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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

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(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2016**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 333-163019**

**NOVA LIFESTYLE, INC.**

*(Exact name of registrant as specified in its charter)*

**Nevada**

*(State or other jurisdiction of  
incorporation or organization)*

**6565 E. Washington Blvd.**

**Commerce, CA**

*(Address of principal executive offices)*

**90-0746568**

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

**90040**

*(Zip Code)*

**Registrant's telephone number, including area code: (323) 888-9999**

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

Common Stock, par value \$0.001 per share.

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐

No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐

No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒

No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

☐

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

Large accelerated filer ☐

Non-accelerated filer ☐ (Do not check if smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐

No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$10,550,970.36, computed by reference to \$0.42 per share as of June 30, 2016, which is less than \$75,000,000.

As of April 10, 2017, there were 26,959,865 shares of common stock outstanding.

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**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Nova LifeStyle, Inc. Proxy Statement for the 2017 Annual Meeting of Stockholders (the “Proxy Statement”) are incorporated by reference into Part III of this Form 10-K.

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NOVA LIFESTYLE, INC.

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## NOTE ABOUT FORWARD-LOOKING STATEMENTS

This report contains 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, regarding our company that include, but are not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products, services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "predicts," "potential," "believes," "seeks," "hopes," "estimates," "should," "may," "will," "with a view to" and variations of these words or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict.

These forward-looking statements involve various risks and uncertainties. Although we believe our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Our Business" and other sections in this report. You should read this report and the documents we refer to thoroughly with the understanding that our actual future results may be materially different from and worse than what we expect. Other sections of this report include additional factors which could adversely impact our business and financial performance.

This report contains statistical data we obtained from various publicly available government publications and industry-specific third party reports. Statistical data in these publications also include projections based on a number of assumptions. The markets for our products may not grow at the rate projected by market data, or at all. The failure of these markets to grow at the projected rates may have a material adverse effect on our business and the market price of our securities. In addition, the rapidly changing nature of our customers' industries results in significant uncertainties in any projections or estimates relating to the growth prospects or future condition of our markets. Furthermore, if any one or more of the assumptions underlying the market data is later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

Unless otherwise indicated, information in this report concerning economic conditions and our industry is based on information from independent industry analysts and publications, as well as our estimates. Except where otherwise noted, our estimates are derived from publicly available information released by third party sources, as well as data from our internal research, and are based on such data and our knowledge of our industry, which we believe to be reasonable. None of the independent industry publication market data cited in this report was prepared on our or our affiliates' behalf.

The forward-looking statements made in this report relate only to events or information as of the date on which the statements are made in this report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this report and the documents we refer to in this report and have filed as exhibits to this report completely and with the understanding that our actual future results may be materially different from what we expect.

As used in this report, "Nova LifeStyle," "Nova," the "Company," "we," "our" and similar terms refer to Nova LifeStyle, Inc. and its subsidiaries, unless the context indicates otherwise.

Our functional currency is the U.S. Dollar, or USD, while the functional currency of our former subsidiaries in China are denominated in Chinese Yuan Renminbi, or RMB, the national currency of the People's Republic of China, which we refer to as the PRC or China. The functional currencies of our foreign operations are translated into USD for balance sheet accounts using the current exchange rates in effect as of the balance sheet date and for revenue and expense accounts using the average exchange rate during the fiscal year. See Note 2 of the consolidated financial statements included herein.

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## PART I

### Item 1. Business

#### Our Company

Nova LifeStyle, Inc. (“Nova LifeStyle” or the “Company”) is a broad based distributor and retailer of contemporary styled residential furniture incorporated into a dynamic marketing and sales platform offering retail as well as online selection and purchase fulfillment globally. We monitor popular trending and work 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, 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)), Colorful World, Giorgio Mobili, and Bright Swallow.

Our customers principally consist of distributors and retailers having specific geographic coverages that deploy middle to high end private label home furnishings having very little competitive overlap within our specific furnishings 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, thus allowing us to continually focus on building both same store sales growth as well as drive the expansion of our overall distribution and manufacturing relationships through a deployment of popular, as well as trend-based furnishing solutions worldwide.

We traditionally generated the majority of our sales serving as a trading company and vertically integrated manufacturer for global furniture distributors and large national retailers. In the U.S. and international markets, we focus on establishing and expanding long term relationships with our customers by providing large scale and cost-effective sourcing in China. Our logistics and delivery capabilities provide our customers with the flexibility to select from our extensive furniture collections in their respective shipments. Our experience developing and marketing products for international markets has enabled us to develop the scale, logistics and marketing efficiencies and design expertise that serves as the foundation for us to expand aggressively into the highly attractive U.S., Canadian, European, Australian and Middle Eastern markets.

#### Our History

We are a U.S. holding company with no material assets other than the ownership interests of our wholly owned subsidiaries through which we market, design, and sell residential furniture worldwide: Nova Furniture Limited in the British Virgin Islands (“Nova Furniture”), Nova Furniture Limited in Samoa (“Nova Samoa”), 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 Furniture. Diamond Bar, doing business as Diamond Sofa, 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; the purchase price was \$6.5 million in cash and was fully paid at the closing of the acquisition.

