failed to confirm the existence of several entities identified as significant customers, Plaintiffs purported to verify some of the information alleged in the *Seeking Alpha* blog. By Order entered December 2, 2019, the Court denied defendants’ Motion to Dismiss the Amended Complaint. Defendants have accordingly filed an Answer to the Amended Complaint denying its material allegations. The Court also entered a scheduling order setting a final pretrial conference for July 20, 2020, which has since been continued to October 19, 2020.

Independently of the litigation, the Audit Committee engaged the Company's auditor to perform special procedures to confirm the reported sales. Those procedures included but were not limited to the examination and testing of relevant documentation relating to the sales made by the Company to the customers identified in the purported research report for the periods 2015-2018, and 100% sampling of all transactions between the Company and the subject customers. The Audit Committee finished its special procedures in March 2019 and the Company's independent auditor has reported to the Audit Committee that, regarding the four subject customers mentioned in the purported research report, the special procedures resulted in no evidence of fictitious sales or of fictitious customers. Please see the details in the Form 8-K filed by the Company with SEC on March 29, 2019.

On March 8, 2019, in the United States District Court for the Central District of California, shareholder Jie Yuan (the "Jie Action") filed a derivative lawsuit purportedly on behalf of the Company against its former and current CEOs and CFOs (Thanh H. Lam, Ya Ming Wong, Jeffery Chuang and Yuen Ching Ho) and directors (Charlie Huy La, Bin Liu, Umesh Patel, and Min Su) and vice president (Steven Qiang Liu) (collectively, the "Defendants") seeking to recover any losses the Company sustains as a result of alleged securities violations outlined in the *Seeking Alpha* blog and *Barney* securities class action complaint. Specifically, the derivative lawsuit alleges that the Defendants caused the Company to make the alleged false and/or misleading statements giving rise to the putative securities class action. The Plaintiff also alleges that President and CEO Lam engaged in self-dealing by leasing her property to Diamond Bar, a Company subsidiary, and asserts, in conclusory fashion, that Lam, former CEO and director Ya Ming Wong, former CFO and director Yuen Ching Ho, and director Umesh Patel sold securities during the period of time when the alleged false and/or misleading statements were made "with knowledge of material non-public information . . . ."

On May 15, 2019, Wilson Samuels (the "Samuels Action") also filed a putative derivative complaint purportedly on behalf of the Company against the same current and former directors and officers named in the Jie Action other than Steven Qiang Liu. That action was filed in the United States District Court for the Central District of California. Samuels repeats the allegations of the Complaint in the Jie Action. Additionally, Samuels claims that, in announcing its change of auditing firms in September 2016, the Company asserted that this change was made because its existing auditor ceased auditing public companies subject to regulation in the United States without disclosing that its new auditing firm was created in a merger of three accounting firms, including a firm whose registration was revoked by the Public Company Accounting Oversight Board. Samuels also claims that the Company redeemed its stock in reliance upon the same purported fraudulent recognition of revenues claimed in the putative class action. He purports to state direct claims under Sections 10(b) and 20 of the Exchange Act and SEC Rule 10b-5.

On March 3, 2020, defendants filed in each of the derivative actions motions to stay those proceedings until the Barney Action is resolved or alternatively to dismiss on the grounds that plaintiffs' failure to make demand upon the Board was not excused and the Complaints otherwise fail to state a claim upon which relief can be granted. By Order entered April 7, 2020, the Court granted defendants' Motion to Stay and stayed the Jie Action until the Barney Action is resolved. The Motion to Stay and Dismiss remains pending in the Samuels Action. The Court subsequently entered a similar Order in the Samuels Action. It also took a motion the derivative plaintiffs filed to consolidate the proceedings and appoint lead counsel off calendar.

While these derivative actions are purportedly asserted on behalf of the Company, it is possible that the Company may directly incur attorneys' fees and is advancing the costs of defense for its current directors and officers pursuant to contractual and legal indemnity obligations. The Company believes there is no basis to the derivative complaints and they will be vigorously defended.

Other than the above, the Company is not currently a party to any legal proceeding, investigation or claim which, in the opinion of the management, is likely to have a material adverse effect on the business, financial condition or results of operations.

#### **Note 17 - Subsequent Events**

After the close of the quarter to which these financial statements relate, the Company experienced (and continues to experience) significant adverse impacts of novel coronavirus (COVID-19) and the related public health orders. The Company's two showrooms in Kuala Lumpur have been closed since March 18, 2020 and the management plans to reopen it on August 31, 2020. Finally, the Company expects that the impact of the COVID-19 outbreak on the United States and world economies will continue to have a material adverse impact on the demand for its products. Because of the significant uncertainties surrounding the COVID-19 pandemic, the extent of the business interruption and the related financial impact cannot be reasonably estimated at this time.

## CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Words such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “continue,” the negatives of such terms and other terms of similar meaning typically identify forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those listed under the heading “Risk Factors” and those listed in our Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”). The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report and in our 2019 Form 10-K. Unless the context otherwise requires, references in this report to “we,” “us,” “Nova,” “Nova Lifestyle” or the “Company” refer to Nova Lifestyle, Inc. and its subsidiaries.*

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

#### Safe Harbor Declaration

*The following discussion and analysis are based upon our financial statements as of the dates and for the periods presented in this section. You should read this discussion and analysis in conjunction with the financial statements and notes thereto found in Part I, Item 1 of this Form 10-Q and our consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended December 31, 2019 (the “2019 Form 10-K”). All references to the second quarter and first six months of 2020 and 2019 mean the three and six-month periods ended June 30, 2020 and 2019. In addition to historical information, the following discussion and other parts of this report contain certain forward-looking information. When used in this discussion, the words, “believes,” “anticipates,” “expects” and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from projected results, due to a number of risks, uncertainties and factors beyond our control. We do not undertake to publicly update or revise any of these forward-looking statements, even if experience or future changes show that the indicated results or events will not be realized. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Readers also are urged to carefully review and consider our discussions regarding the various factors that affect the company’s business, which are described in this section and elsewhere in this report. For more information, see our discussion of risk factors located at Part I, Item 1A of our 2019 Form 10-K.*

#### Overview

Nova LifeStyle, Inc. is a distributor of contemporary styled residential and commercial furniture incorporated into a dynamic marketing and sales platform offering retail as well as online selection and global purchase fulfillment. We monitor popular trends and products to create design elements that are then integrated into our product lines that can be used as both stand-alone or whole-room and home furnishing solutions. Through our global network of retailers, e-commerce platforms, stagers and hospitality providers, Nova LifeStyle also sells (through an exclusive third-party manufacturing partner) a managed variety of high quality bedding foundation components.