On October 24, 2013, Nova Furniture (Dongguan) Co., Ltd. (“Nova Dongguan”) incorporated Dongguan Ding Nuo Household Products Co., Ltd. (“Ding Nuo”) under the laws of the PRC and contributed capital of RMB 1 million (\$162,994). Nova Dongguan made an additional capital contribution of RMB 0.1 million (\$16,305) on November 27, 2013 through one of Nova Dongguan’s officers, Mr. Gu Xing Chang, who acted as the nominee shareholder of Ding Nuo.

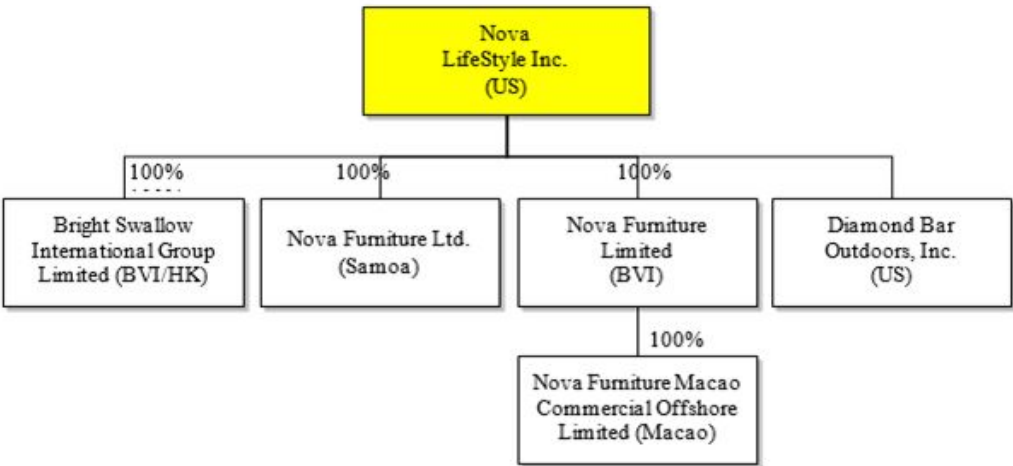
On September 23, 2016, Nova Furniture, a wholly-owned subsidiary of the Company (the “Seller”), entered into a Share Transfer Agreement (the “Agreement”) with Kuka Design Limited, an unrelated company incorporated in British Virgin Islands (“Kuka Design BVI” or “Buyer”). Pursuant to the terms of the Agreement, the Seller sold all of the outstanding equity interests in Nova Dongguan, a wholly owned subsidiary of the Seller, to the Buyer for a total of \$8,500,000 (the “Transaction”), which such value was primarily derived from Nova Dongguan and Nova Dongguan’s wholly owned subsidiary, Nova Museum, and 90.97% owned subsidiary, Ding Nuo. Upon consummation of the Transaction on October 25, 2016, the Buyer became the sole owner of Nova Dongguan.

On November 10, 2016, Nova Furniture (“Assignor”) entered into a Trademark Assignment Agreement with Kuka Design BVI (“Assignee”). Pursuant to the terms of the Trademark Assignment Agreement, Assignor agreed to assign to the Assignee its full right to, and title in, the NOVA trademark in China for \$6,000,000 (the “Assignment Fee”). Assignee was to pay the Assignment Fee in two installments: \$1,000,000 on or before November 30, 2016, and \$5,000,000 on or before December 31, 2016. As of December 31, 2016, \$4,750,000 had been received, and the remaining balance of \$1,250,000 was received in January 2017.

As a result, the operations of Nova Dongguan, Nova Museum and Ding Nuo are now accounted for as discontinued operations in the accompanying consolidated financial statements for all periods presented.

In the previous reports filed with SEC, the Company erroneously reported that Nova Samoa, another wholly-owned subsidiary entered into the Agreement and the Trademark Assignment Agreement with Kuka Design BVI and sold all of the issued and outstanding shares of Nova Furniture to Kuka Design BVI and assigned the right to, and title in, the NOVA trademark in China to Kuka Design BVI.

Our organizational structure is set forth in the following diagram:



**Our Products**

We market and develop modern home furniture for today’s middle class, urban consumer in diverse markets worldwide. Our product offerings feature urban contemporary styles offering comfort and functionality in matching furniture collections and upscale luxury pieces appealing to lifestyle-conscious middle and upper middle-income consumers. Many of our products are part of multi-piece lifestyle collections in distinctive styles targeted at the medium and upper-medium price ranges and feature upholstered, wood and metal-based residential furniture pieces. We classify our products by room; or series, including living room, dining room, bedroom and home office, and by category or piece such as sofas, chairs, dining tables, beds, entertainment consoles, cabinets and cupboards. Our largest selling product categories in the year ended December 31, 2016 were sofas, beds and dining tables, which accounted for approximately 61%, 11% and 7% of 2016 sales, respectively. For the year ended December 31, 2015, our largest selling product categories were sofas, dining tables and beds, which accounted for approximately 36%, 15% and 14% of sales, respectively, of 2015 sales. Our products are manufactured primarily from medium-density fiberboard, or MDF board, and particleboard covered with veneers or lacquers and combined with other materials, including steel, glass, marble, leather and fabrics.