Nova LifeStyle’s brand family currently includes Diamond Sofa ([www.diamondsofa.com](http://www.diamondsofa.com)).

Our customers principally consist of distributors and retailers with specific geographic territories that deploy middle to high end private label home furnishings which have very little competitive overlap with our specific furnishing products or product lines. Nova LifeStyle is constantly seeking to integrate new sources of distribution and manufacturing that are properly aligned with our growth strategy. This allows us to continually focus on building both our overall distribution and manufacturing relationships through a deployment of popular, as well as trend-based, furnishing solutions worldwide.

We are a U.S. holding company with no material assets in the U.S. other than the ownership interests of our wholly owned subsidiaries through which we market, design and sell residential furniture worldwide: Nova Furniture Macao Commercial Offshore Limited (“Nova Macao”), Bright Swallow International Group Limited (“Bright Swallow”), and Diamond Bar Outdoors, Inc. (“Diamond Bar”) Nova Macao was organized under the laws of Macao on May 20, 2006. Nova Macao is a wholly owned subsidiary of Nova Lifestyle. Diamond Bar is a California corporation organized on June 15, 2000, which we acquired pursuant to a stock purchase agreement on August 31, 2011. On April 24, 2013, we acquired all of the outstanding stock of Bright Swallow which we sold in January 2020. On December 7, 2017, we incorporated i Design Blockchain Technology, Inc. (“i Design”) under the laws of the State of California. The purpose of i Design is to build our own blockchain technology team. i Design is in the planning stage and has had minimal operations to date. On December 12, 2019, we became the sole shareholder of Nova Living (M) SDN. BHD. (“Nova Malaysia”), a company incorporated on July 26, 2019 under the laws of Malaysia.

Our experience developing and marketing products for international markets has enabled us to develop the scale, logistics, marketing, manufacturing efficiencies and design expertise that serve as the foundation for us to expand aggressively into the highly attractive U.S., Canadian, European, Australian, Asian and Middle Eastern markets.

Due to the recent imposition of significant trade tariffs on importation from China to the United States and the adverse effect such policies have on our operations, we are actively pursuing alternative product lines with positive growth potential. One such area pertains to the health-oriented furniture segment which continues to experience popularity, particularly in Asia. Since the second quarter of 2019, we have developed a line of high-end physiotherapeutic jade mats with China-based manufacturing partners for use in therapy clinics, hospitality, and real estate projects in Asia. We launched our first flagship showroom/retail store in Kuala Lumpur, Malaysia in late 2019, which, after a COVID-19 related closing, was reopened in May 2020. We expect that it will serve as one of our primary distribution channels in Malaysia. Marketing of jade mats will focus on their premium therapeutic qualities and target health conscious general consumers and professionals. We have limited experience with operations in Southeast Asia and considerable management attention and resources may be required to manage these new markets and product lines. We may be subject to additional risks including credit risk, currency exchange rate fluctuations, foreign exchange controls, import and export requirements, potentially adverse tax consequences and higher costs associated with doing business internationally.

In December 2019, a strain of novel coronavirus, causing a disease referred to as COVID-19, was reported to have surfaced in Wuhan, China. Since then, COVID-19 has spread to multiple countries, including the United States and Malaysia. The Company experienced (and continues to experience) significant adverse impacts of novel coronavirus (COVID-19) and the related public health orders. The Company’s two showrooms and warehouse in Kuala Lumpur have been closed since March 18, 2020. The Los Angeles facility has been closed since March 16, 2020. A skeleton staff worked in that facility each day (i) to receive shipping containers of products delivered from the Company’s contract manufacturers and (ii) to ship products to customers. On May 12, 2020, the Company’s Kuala Lumpur office and warehouse reopened for business and plans to reopen two showrooms on August 31, 2020. The Company is continuing to experience reduced demand for its products and an increased level of purchase order cancellations as a result of the COVID-19 pandemic. The third-party contract manufacturers that the Company utilizes in China were closed from the beginning of the Lunar New Year Holiday through the beginning of March. Certain of the Company’s new products are being sourced from manufacturers in India and Malaysia starting in 2020. The factories in India and Malaysia have suspended their operations as a result of the Covid-19 pandemic during March through early May 2020. Currently, the factories in both countries have resumed their operations. Finally, the Company expects that the impact of the COVID-19 outbreak on the United States and world economies will have a material adverse impact on the demand for its products. Because of the significant uncertainties surrounding the COVID-19 pandemic, the extent of the business interruption and the related financial impact cannot be reasonably estimated at this time.

#### **Discontinued Operations**

Towards the end of 2019, our Board of Directors determined to discontinue its marketing efforts in Canada and committed to a plan to dispose of Bright Swallow. On January 7, 2020, we transferred our entire interest in Bright Swallow to Y-Tone (Worldwide) Limited an unrelated third party, for cash consideration of \$2.50 million, pursuant to a formal agreement entered into on January 7, 2020. We received the payment in full on May 11, 2020. Operations of Bright Swallow were reported as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented.