*Selected Products from our Collections*

Our product offerings consist of a mix of furnishings designed by us and sourced from third party manufacturers. Through market research, customer feedback, and ongoing design development; we identify new trends and customer needs in our target markets for incorporation into new products, collections and brands. Our products and collections are designed to appeal to consumer preferences in specific markets. We develop both individual pieces and collections for entire rooms, which feature matching furniture suites, providing convenient whole-home furnishing options for lifestyle-conscious end consumers. We generally introduce new collections and styles by participating in international furniture exhibitions and through our sample rooms, and support new product launches with promotions, product brochures and online marketing. Our staff works with customers worldwide to design store and showroom layouts that highlight our matching furniture collections by displaying complete and fully accessorized room settings instead of individual furniture pieces. We believe that this style of presentation in stores encourages consumers to purchase an entire room of furniture instead of individual pieces from different brands or manufacturers. We source finished products based on our designs or those of our customers from third party manufacturers to fulfill orders placed by customers in international markets. We believe that our products feature the quality, appearance, functionality and price points sought by today's middle to upper middle-income consumers in the U.S., Europe, Australia and the Middle East.

### ***International Markets***

We sell products to the U.S., Canadian, Australian, European and Middle Eastern markets under the Diamond Sofa brand and as a trading company. The markets in the U.S. and Europe remain challenging because they are experiencing a slower than anticipated recovery from the recent international financial crisis and the Euro-area crisis in particular. We believe that discretionary purchases of furniture by middle to upper middle-income consumers, our target global consumer market, will increase along with the expected growth in the worldwide furniture trade and recovery of housing markets. Furthermore, we believe that furniture featuring modern and contemporary styling such as ours will continue to be in greater demand.

In 2016, our products were sold in over 18 countries worldwide, with North America and Europe our principal international markets, while we expanded our sales in other regions. Sales to North America accounted for 62.8% and 83.9% of sales in 2016 and 2015, respectively. Sales to Europe accounted for 13.5% and 11.8% of sales in 2016 and 2015, respectively, with the increase attributed principally to the recovery of the Euro-area economic climate and our changing sales and marketing strategy to diversify international sales. Sales to other regions, primarily in Asia and Australia, accounted for 23.7% and 4.3% of total sales in 2016 and 2015, respectively. As we continue to expand our broad network of distributors, increase direct sales and enter emerging growth markets, we believe that we are well positioned to respond to changing market conditions, allowing us to take advantage of any upturns in the global and local economies of the markets we serve.

Our logistics and delivery capabilities provide our customers with the flexibility to select from our extensive furniture collections in their respective shipments. We design and supply our products for direct sales to private label retailers worldwide and for global furniture distributors and wholesalers that in turn offer our products to retailers under their own brand names, including Actona Company (Denmark), Artemis (Australia), BUT International (France), Dormitienda (Spain) and El Dorado Furniture (United States). We offer a wide selection of stand-alone pieces across a variety of product categories and approximately 20 product collections developed exclusively for international markets. During 2017, we expect to focus on both online and offline sales. We also sell products under the Diamond Sofa brand to distributors and retailers in North America and South America and to end-user consumers in the U.S. market through third-party shopping portals. Our research and development team works with our customers to modify our existing product designs and create new designs and styles for their market's particular requirements. We believe that we can continue to expand our sales in the U.S. and international markets as we integrate the Diamond Sofa brand and increase our direct sales to retailers and chain stores as we expand and explore new markets worldwide.

### **Sales and Marketing**

Our sales and marketing strategies target middle class, urban consumers, including: (1) increasing direct sales in the U.S. and internationally; (2) internet sales and online marketing; and (3) participation in trade exhibitions.

We plan to increase our direct sales to retailers and chain stores in the U.S. and international markets as we continue to diversify our customer base from global furniture distributors. In August 2011, we acquired Diamond Bar, a California importer and marketer of modern home furniture in North and South America. Diamond Bar markets and sells products under the Diamond Sofa brand to distributors and retailers principally in the U.S. market. We plan to continue expanding sales of the Diamond Sofa brand in the U.S., Mexico and South America markets through Diamond Bar's longstanding customer relationships and distribution capabilities. Through our relationship with St. Joyal, a California-based corporation specializing in business development, management and organizational planning and an investor in us and our subsidiary, Nova Furniture, we plan to continue expanding our direct sales and marketing efforts in North America, and in particular the U.S., which historically is the largest market worldwide for sales of imported furniture. St. Joyal has extensive business contacts with U.S. domestic furniture wholesalers and retailers, through which we have been introduced to some of our current customers in the U.S. In addition, we plan to expand our existing presence in the U.S. market as we integrate the business of Diamond Bar, grow our U.S.-based management and sales team and focus on the expansion of our existing showrooms featuring the Diamond Sofa brand. We intend to develop the Diamond Sofa brand and introduce new brands for our direct sales in the U.S. and international markets while continuing to supply products under private label brands to retailers and chain stores.