### ***Principal Factors Affecting Our Financial Performance***

At the beginning of 2019, we commenced a transition of our business. We began moving away from low margin products. This move was intended to improve our gross profit margin, receivable collections and net profitability, and to increase our return on long-term equity. We decided to terminate sales and marketing efforts to customers that represented a high purchase volume but low profit margin, and we adjusted our product line, which included the launch of our Summer 2019 Collection in the Las Vegas Market, with a view to attracting a higher-end ultimate customer. We believe these new strategies, and the recent launch of our Summer 2019 Collection, will provide us with significant long term growth opportunities. The transition has and is expected to continue to adversely impact our revenue and our net profit in the short-term as we roll out new products and market those products to our existing client base and to new potential customers better suited for the higher end products, and as we assess our new products' market acceptance. Significant factors that we believe could affect our operating results are the (i) prices of our products to our international retailer and wholesaler customers and their markups to end consumers; (ii) general economic conditions in the U.S., Chinese, Canadian, European and other international markets; and (iii) trade tariffs imposed by the United States on certain products manufactured in China; and (iv) the consequences of the COVID-19 outbreak throughout the world. We believe most of our customers are willing to pay for our high quality and stylish products, timely delivery, and strong production capacity at price levels which we expect will allow us to maintain a relatively high gross profit margin for our products. We do not manufacture our products, but instead we utilize third-party manufacturers. In response to the tariffs imposed by the United States on certain products manufactured in China, we are attempting to shift a portion of our product manufacturing from third-party manufacturers located in China to third-party manufacturers located in other parts of Asia, such as Vietnam, India and/or Malaysia, countries unaffected by the tariffs. Implementation of a relocation of manufacturing (which by necessity includes an assessment of the factory's ability to deliver the quantity of the product, in accordance with the Company's specifications, and in accordance with the Company's quality control requirements) is time-consuming, but a portion of our manufacturing has been transitioned to Malaysia and India starting in 2020 and we expect that more of our manufacturing will be transitioned to one or more of these venues once the COVID-19 outbreak dissipates. Some of our manufacturing will continue to be performed in China because the intellectual know-how necessary to manufacture certain products is not generally available in other Asian countries. Consumer preference trends favoring high quality and stylish products and lifestyle-based furniture suites should also allow us at least to maintain our gross profit margins. The markets in North America (excluding the United States) and particularly in Europe remain challenging because such markets are experiencing a slow-down and may be entering a recession due to the COVID-19 pandemic.

### ***Critical Accounting Policies***

While our significant accounting policies are described more fully in Note 2 to our accompanying unaudited condensed consolidated financial statements, we believe the following accounting policies are the most critical to aid you in fully understanding and evaluating this Management's Discussion and Analysis.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

### ***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for Nova LifeStyle and its subsidiaries, Diamond Bar, Nova Macao, i Design, Nova Furniture, Nova Samoa, Nova Malaysia and its former subsidiary, Bright Swallow.

### ***Use of Estimates***

In preparing condensed consolidated financial statements in conformity with U.S. GAAP, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by us, include but are not limited to, revenue recognition, the allowance for bad debt, valuation of inventories, the valuation of stock-based compensation, income taxes and unrecognized tax benefits, valuation allowance for deferred tax assets, assumptions used in assessing impairment of long-lived assets and goodwill. Actual results could differ from those estimates.



### ***Accounts Receivable***

Our accounts receivable arises from product sales. We do not adjust receivables for the effects of a significant financing component at contract inception if we expect to collect the receivables in one year or less from the time of sale. We do not expect to collect receivables greater than one year from the time of sale. Our policy is to maintain an allowance for potential credit losses on accounts receivable. We review the composition of accounts receivable and analyze historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. We maintained an allowance for bad debt of \$3,913 and \$3,942 as of June 30, 2020 and December 31, 2019, respectively. During the six months ended June 30, 2020 and 2019, bad debts reversal from continuing operations were \$29 and \$219,746, respectively; and \$6 and \$50,314 for the three months ended June 30, 2020 and 2019, respectively. During the six and three months ended June 30, 2020 and 2019, bad debt expenses from discontinued operations were \$0. As of June 30, 2020, we had gross receivable of \$391,278, of which no amount was over 90 days past due. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing trade accounts receivable. We determine the allowance based on historical bad debt experience, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns.

### ***Advances to Suppliers***

Advances to suppliers are reported net of allowance when we determine that amounts outstanding are not likely to be collected in cash or utilized against purchase of inventories. Based on our historical records and in normal circumstances, we generally receive goods within 5 to 9 months from the date the advance payment is made. Due to the COVID-19 pandemic, the freight transportation of the products from our international suppliers have been delayed or suspended during the outbreak. As such, no reserve on supplier prepayments has been made or recorded by us. Any provisions for allowance for advance to suppliers, if deemed necessary, will be included in general and administrative expenses in the condensed consolidated statements of comprehensive income (loss).

### ***Income Taxes***

Income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

We follow ASC Topic 740, which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

Under the provisions of ASC Topic 740, when tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Nova Lifestyle, Inc. and Diamond Bar Outdoors, Inc. (“Diamond Bar”) are subject to U.S. federal and state income taxes. Nova Furniture BVI and Bright Swallow International Group Limited (“BSI”) were incorporated in the BVI, Nova Samoa was incorporated in Samoa and Nova Macau was incorporated in Macau. There is no income tax for companies domiciled in the BVI, Samoa and Macau. Accordingly, the Company’s condensed consolidated financial statements do not present any income tax provisions related to the BVI, Samoa and Macau tax jurisdictions where Nova Furniture BVI and BSI, Nova Samoa and Nova Macau are domiciled. Nova Living (M) SDN. BHD. (“Nova Malaysia”) is incorporated in Malaysia and is subject to Malaysia income taxes.

The Tax Cuts and Jobs Act of 2017 (the “Act”) created new taxes on certain foreign-sourced earnings such as global intangible low-taxed income (“GILTI”) under IRC Section 951A, which is effective for the Company for tax years beginning after January 1, 2018. For the quarter ended June 30, 2020, the Company has calculated its best estimate of the impact of the GILTI in its income tax provision in accordance with its understanding of the Act and guidance available as of the date of this filing.



**Revenue Recognition**

We recognize revenues when our customer obtains control of promised goods or services, in an amount that reflects the consideration which it expects to receive in exchange for those goods. We recognize 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) we satisfy the performance obligation.

Revenue from product sales is recognized when the customer obtains control of our product, which typically occurs upon delivery to the customer. We expense incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial.

Revenue from product sales is recorded net of reserves established for applicable discounts and allowances that are offered within contracts with our customers.

Product revenue reserves, which are classified as a reduction in product revenues, are generally characterized in the following categories: discounts, returns and rebates. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable as the amount is payable to our customer.

Our sales policy allows for the return of product within the warranty period if the product is defective and the defects are our fault. As alternatives for the product return option, the customers have the option of asking us for a discount for products with quality issues, or of receiving replacement parts from us at no cost. The amount of reserves for return of products, the discount provided to the customers, and cost for the replacement parts were immaterial for the six and three months ended June 30, 2020 and 2019.

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within selling expenses on our condensed consolidated statements of comprehensive income (loss).

**Foreign Currency Translation and Transactions**

The accompanying unaudited condensed consolidated financial statements are presented in United States Dollar (“\$” or “USD”), which is also the functional currency of Nova LifeStyle, Nova Furniture, Nova Samoa, Nova Macao, Bright Swallow, Diamond Bar and i Design.