Our acquisition of Bright Swallow International Group Limited ("Bright Swallow"), an established furniture company with a global client base, was finalized in late April of 2013, and Bright Swallow has become an integral part of the Nova LifeStyle brand family. Bright Swallow posted revenues of just over \$6.90 million and \$5.92 million for fiscal years 2016 and 2015, respectively, and its complementary product line and geographical reach has offered Nova LifeStyle an ideal opportunity to expand its overall global market presence. One of Bright Swallow's current clients, Canada-based The Brick Limited ([www.TheBrick.com](http://www.TheBrick.com)) has over 200 locations and provides an excellent example of this exceptional integration opportunity. Nova LifeStyle has primary management for the operation of Bright Swallow and under the terms all issued and outstanding shares of Bright Swallow were transferred to Nova by Bright Swallow's sole owner, Mr. Zhu Wei for an aggregate purchase price of \$6.5 million in cash.

Diamond Bar currently sells products under the Diamond Sofa brand in the U.S. through third party shopping portals, shipping orders received online direct to the end customer. We believe that our planned direct-to-consumer online sales and marketing strategies will increase our sales in the U.S. by building our brand awareness and acting as an effective advertising vehicle. We also support new product collections and brand launches with print and online advertising campaigns, participation in furniture exhibitions and offering of product brochures and samples. We provide samples and brochures of new products for international markets to distributors and buyers, as is common in the furniture industry.

We generally gain new customers in the international markets and introduce new product collections and styles by participating in and attending international furniture exhibitions throughout the year. We believe this marketing process gives us greater insight into developing tastes and trends in the marketplace and helps us better understand the challenges facing the distributors and buyers with whom we do the majority of our international business. Historically, we have exhibited our products at the International Famous Furniture Fair (3F) in Dongguan, China and the China International Furniture Exhibition in Shanghai, China. We have also shown our products under the Diamond Sofa brand at the Las Vegas Market (U.S.) and High Point Market (U.S.) and at furniture exhibitions worldwide in connection with our customers Actona Company at IMM Cologne (Germany) and Yeh Brothers at Interiors Birmingham (United Kingdom). We anticipate attending and exhibiting at additional furniture exhibitions to meet new distributors and buyers as we expand and explore emerging international markets, such as the Middle East. We maintain showrooms to highlight our latest collections at Diamond Bar's headquarters in California and at High Point Market and Las Vegas Market.

#### **Suppliers and Manufacturers**

We source finished goods from third-party manufacturers to fulfill orders placed by customers through Nova Macao and Diamond Bar for the U.S. and international markets. Our principal suppliers of finished goods in 2016 were Zhejiang Luxury Trading Company Limited, Kuka Design Ltd. and Yin Tong Furniture Limited accounting for approximately 22.0%, 18.5% and 16.5% of our total purchases, respectively. By maintaining relationships with multiple suppliers, we benefit from a more stable supply chain and more competitive prices. If a change of suppliers is necessary, we believe that we can quickly fulfill our requirements from other suppliers without impacting order fulfillment. We monitor our suppliers' ability to meet our product needs and we participate in quality assurance activities to reinforce adherence to our quality standards. Our third-party manufacturing contracts are generally of annual or shorter duration, or manufactured products are sourced on the basis of individual purchase orders. Our manufacturing relationships are non-exclusive, and we are permitted to procure our products from other sources at our discretion. None of our manufacturing contracts include production volume or purchase commitments on the part of either party. Our third-party manufacturers are responsible for the sourcing of raw materials and producing parts and finished products to our specifications. We hold our suppliers to strict quality and delivery specifications. Our quality control procedures include quality assurance of raw materials used in the production of our products, which includes an evaluation and selection of established and reputable suppliers.



## Customers

Our target end customer is the middle and upper middle-income consumer of residential furniture. In the U.S. and international markets, our sales principally are to furniture distributors and retailers who in turn offer our products under their own brands or under our Diamond Sofa brand. Our largest customers in 2016 were Shanxi Wanqing Senior Care Service, Group and Actona Company A/S, a global furniture distributor, which accounted for 10.8% and 9.7% of our total sales in 2016, respectively. Our two largest customers in 2015 were Actona Company A/S and Encore Sofa Inc., which in total accounted for 11.8% of our sales in 2015. No other individual customer accounted for greater than 10% of our sales in 2016 or 2015. We plan to increase direct sales to retailers and chain stores worldwide as we continue to diversify our customer base from global furniture distributors.

We are focusing on establishing and growing long-term relationships with our customers. We believe that the majority of our customers view us as a strategic long-term supplier and value the quality of our products, our timely delivery and design capabilities. We generally negotiate renewable supplier agreements with firm pricing on our products, typically for a term of one year, as is customary in the furniture industry, with individual orders made on standard purchase orders. Our sales to customers outside of China were \$82.64 million in 2016, as compared to \$89.94 million in 2015, accounting for 89% of sales in 2016 and 100% in 2015. In 2016, we sold products into approximately 18 countries worldwide, with North America and Europe as our principal international markets, while we expanded our sales in other regions. Sales to North America accounted for 63% and 84% of sales in 2016 and 2015, respectively. Sales to Europe accounted for 13% and 12% of sales in 2016 and 2015, respectively, with the decrease attributed principally to the challenging Euro-area economic climate and our changing sales and marketing strategy to diversify international sales. Sales to other regions, primarily in Asia and Australia, accounted for 24% and 4% of our total sales in 2016 and 2015, respectively. We expect that a majority of our sales will continue to come from our sales to the U.S. and international markets. We acquired Diamond Bar in August 2011, which has driven expansion of our sales to the U.S., Mexico, and South America through Diamond Bar's longstanding customer relationships and distribution capabilities. It should be noted that Diamond Bar accounted for 53.7% and 43.5% of Nova Lifestyle's total sales in 2016 and 2015, respectively, and Nova Macao's revenues accounted for 38.8% and 49.9% of Nova Lifestyle's total sales in 2016 and 2015, respectively. In addition, we anticipate increasing internet sales under the Diamond Sofa brand through third-party shopping portals. We believe that as we expand our broad network of distributors and increase direct sales, our exposure to regional recessions will be reduced and allow us to better capitalize on emerging market trends.

We typically experience stronger fourth and first calendar quarters as our product sales are subject to the seasonality and fluctuations typical of the furniture industry. This industry-based seasonality generally is caused by shipping lead-times to international markets combined with the real estate market slowdown and decrease in furniture consumption commonly experienced during the summer months in the Northern Hemisphere markets in which the majority of our customers are located and our products sell at retail. In addition, we believe that consumer demand for furniture generally reflects sensitivity to overall economic conditions, including, but not limited to, unemployment rates, housing market conditions and consumer confidence.

## Competition

The residential furniture industry is highly competitive, consisting of a large number of manufacturers, distributors and retailers, none of which dominates the fragmented and diverse market. Our products principally compete in the U.S., China, Europe and Australia. The primary competitive factors in these markets for our product price points and target consumers are price, quality, style, marketing, functionality and availability.

In the U.S. and international markets, we compete against other furniture distributors and wholesalers, most of which are located in China and other Southeast Asian countries, and against traditional distributors in North America and Europe. We believe that we are competitive with North American and European distributors because we have a history of prompt delivery of quality products and offer approximately 30 distinct product collections that we developed for international markets at comparable prices and with styles and functionality similar to those offered by our competitors. We coordinate the efforts of our sales and marketing team to receive feedback from customers as part of our ongoing research and design of products. This research process allows us to develop and modify products to meet the varied and changing stylistic and functional demands of our customers worldwide. We believe that our experience and proven performance provides us with a competitive edge over other manufacturers for the U.S. and international markets. In addition to our design and logistical capabilities, we believe that our ability and experience at sourcing products for distributors to the U.S. and international markets are significant competitive advantages. We expanded our presence in the North American market through our acquisitions of Diamond Bar in August 2011 and Bright Swallow in 2013, whereby we anticipate further increasing our direct sales to North American retailers through Diamond Bar's and Bright Swallow's longstanding customer relationships and distribution capabilities.

## **Environmental and Regulatory Matters**

Our operations are subject to various laws and regulations both domestically and abroad. In the U.S., federal, state and local regulations impose standards on our workplace and our relationship with the environment. For example, the U.S. Environmental Protection Agency, Occupational Safety and Health Administration and other federal agencies have the authority to promulgate regulations that may impact our operations. In particular, we are subject to legislation placing restrictions on our generation, emission, treatment, storage and disposal of materials, substances and wastes. Such legislation includes: the Toxic Substances Control Act; the Resource Conservation and Recovery Act; the Clean Air Act; the Clean Water Act; the Safe Drinking Water Act; and the Comprehensive Environmental Response and the Compensation and Liability Act (also known as Superfund). We are also subject to the requirements of the Consumer Product Safety Commission and the Federal Trade Commission, in addition to regulations concerning employee health and safety matters. Although compliance with federal, state, local and international environmental legislation has not had a material adverse effect on our financial condition or results of operations or cash flows in the past, there can be no assurance that material costs or liabilities will not be incurred in connection with such environmental matters in the future.

## **Intellectual Property**

We rely on the patent and trademark protection laws in the U.S. to protect our intellectual property and maintain our competitive position in the marketplace. We and our subsidiaries hold two trademarks registered in the U.S. related to the Diamond Sofa brand. We acquired all rights, title and interest in the two registered U.S. trademarks pursuant to a trademark purchase and assignment agreement dated August 31, 2011, from St. Joyal for \$0.2 million paid in full at the closing. In addition, we have registered and maintain numerous internet domain names related to our business, including “novalifestyle.com” and “diamondsofa.com”. Collectively, the trademarks and domain names that we and our subsidiaries hold are of material importance to us.

## **Research and Development**

We believe that the development of new product designs and functionality is important to our continued success. We actively seek to protect our product designs and brand names under the patent and trademark protection laws in the U.S. and China, but the copying of a product’s appearance is a common and ongoing issue in the furniture industry as manufacturers seek to capitalize on popular designs and features by copying those of their competitors and making subtle changes to avoid infringement claims. To remain competitive, we believe that we must innovate continuously, and we have developed a design process that we believe enables us to better manage the short product life cycle for furniture designs by anticipating and responding quickly to changing consumer preferences. We attend furniture exhibitions worldwide, conduct market research and solicit customer feedback to help us identify new trends and customer needs in our target markets for incorporation into new product designs. We plan to introduce new product collections annually for the U.S. and international markets. We anticipate introducing new products under the Diamond Sofa brand on a quarterly basis for the U.S. market. We assess the success of each product and product collection at least annually in consideration of whether to continue production.