The Company's subsidiary with operations in Malaysia uses its local currency, Malaysian Ringgit (“RM”), as its functional currency. An entity's functional currency is the currency of the primary economic environment in which it operates, which is normally 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 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 balance sheets.

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

Balance sheet items, except for equity accounts

June 30, 2020	RM4.28 to 1
December 31, 2019	RM4.09 to 1

Income statement and cash flow items

For the six months ended June 30, 2020	RM4.25 to 1
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## **Segment Reporting**

ASC Topic 280, “Segment Reporting,” requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s chief operating decision maker organizes segments within the company for making operating decisions, assessing performance and allocating resources. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

We determined that our operations constitute a single reportable segment in accordance with ASC 280. We operate exclusively in one business and industry segment: the design and sale of furniture.

We concluded that we had one reportable segment under ASC 280 because Diamond Bar is a furniture distributor based in California focusing on customers in the US, Bright Swallow is a furniture distributor focusing on customers primarily in Canada, Nova Macao is a furniture distributor based in Macao focusing on international customers, and Nova Malaysia is a furniture retailer and distributor focusing on customers primarily in Malaysia. Each of our subsidiaries is operated under the same senior management of our company, and we view the operations of Diamond Bar, Bright Swallow, Nova Macao and Nova Malaysia as a whole for making business decisions. Our long-lived assets are mainly property, plant and equipment located in the United States for administrative purposes.

Net sales to customers by geographic area are determined by reference to the physical product shipment delivery locations requested by our customers. For example, if the products are delivered to a customer in the U.S., the sales are recorded as generated in the U.S.; if the customer directs us to ship its products to China, the sales are recorded as sold in China.

## **New Accounting Pronouncements**

### *Recent Adopted Accounting Standards*

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements for Level 1, Level 2 and Level 3 instruments in the fair value hierarchy. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. The Company applied the new standard beginning January 1, 2020.

### *Recently issued accounting pronouncements not yet adopted*

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. Adoption of the ASUs is on a modified retrospective basis. As a smaller reporting company, the standard will be effective for the Company for interim and annual reporting periods beginning after December 15, 2022. We are currently evaluating the impact that the standard will have on our condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, simplifying the Test for Goodwill Impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis. As a smaller reporting company, the standard will be effective for the Company for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. We are currently evaluating the impact of adopting this standard on our condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistent application among reporting entities. The guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. Upon adoption, we must apply certain aspects of this standard retrospectively for all periods presented while other aspects are applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. We are evaluating the impact this update will have on our financial statements.

## Results of Operations

### Comparison of Three Months Ended June 30, 2020 and 2019

The following table sets forth the results of our operations for the three months ended June 30, 2020 and 2019. Certain columns may not add due to rounding.

	Three Months Ended June 30,			
	2020		2019	
	\$	% of Sales	\$	% of Sales
Net sales	\$ 2,294,926		\$ 2,974,593	
Cost of sales	(1,423,029)	(62%)	(2,175,251)	(73%)
Gross profit	871,897	38%	799,342	27%
Operating expenses	(1,410,199)	(61%)	(1,629,031)	(55%)
Loss from operations	(538,302)	(23%)	(829,689)	(28%)
Other income, net	24,266	1%	56,458	2%
Income tax expense	(1,266)	0%	(368,864)	(12%)
Loss from continuing operations	(515,302)	(22%)	(1,142,095)	(38%)
Income from discontinued operations	-	-%	1,103,910	37%
Net loss	(515,302)	(22%)	(38,185)	(1%)

### Net Sales

Net sales from continuing operations for the three months ended June 30, 2020 were \$2.29 million, a decrease of 23% from \$2.97 million in the same period of 2019. This decrease in net sales resulted primarily from a 45.2% decrease in sales volume simultaneous with a 40.8% increase in average selling price. Our largest selling product categories in the three months ended June 30, 2020 were sofas, beds and jade mats, which accounted for approximately 47%, 14% and 9% of sales from our continuing operations, respectively. In the three months ended June 30, 2019, the largest three selling categories were sofas, bed and cabinets, which accounted for approximately 38%, 12% and 11% of sales from our continuing operations, respectively.

Our revenue has been adversely impacted by three factors: (a) the Covid-19 pandemic has made worldwide economy lagging, (b) our decision to move away from low margin products and to eliminate customers generating low margin sales and customers that have slow payment histories, and (c) the increased trade tariffs imposed by the United States on products manufactured in China. The trade tariffs imposed by the United States would have effectively reduced or eliminated our gross margin on our low cost, low margin products, which in part drove our decision to move away from those products. The resulting shift from those low cost, low margin products caused certain of our distributors that historically had represented a significant portion of our revenue to move their business to other providers. The \$0.68 million decrease in net sales from continuing operations in the three months ended June 30, 2020, compared to the same period of 2019, was mainly due to decreased sales to China, Hong Kong and North America. Sales to China, decreased 100% to \$0 in the three months ended June 30, 2020, as compared to \$0.56 million in the same period of 2019 and sales to Hong Kong dropped to \$0 in the three months ended June 30, 2020, compared to \$0.27 million in the same period of 2019, primarily due to no sales orders from our customers in China and Hong Kong. Sales to North America were \$2.08 million in the three months ended June 30, 2020, a decrease of 3.2% from \$ 2.15 million in 2019, primarily due to the trade war tariffs, which took effect in September 2018, as well as the Covid-19 pandemic beginning in the middle of March 2020, both of which have caused a significant number of our sales orders to be held up. We also temporarily eliminated sales to customers generating high volume but low profit margin sales. We changed our sales strategy to seek sales of products of higher margins and shorter collection time on the customers' accounts receivable. See the discussion of our tightened credit terms below under the heading *Liquidity and Capital Resources*. Sales to other countries increased to \$4,783 in the three months ended June 30, 2020, compared to \$0 in the same period of 2019. The decrease in our revenue was partially offset by the increase sales in Asia. Sales to Asia increased to \$0.21 million in the three months ended June 30, 2020, compared to \$0 in the same period of 2019, primarily due to sales orders received from new customers for jade mats in Malaysia.

### **Cost of Sales**

Cost of sales from continuing operations consists primarily of costs of finished goods purchased from third-party manufacturers. Total cost of sales from continuing operations decreased by 35% to \$1.42 million in the three months ended June 30, 2020, compared to \$2.18 million in the same period of 2019. Cost of sales as a percentage of sales decreased to 62% in the three months ended June 30, 2020, compared to 73% in 2019. The decrease of cost of sales in dollar term is primarily due to decreased sales. The decrease in cost of sales as a percentage of sales is a result that we no longer receive low margin drop ship orders and instead focus on selling new products at a higher margin.