We currently perform all design and development related work for our products in-house using computer-aided modeling systems. We have used independent designers in the past for product design work, from which we build prototype furniture pieces for further refinement and testing. In 2016 and 2015, we invested \$95,877 and \$139,869, respectively, on research and development expense. We may increase future investments in research and development based on our growth and available capital.

## ***Furniture Industry Regulations and Standards***

We and our products are subject to PRC, U.S. and international regulations related to the furniture industry.

China has a series of national standards, or the GB and QB standards, that govern certain technical, safety and quality requirements for furniture manufactured in and exported from China. The Standardization Administration of the PRC, or SAC, and the China Chamber of Commerce for Import and Export of Light Industrial Products and Art-Crafts, or the CCCLA, develop and revise these national standards relating to the structure, material, size and quality requirements for the many varied categories and classifications of upholstered, wood and metal-based furniture. Many of these standards are not compulsory, but manufacturers typically follow all applicable recommended standards.

Our products are also subject to the mandatory and voluntary furniture test standards of the U.S. and international markets in which our products are distributed to end consumers, including those developed by the American National Standards Institute, or ANSI, Business and Institutional Furniture Manufacturer's Association, or BIFMA, ASTM International, California Air Resources Board, or CARB, Furniture Industry Research Association, or FIRA, and the International Organization for Standardization, or ISO. These environmental, ecological and formaldehyde emission standards and source of origin labeling requirements are national or international, with the U.S. and European Union typically having the strictest standards for their markets. We manufacture all products to customer specifications and we believe that our products meet all currently applicable national and international furniture test standards.

#### ***Export Laws and Regulations***

We may be subject from time to time to various PRC governmental regulations related to exportation, including the Customs Law of the PRC and the Regulation of the PRC on the Administration of the Import and Export of Goods. These laws and regulations set out standards and requirements for various aspects of the export and import of goods, customs registration, sanitary registration and inspection. Failure to comply with these laws and regulations may result in the confiscation of our products for export and proceeds from the sales of non-compliant products, orders for correction, fines, revocation of licenses and, in extreme cases, criminal liabilities. We believe we are in material compliance with all applicable PRC laws and regulations related to the exports of our products.

#### ***Foreign Currency Regulations***

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations promulgated by the State Council, as amended on August 5, 2008, or the Foreign Exchange Regulations. Under the Foreign Exchange Regulations, the RMB, the national currency of the PRC, is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foreign Exchange, or the SAFE, is obtained and prior registration with the SAFE is made.

On July 4, 2014, the SAFE issued Circular 37, the Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, which became effective as of July 4, 2014. Please refer to "Risk Factors – Risks Related to Business in China – PRC regulations relating to the registration requirements for PRC resident shareholders owning shares in offshore companies may subject our PRC resident shareholders to personal liability and adversely affect our business" for a discussion of Circular 37.

On August 29, 2008, the SAFE promulgated Circular 142, the Notice on Perfecting Practices Concerning Foreign Exchange Settlement Regarding the Capital Contribution by Foreign-invested Enterprises, regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. Please refer to "Risk Factors – Risks Related to Business in China – Restrictions on currency exchange may limit our ability to receive and use our revenues effectively" for a discussion of Circular 142.

#### ***Taxation***

We are subject to transfer pricing regulations in the U.S. because we are subject to income taxes in the U.S. and conduct operations worldwide through our PRC subsidiaries. We assess our potential transfer pricing-related liabilities arising from transactions with Nova Macao on a quarterly basis, and we have taken an additional income tax expense as a reserve based on management's analysis for estimated tax principal, interest and penalties under U.S. transfer pricing regulations.

#### ***Employees***

As of December 31, 2016, we had 31 full time employees worldwide. Our U.S. corporate office and operations employed 28 full-time employees and our locations in Macau and Hong Kong employed a total of 3 full-time employees. We believe that relations with our employees are satisfactory. We have no collective bargaining agreements with our employees.

## Item 1A. Risk Factors

*Our business and an investment in our securities are subject to a variety of risks. The following risk factors describe the most significant events, facts or circumstances that could have a material adverse effect upon our business, financial condition, results of operations, ability to implement our business plan and the market price for our securities. Many of these events are outside of our control. If any of these risks actually occurs, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.*

### Risks Related to Our Business

***Changes in economic conditions in the industries and markets served by our customers could adversely affect demand for our products.***

The furniture industry is subject to cyclical variations in the global economy and to uncertainty regarding future economic prospects. Our business is affected by the number of orders we are able to secure from our customers, which is determined by the level of our customers' business activity. Our customers' level of business activity is in turn determined by the level of consumer spending in the markets our customers serve. Home furnishings generally are considered a postponeable purchase by most consumers. Economic downturns could affect discretionary consumer spending habits by decreasing the overall demand for home furnishings. Any significant or prolonged decline of the economy in China, the U.S. or other international markets in which our products are sold will affect disposable income and spending by consumers in these markets, and may lead to a decrease in demand for consumer products. To the extent that such decrease in demand for consumer products translates into a decline in the demand for home furnishings, our sales and financial performance could be adversely affected. Any economic downturn also could negatively impact our primary customers, furniture wholesalers, distributors and retailers, possibly resulting in a decrease in our sales or earnings. Changes in interest rates, consumer confidence, new housing starts, existing home sales, the availability of consumer credit and geopolitical factors could have particularly significant effects on our consolidated financial condition, results of operations and cash flows. Any decline in economic activity and conditions in the industries and markets served by our customers and in which we operate may reduce demand for our products and could adversely affect our financial condition and results of operations.

***We historically have derived a substantial part of our sales from a limited number of customers. If we lose any of these customers, or any of these customers reduce the amount of business they do with us, our sales may be adversely affected.***

Historically, a substantial part of our sales was attributed to a limited number of customers. No major customer accounted for over 10% of our total sales in 2015. Sales to our largest customer constituted 11% of our total sales in 2016, primarily to markets in China. If the demand for our products decreases in one or more of the markets in the United States supplied by our largest customer, or if there are any material social or regulatory changes in these markets, our sales could decline and we could lose market share, any of which could materially harm our business. We do not foresee relying on these same customers for sales generation as we expand our business to increase our internet sales and direct sales to the U.S. and other international markets. We cannot assure you, however, that we will be able to successfully implement these plans.

***If we lose our key personnel, or are unable to attract and retain additional qualified personnel, the quality of our services may decline and our business may be adversely affected.***

We rely heavily on the expertise, experience and continued services of our senior management, including our Chief Executive Officer, President, Director and Chairperson, Ms. Lam, and our Chief Financial Officer, Mr. Ho. Loss of their services could adversely affect our ability to achieve our business objectives. Ms. Lam and Mr. Ho are key factors in our success at establishing relationships within the furniture industry in the U.S. and international market because of their extensive industry experience and reputation. The continued development of our business depends upon their continued employment. We have entered into employment agreements with Ms. Lam and Mr. Ho that include provisions for non-competition and confidentiality.

We believe our future success will depend upon our ability to retain key employees and our ability to attract and retain other skilled personnel. We cannot guarantee that any employee will remain employed by us for any period of time or that we will be able to attract, train or retain qualified personnel in the future. Such loss of personnel could have a material adverse effect on our business and company. Furthermore, we will need to employ additional personnel to expand our business. Qualified employees are in great demand and may be unavailable in the time frame required to satisfy our customers' requirements. There is no assurance we will be able to attract and retain sufficient numbers of highly skilled employees in the future. The loss of personnel or our inability to hire or retain sufficient personnel at competitive rates could impair the growth of our business.

***We may not be able to keep pace with competition in our industry, which could adversely affect our market share and result in a decrease in our future sales and earnings.***

The furniture industries in the U.S. and international markets are very competitive and fragmented. Our business is subject to risks associated with competition from new or existing industry participants who may have more resources and better access to capital. Many of our competitors and potential competitors may have substantially greater financial and government support, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we do. Among other things, these industry participants compete with us based upon price, quality, style, functionality and availability. We cannot be sure we will have the resources or expertise to compete successfully in the future. Some of our competitors may also be able to provide customers with additional benefits at lower overall costs to increase market share. We cannot be sure we will be able to match cost reductions by our competitors or that we will be able to succeed in the face of current or future competition. Also, due to the large number of competitors and their wide range of product offerings, we may not be able to continue to differentiate our products through value, styling or functionality from those of our competitors. In addition, some of our customers are also performing more manufacturing services themselves. We may face competition from our customers as they seek to become more vertically integrated. As a result, we are continually subject to the risk of losing market share, which may lower our sales and earnings.

We will face different market dynamics and competition as we develop new products to expand our presence in our target markets. In some markets, our future competitors may have greater brand recognition and broader distribution than we currently enjoy. We may not be as successful as our competitors in generating revenues in those markets due to the lack of recognition of our brands, lack of customer acceptance, lack of product quality history and other factors. As a result, any new expansion efforts could be more costly and less profitable than our efforts in our existing markets. If we are not as successful as our competitors are in our target markets, our sales could decline, our margins could be impacted negatively and we could lose market share, any of which could materially harm our business.

***We may lose U.S. market share due to competition and our dependence on production facilities located outside the U.S., which would result in a decrease in our future sales and earnings.***