### **Gross Profit**

Gross profit from continuing operations increased by 9% to \$0.87 million in the three months ended June 30, 2020, compared to \$0.8 million in 2019. Our gross profit margin increased to 38% in the three months ended June 30, 2020, compared to 27% in the same period of 2019. The increase in gross profit margin is a result that we no longer receive low-margin drop ship orders and instead focus on selling new products at a higher margin.

### **Operating Expenses**

Operating expenses from continuing operations consisted of selling, general and administrative expenses. Operating expenses were \$1.41 million in the three months ended June 30, 2020, compared to \$1.63 million in the same period of 2019. Selling expenses decreased by 38.5%, or \$0.16 million, to \$0.26 million in the three months ended June 30, 2020, from \$0.42 million in the same period of 2019, primarily due to decreased advertising, promotion and show expenses. General and administrative expenses decreased by 4.7%, or \$0.06 million, to \$1.15 million in the three months ended June 30, 2020, from \$1.21 million in the same period of 2019, primarily due to a decrease in lease expenses of \$0.05 million. In response to COVID, our U.S. landlord offered a temporary reduction of our monthly rental from April 2020.

### **Other Income, Net**

Other income, net, from continuing operations was \$24,266 in the three months ended June 30, 2020, compared with other income, net, of \$56,458 in the same period of 2019, representing a decrease in other income of \$32,192. The decrease in other income was due primarily to we recorded a lower interest income on our decreased average balances at banks in 2020. Interest income, net of interest expenses was \$1,437 and \$59,865 for the three months ended June 30, 2020 and 2019, respectively.

### **Income Tax Expense**

Income tax expense from continuing operations was \$1,266 in the three months ended June 30, 2020, compared with \$0.37 million of income tax expense in the same period of 2019. The income tax expense for the three months ended June 30, 2020 was primarily related to payable true up for the one-time transition tax commencing in April 2018. The income tax expense for the three months ended June 30, 2019 was mainly due to full valuation allowance against deferred tax assets in 2019.

### **Loss from Continuing Operations**

As a result of the foregoing, our loss from continuing operations was \$0.52 million in the three months ended June 30, 2020, compared with \$1.14 million of loss for the same period of 2019.

### **Income from Discontinued Operations**

On January 7, 2020, we transferred our entire interest in Bright Swallow to Y-Tone (Worldwide) Limited, an unrelated third party, for cash consideration of \$2.50 million, pursuant to a formal agreement entered into on January 7, 2020. We received the payment on May 11, 2020. Operations of Bright Swallow were reported as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented. We had no income from discontinued operations in the three months ended June 30, 2020, and income from discontinued operations of \$1.10 million in the same period of 2019.

## **Net Loss**

As a result of the foregoing, our net loss was \$0.52 million in the three months ended June 30, 2020, compared with \$38,185 of net loss for the same period of 2019.

## ***Comparison of Six Months Ended June 30, 2020 and 2019***

The following table sets forth the results of our operations for the six months ended June 30, 2020 and 2019. Certain columns may not add due to rounding.

	Six Months Ended June 30,			
	2020		2019	
	\$	% of Sales	\$	% of Sales
Net sales	\$ 4,498,146		\$ 11,769,335	
Cost of sales	(2,847,220)	(63%)	(9,161,060)	(78%)
Gross profit	1,650,926	37%	2,608,275	22%
Operating expenses	(3,010,334)	(67%)	(3,713,664)	(32%)
Loss from operations	(1,359,408)	(30%)	(1,105,389)	(10%)
Other expenses, net	(143,662)	(3%)	(15,501)	(0%)
Income tax expense	(25,145)	(1%)	(241,085)	(2%)
Loss from continuing operations	(1,528,215)	(34%)	(1,361,975)	(12%)
(Loss) Income from discontinued operations	(326,531)	(7%)	1,176,259	10%
Net loss	(1,854,746)	(41%)	(185,716)	(2%)

## **Net Sales**

Net sales from continuing operations for the six months ended June 30, 2020 were \$4.5 million, a decrease of 62% from \$11.77 million in the same period of 2019. This decrease in net sales resulted primarily from a 53.5% decrease in sales volume and 17.9% decrease in average selling price. Our largest selling product categories in the six months ended June 30, 2020 were sofas, beds and coffee tables, which accounted for approximately 51%, 13% and 8% of sales from our continuing operations, respectively. In the six months ended June 30, 2019, the largest three selling categories were sofas, cabinets and chairs, which accounted for approximately 39%, 22% and 8% of sales from our continuing operations, respectively.

Our revenue has been adversely impacted by three factors: (a) the Covid-19 pandemic has made worldwide economy lagging, (b) our decision to move away from low margin products and to eliminate customers generating low margin sales and customers that have slow payment histories, and (c) the increased trade tariffs imposed by the United States on products manufactured in China. The trade tariffs imposed by the United States would have effectively reduced or eliminated our gross margin on our low cost, low margin products, which in part drove our decision to move away from those products. The resulting shift from those low cost, low margin products caused certain of our distributors that historically had represented a significant portion of our revenue to move their business to other providers. The \$7.27 million decrease in net sales from continuing operations in the six months ended June 30, 2020, compared to the same period of 2019, was mainly due to decreased sales to China, Hong Kong and North America. Sales to China, decreased 100% to \$0 in the six months ended June 30, 2020, as compared to \$6.83 million in the same period of 2019. There were no sales to Hong Kong in the six months ended June 30, 2020, compared to \$0.27 million in the same period of 2019. We no longer received sales orders from our customers in China and Hong Kong in 2020. Sales to North America were \$4.27 million in the six months ended June 30, 2020, a decrease of 8.6% from \$4.67 million in 2019, primarily due to the trade war tariffs, which took effect in September 2018, as well as the Covid-19 pandemic beginning in the middle of March 2020, both of which have caused a significant number of our sales orders to be held up. We also temporarily eliminated sales to customers generating high volume but low profit margin sales. We changed our sales strategy to seek sales of products of higher margins and shorter collection time on the customers' accounts receivable. See the discussion of our tightened credit terms below under the heading *Liquidity and Capital Resources*. The decrease in our revenue was partially offset by the increase sales in Asia and other countries. Sales to Asia increased to \$0.21 million in the six months ended June 30, 2020, compared to \$0 in the same period of 2019, primarily due to sales orders received from new customers for jade mats in Malaysia. Sales to other countries were \$23,147 in the six months ended June 30, 2020, compared to \$0 in the same period of 2019.

### **Cost of Sales**

Cost of sales from continuing operations consists primarily of costs of finished goods purchased from third-party manufacturers. Total cost of sales from continuing operations decreased by 69% to \$2.85 million in the six months ended June 30, 2020, compared to \$9.16 million in the same period of 2019. Cost of sales as a percentage of sales decreased to 63% in the six months ended June 30, 2020, compared to 78% in 2019. The decrease of cost of sales in dollar term is primarily due to decreased sales. The decrease in cost of sales as a percentage of sales is a result that we no longer receive low margin drop ship orders and instead focus on selling new products at a higher margin.

### **Gross Profit**

Gross profit from continuing operations decreased by 37% to \$1.65 million in the six months ended June 30, 2020, compared to \$2.60 million in 2019. Our gross profit margin increased to 37% in the six months ended June 30, 2020, compared to 22% in the same period of 2019. The increase in gross profit margin is a result that we no longer receive low-margin drop ship orders and instead focus on selling new products at a higher margin.

### **Operating Expenses**

Operating expenses from continuing operations consisted of selling, general and administrative expenses. Operating expenses were \$3.01 million in the six months ended June 30, 2020, compared to \$3.71 million in the same period of 2019. Selling expenses decreased by 28.9%, or \$0.23 million, to \$0.58 million in the six months ended June 30, 2020, from \$0.81 million in the same period of 2019, primarily due to decreased advertising, promotion and show expenses. General and administrative expenses decreased by 16%, or \$0.47 million, to \$2.43 million in the six months ended June 30, 2020, from \$2.90 million in the same period of 2019, primarily due to a decrease in professional fees, entertainment and travel expenses and stock compensation expenses of \$0.15 million, \$0.29 million and \$0.21 million, respectively, partially offset by a reduction in bad debt reversal of \$0.22 million.

### **Other Expenses, Net**

Other expenses, net, from continuing operations was \$0.14 million in the six months ended June 30, 2020, compared with other expenses, net, of \$0.01 million in the same period of 2019, representing an increase in other expenses of \$0.13 million. The increase in other expenses was due primarily to the increase of foreign exchange loss from \$79 for the six months ended June 30, 2019 to \$0.14 million in the same period in 2020, mainly related to the Company's assets in Malaysia denominated in foreign currency.

### **Income Tax Expense**

Income tax expense from continuing operations was \$25,145 in the six months ended June 30, 2020, compared with \$0.24 million of income tax expenses in the same period of 2019. The income tax expense for the six months ended June 30, 2020 was primarily related to payable true up for the one-time transition tax commencing in April 2018. The income tax expense for the six months ended June 30, 2019 was mainly due to full valuation allowance against deferred tax assets in 2019.

### **Loss from Continuing Operations**

As a result of the foregoing, our loss from continuing operations was \$1.53 million in the six months ended June 30, 2020, compared with \$1.36 million of loss for the same period of 2019.

### **(Loss) Income from Discontinued Operations**

On January 7, 2020, we transferred our entire interest in Bright Swallow to Y-Tone (Worldwide) Limited, an unrelated third party, for cash consideration of \$2.50 million, pursuant to a formal agreement entered into on January 7, 2020. We received the payment on May 11, 2020. Operations of Bright Swallow were reported as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented. We had loss from discontinued operations of \$0.33 million in the six months ended June 30, 2020, and income from discontinued operations of \$1.18 million in the same period of 2019.

**Net Loss**

As a result of the foregoing, our net loss was \$1.85 million in the six months ended June 30, 2020, compared with \$0.19 million of net loss for the same period of 2019.

**Liquidity and Capital Resources**

Our principal demands for liquidity are related to our efforts to increase sales and purchase inventory, and for expenditures related to sales distribution and general corporate purposes. We intend to meet our liquidity requirements, including capital expenditures related to purchase of inventories and the expansion of our business, primarily through cash flow provided by operations, collections of accounts receivable, and credit facilities from banks. In May 2020, we received loans under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act. In June 2020, we obtained a loan pursuant to the Economic Injury Disaster Loan Program.

We rely primarily on internally generated cash flow and available working capital to support growth. We may seek additional financing in the form of bank loans or other credit facilities or funds raised through future offerings of our equity or debt, if and when we determine such offerings are required. As of June 30, 2020, we do not have any credit facilities. We believe that our current cash and cash equivalents and anticipated cash receipts from sales of products will be sufficient to meet our anticipated working capital requirements and capital expenditures for the next 12 months.

We had net working capital of \$65,223,270 at June 30, 2020, a decrease of \$1,810,901 from net working capital of \$67,034,171 at December 31, 2019. The ratio of current assets to current liabilities was 34.69-to-1 at June 30, 2020.

The following is a summary of cash provided by or used in each of the indicated types of activities during the six months ended June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Cash provided by (used in):		
Operating activities	\$ (1,114,371)	\$ 8,601,686
Investing activities	1,037,800	(24,911)
Financing activities	466,096	(6,358,195)

Net cash used in operating activities was \$1.11 million in the six months ended June 30, 2020, a decrease of cash inflow of \$9.71 million from \$8.60 million of cash provided by operating activities in the same period of 2019. The decrease of cash inflow was attributable primarily to a decreased cash inflow of \$59.49 million from accounts receivable to \$2,905 cash inflow in the six months ended June 30, 2020, compared to \$59.48 million cash inflow in the same period of 2019, such decrease being primarily due to our reduced sales in the six months ended June 30, 2020 and significant accounts receivable collected from our customers in the six months ended June 30, 2019. In past years, we had allowed our key customers to take longer than the granted credit periods to settle their purchases, in order to boost sales. Starting from the second half of 2018, we had been monitoring them closely for payment but our accounts receivable still reached a record high of \$66.59 million as of December 31, 2018, and this negatively impacted our cash flow from operating activities. In 2019, the industry environment worsened as a result of the imposition by the U.S. of tariffs on products manufactured in China. We determined not to accept new sales orders from those key customers until they settled all overdue balances. As a result of customer payments and the significant reduction in sales, we were able to reduce our accounts receivable balance by approximately \$66.42 million in the first quarter of 2019. We will continue our efforts to tighten customers' credit terms and expect that most of our customers will pay according to the contract terms going forward.

The decrease of cash inflow in the six months ended June 30, 2020 was also attributable to decreased cash inflow of \$17.12 million from inventories to \$16.61 million cash outflow in the six months ended June 30, 2020, compared to \$0.51 million cash inflow in the same period of 2019. The cash outflow in the six months ended June 30, 2020 was mainly a result of purchase and receiving more jade mats products from our suppliers. The decrease in operating cash inflow was partially offset by the increase in cash inflow for advance to suppliers of \$62.33 million to \$17.30 million cash inflow in the six months ended June 30, 2020, compared to \$45.03 million cash outflow in the same period of 2019, such increase in cash inflows being mainly due to placing less amount of deposits to our suppliers in China due to receipt of fewer sales orders from customers; and the increase in cash inflow for accounts payable of \$3.75 million to \$0.18 million cash outflow in the six months ended June 30, 2020, compared to \$3.93 million cash outflow in the same period of 2019, such decrease in cash outflows being mainly due to fewer purchases made in the six months ended June 30, 2020.



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Due to the recent imposition of significant trade tariffs on importation from China to the United States, we are actively developing alternative markets and product lines. We have been developing relationships with potential customers in Asia who intend to purchase high-end health furniture products for use in therapy clinics, hospitality and real estate projects. We have also been networking with sales agents to develop these markets. In the second quarter of 2019, we sourced physiotherapeutic jade mats from manufacturers in China. As of June 30, 2020, purchase of these inventories totaled \$44.97 million, and we had advanced deposits for approximately \$7.96 million in order to procure more of such products. These advances can ensure that our products are prioritized and help lock in purchase prices and bulk purchase discounts with our suppliers. We expect to receive these products within year 2020.

Net cash provided by investing activities was \$1.04 million in the six months ended June 30, 2020 related to cash of Bright Swallow disposed of \$1.46 million in January 2020 while we received \$2.50 million cash consideration for this sale transaction. In the six months ended June 30, 2019, we incurred cash outflow of \$24,911 from purchases of property and equipment.

Net cash provided by financing activities was \$0.47 million in the six months ended June 30, 2020, a decrease of cash outflow of \$6.82 million from cash outflow of \$6.35 million in the same period of 2019. In the six months ended June 30, 2020, we received \$0.47 million from other loans (see Note 11). In the six months ended June 30, 2019, we repaid \$23.76 million in bank loans and borrowed \$17.51 million in bank loans, while repurchasing common stock for \$110,034.

As of June 30, 2020, we had gross accounts receivable of \$ 391,278, of which \$373,048 was not yet past due and \$18,230 was less than 90 days past due. We had an allowance for bad debt of \$3,913. As of August 7, 2020, \$206,698 of accounts receivable outstanding as of June 30, 2020 had been collected.

All accounts receivable outstanding at December 31, 2019 had been collected during 2020.

As of June 30, 2020, and December 31, 2019, we had advances to suppliers of \$10,445,577 and \$27,745,184, respectively. These supplier prepayments are made for goods before we actually receive them. As of June 30, 2020, we made deposits of \$7.96 million with suppliers who manufacture physiotherapeutic jade mats in China.

For a new product, the normal lead time from new product R&D, prototype, and mass production to delivery of goods from our suppliers to us is approximately six to nine months after we make advance payments to our suppliers. For other products, the typical time is five months after our advance payment. Due to the COVID-19 pandemic, freight transportation of products from our international suppliers has been delayed or suspended during the outbreak. As such, no reserve on supplier prepayments had been made or recorded by us. We will consider the need for a reserve when and if a supplier fails to fulfill our orders within the time frame as stipulated in the purchase contracts. As of June 30, 2020, and December 31, 2019, no reserve on supplier prepayments had been made or recorded by us.

As of August 7, 2020, 77% of our advances to suppliers outstanding at June 30, 2020 had been delivered to us in the form of purchases of physiotherapeutic jade mats.

### **Lines of Credit**

On September 19, 2017, Diamond Bar extended the line of credit up to a maximum of \$8,000,000 to mature on June 1, 2019. The annual interest rate was 5.50% as of December 31, 2019. The line of credit was secured by all of the assets of Diamond Bar and is guaranteed by Nova LifeStyle. We paid off our lines of credit upon expiration on June 30, 2019. As of June 30, 2020 and December 31, 2019, Diamond Bar had \$0 outstanding on the line of credit, respectively. During the six months ended June 30, 2020 and 2019, the Company recorded interest expense of \$0 and \$35,444, respectively; and \$0 for the three months ended June 30, 2020 and 2019.

As of June 30, 2020, and December 31, 2019, we do not have any credit facilities.

### **Shelf Registration**

On July 13, 2017, the Company filed a shelf registration statement on Form S-3 under which the Company may, from time to time, sell securities in one or more offerings up to a total dollar amount of \$60,000,000. The shelf registration statement was declared effective as of October 12, 2017.



## **Other Long-Term Liabilities**

As of June 30, 2020, we recorded long-term taxes payable of \$1.64 million, consisting of an income tax payable of \$1.64 million, primarily arising from a one-time transition tax recognized in the fourth quarter of 2017 on our post-1986 foreign unremitted earnings, and a \$0.01 million unrecognized tax benefit, as ASC 740 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long-term liabilities.

We elected to pay the one-time transition tax over the eight years commencing April 2018.

## **Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements between us and any other entity that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to shareholders.

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholders' equity or that are not reflected in our condensed consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

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

Not required.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We have evaluated, under the supervision of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of June 30, 2020. Based on this evaluation, our CEO and CFO concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act (a) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during six months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On December 28, 2018, a federal putative class action complaint was filed by George Barney against the Company and its former and current CEOs and CFOs (Thanh H. Lam, Ya Ming Wong, Jeffery Chuang and Yuen Ching Ho) in the United States District Court for the Central District of California, claiming the Company violated federal securities laws and pursuing remedies under Sections 10(b) and 20(a) of the Security Exchange Act of 1934 and Rule 10b-5 (the “Barney Action”). Richard Deutner and ITENT EDV were subsequently substituted as plaintiffs and, on June 18, 2019, they filed an Amended Complaint. In the Amended Complaint, plaintiffs seek to recover compensatory damages caused by the Company’s alleged violations of federal securities laws during the period from December 3, 2015 through December 20, 2018. Plaintiffs claim that the Company: (1) overstated its purported strategic alliance with a customer in China to operate as lead designer and manufacturer for all furnishings in such customer’s planned \$460 million senior care center in China; (2) the Company inflated its reported sales in 2016 and 2017 with the Company’s two major customers; and (3) as a result, the Company’s public statements were materially false and misleading at all relevant times. In support of these claims, plaintiffs rely primarily upon the aforementioned Seeking Alpha blog in which it was claimed that an investigation of the Company failed to confirm the existence of several entities identified as significant customers. Plaintiffs purported to verify some of the information alleged in the Seeking Alpha blog. By Order entered December 2, 2019, the Court denied defendant’s Motion to Dismiss the Amended Complaint. Defendants have accordingly filed an Answer to the Amended Complaint denying its material allegations. The Court also entered a scheduling order setting a final pretrial conference for July 20, 2020, which was since been continued to October 19, 2020.

Independent of the litigation, the Audit Committee engaged the Company’s auditor to perform special procedures to confirm the reported sales. Those procedures included, but were not limited to, the examination and testing of relevant documentation relating to the sales made by the Company to the customers identified in the purported research report for the periods 2015-2018, and 100% sampling of all transactions between the Company and the subject customers. The Audit Committee finished its special procedures in March 2019 and the Company’s independent auditor has reported to the Audit Committee that, regarding the four subject customers mentioned in the purported research report, the special procedures resulted in no evidence of fictitious sales or of fictitious customers. Please see the details in the Form 8-K filed by the Company with SEC on March 29, 2019.

On March 8, 2019, in the United States District Court for the Central District of California, shareholder Jie Yuan (the “Jie Action”) filed a derivative lawsuit purportedly on behalf of the Company against its former and current CEOs and CFOs (Thanh H. Lam, Ya Ming Wong, Jeffery Chuang and Yuen Ching Ho), directors (Charlie Huy La, Bin Liu, Umesh Patel, and Min Su), and vice president (Steven Qing Liu) (collectively, the “Defendants”) seeking to recover any losses the Company sustains as a result of alleged securities violations outlined in the Seeking Alpha blog and *Barney* securities class action complaint. Specifically, the derivative lawsuit alleges that the Defendants caused the Company to make the alleged false and/or misleading statements giving rise to the putative securities class action. The Plaintiff also alleges that President and CEO Lam engaged in self-dealing by leasing her property to Diamond Bar, a Company subsidiary, and asserts, in conclusory fashion, that Lam, former CEO and director Ya Ming Wong, former CFO and director Yuen Ching Ho, and director Umesh Patel sold securities during the period of time when the alleged false and/or misleading statements were made “with knowledge of material nonpublic information . . . .”

On May 15, 2019, Wilson Samuels (the “Samuels Action”) also filed a putative derivative complaint purportedly on behalf of the Company against the same current and former directors and officers named in the Jie Action other than Steven Qiang Liu. That action was filed in the United States District Court for the Central District of California. Samuels repeats the allegations of the Complaint in the *Jie* Action. Additionally, Samuels claims that, in announcing its change of auditing firms in September 2016, the Company asserted that this change was made because its existing auditor ceased auditing public companies subject to regulation in the United States without disclosing that its new auditing firm was created in a merger of three accounting firms, including a firm whose registration was revoked by the Public Company Accounting Oversight Board. Samuels also claims that the Company redeemed its stock in reliance upon the same purported fraudulent recognition of revenues claimed in the putative class action. He purports to state direct claims under Sections 10(b) and 20 of the Exchange Act and SEC Rule 10b-5.

On March 3, 2020, defendants filed in each of the derivative actions motions to stay those proceedings until the Barney action is resolved or alternatively to dismiss on the grounds that plaintiffs’ failure to make demand upon the Board was not excused and the Complaints otherwise fail to state a claim upon which relief can be granted. By Order entered April 7, 2020, the Court granted defendants’ Motion to Stay and stayed the Jie Action until the Barney Action is resolved. The Motion to Stay and Dismiss remains pending in the Samuels Action. The Court subsequently entered a similar Order in the Samuels Action. It also took a motion the derivative plaintiffs filed to consolidate the proceedings and appoint lead counsel off calendar.

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While these derivative actions are purportedly asserted on behalf of the Company, it is possible that the Company may directly incur attorneys' fees and is advancing the costs of defense for its current directors and officers pursuant to contractual and legal indemnity obligations. The Company believes there is no basis to the derivative complaints and they will be vigorously defended.

Other than the above, the Company is not currently a party to any legal proceeding, investigation or claim which, in the opinion of the management, is likely to have a material adverse effect on the business, financial condition or results of operations.

**Item 6. Exhibits**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Document Description</b>
31.1 †	<a href="#">Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2 †	<a href="#">Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1 ‡	<a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by the Chief Executive Officer</a>
32.2 ‡	<a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by the Chief Financial Officer</a>
101.INS†	XBRL Instance Document
101.SCH†	XBRL Schema Document
101.CAL†	XBRL Calculation Linkbase Document
101.DEF†	XBRL Definition Linkbase Document
101.LAB†	XBRL Label Linkbase Document
101.PRE†	XBRL Presentation Linkbase Document

† Filed herewith

‡ Furnished herewith

**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.

**NOVA LIFESTYLE, INC.**  
(Registrant)

Date: August 14, 2020

By: /s/ Thanh H. Lam  
Thanh H. Lam  
Chairperson and Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2020

/s/ Jeffery Chuang  
Jeffery Chuang  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thanh H. Lam, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2020, of Nova Lifestyle, Inc.;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our 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: August 14, 2020

By: /s/ Thanh H. Lam  
Thanh H. Lam  
Chairperson and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffery Chuang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2020, of Nova Lifestyle, Inc.;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our 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: August 14, 2020

By: /s/ Jeffery Chuang  
Jeffery Chuang  
Chief Financial Officer  
(Principal Financial Officer)

**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 on Form 10-Q of Nova Lifestyle, Inc. (the “Company”) for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Thanh H. Lam, Chairperson and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or §78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2020

By: /s/ Thanh H. Lam  
Thanh H. Lam  
Chairperson and Chief Executive Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**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 on Form 10-Q of Nova Lifestyle, Inc. (the “Company”) for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Jeffery Chuang, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or §78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2020

By: /s/ Jeffery Chuang  
Jeffery Chuang  
Chief Financial Officer (Principal Financial Officer)

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.