We compete in the U.S. market principally through our sales under the Diamond Sofa brand, which we acquired on August 31, 2011. The furniture industry in the U.S. is very competitive and fragmented. We compete with many domestic U.S. and international residential furniture sources, including national department stores, regional or independent specialty stores, dedicated franchises of furniture manufacturers and retailers marketing products through catalogs and over the internet. There are few barriers to entry in the U.S. furniture market, and new competitors may enter this market at any time. Some of our competitors have greater financial resources than we have and often offer extensively advertised and well-recognized branded products. We may not be able to meet price competition or otherwise respond to competitive pressures in the U.S. market. We also may not be able to continue to differentiate our products from those of our competitors in the U.S. through value, styling and functionality because of the large number of competitors and their wide range of product offerings. In addition, our operations in the U.S. also depend primarily on our sourcing of products through Nova Macao, which is subject to increased risks of delays in shipments to the U.S. not typically encountered for domestically sourced furniture, such as shipment delays caused by customs, export and tariff issues, decreased availability of shipping containers and the inability to secure space aboard shipping vessels to transport our products. Our failure to fill customer orders in a timely manner during an extended business interruption for Nova Macao, or due to transportation issues, could negatively impact our existing customer relationships in the U.S. market and result in decreased sales and earnings. Furthermore, some large furniture retailers in the U.S. are sourcing products directly from furniture manufacturers located in China and other Southeast Asian countries instead of through distributors like us. Over time, this practice may expand to smaller retailers in the U.S. Accordingly; we are continually subject to the risk of losing U.S. market share, which may decrease our future sales and earnings.

***Failure to anticipate or timely respond to changes in fashion and consumer preferences could adversely impact our business.***

Furniture is a styled product and is subject to rapidly changing fashion trends and consumer preferences, as well as to increasingly shorter product life cycles. We believe our past performance has been based on, and our future success will depend, in part, upon our ability to continue to improve our existing products through product innovation and to develop, market and produce new products. We cannot assure you that we will be successful in introducing, marketing and producing any new products or product innovations, or that we will develop and introduce in a timely manner innovations in our existing products that satisfy customer needs or achieve market acceptance. Our success also depends upon our ability to anticipate and respond in a timely manner to fashion trends related to residential furniture. If we fail to identify and respond to these changes, our sales could decline and we could lose market share, any of which could materially harm our business.

***If we are unable to manage our growth, we may not continue to be profitable.***

Our continued success depends, in part, upon our ability to manage and expand our operations and facilities in the face of continued growth. This planned growth includes the expansion of our internet sales and diversifying our international sales by expanding our broad network of distributors, increasing direct sales in the U.S., Europe and other international markets and entering emerging growth markets. The growth in our operations has placed, and may continue to place, significant demands on our management, operational and financial infrastructure. If we do not manage our growth effectively, the quality of our products and services could suffer, which could negatively affect our operating results. To manage this growth effectively, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. We cannot assure you that we will be able to fulfill our staffing requirements for our business, successfully train and assimilate new employees, or expand our management base and enhance our operating and financial systems. Failure to achieve any of these goals will prevent us from managing our growth in an effective manner and could have a material adverse effect on our business, financial condition or results of operations.

***We may need additional capital to execute our business plan and fund operations and may not be able to obtain such capital on acceptable terms or at all.***

In connection with the development and expansion of our business, we may incur significant capital and operational expenses. We believe that we can increase our sales and net income by implementing a growth strategy that focuses on (i) increasing online sales and (ii) diversifying our international sales. We plan to increase and diversify our sales to the U.S., Europe and international markets by further integrating the Bright Swallow brand family and establishing new brands for the international markets and to increase our online sales presence.

Management anticipates that our existing capital resources, cash flows from operations, collection of our accounts receivable, and loan facilities that we entered into in 2012, any proceeds from any possible equity financings related to the shelf registration statement on Form S-3 we filed in February 2014, which became effective on March 7, 2014, and the aggregate gross proceeds to the Company of \$8.95 million and \$4.00 million from the closing of the transactions contemplated under each of those certain Securities Purchase Agreements, dated as of April 14, 2014 and May 28, 2015, respectively, and described in greater detail herein, will satisfy the liquidity requirements of our business for the next 12 months. However, if available funds are not sufficient to meet our plans for expansion, our plans include pursuing alternative financing arrangements, including additional bank loans based on our good credit rating or funds raised through additional offerings of our equity or debt, if and when we determine such offerings are required. Our ability to obtain additional capital on acceptable terms or at all is subject to a variety of uncertainties, including:

- Investors' perceptions of, and demand for, companies in our industry;
- Investors' perceptions of, and demand for, companies operating in China;
- Conditions of the U.S. and other capital markets in which we may seek to raise funds;
- Our future results of operations, financial condition and cash flows;
- Governmental regulation of foreign investment in companies in particular countries;
- Economic, political and other conditions in the U.S., China, and other countries; and
- Governmental policies relating to foreign currency borrowings.

There is no assurance we will be successful in locating a suitable financing transaction in a timely fashion or at all. In addition, there is no assurance we will obtain the capital we require by any other means. Future financings through equity investments are likely to be dilutive to our existing shareholders. Also, the terms of securities we may issue in future capital transactions may be more favorable for our new investors. Newly-issued securities may include preferences or superior voting rights, be combined with the issuance of warrants or other derivative securities, or be the issuances of incentive awards under equity employee incentive plans, which may have additional dilutive effects. Furthermore, we may incur substantial costs in pursuing future capital and financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition. If we cannot raise additional funds on favorable terms or at all, we may not be able to carry out all or parts of our strategy to maintain our growth and competitiveness.

***Our accounts receivable remain outstanding for a significant period of time, which has a negative impact on our cash flow and liquidity.***

Our standard payment term for accounts receivable is 30 - 120 days. We give an extended payment term to certain of our major customers of up to 180 days. Our sales to customers in the U.S. and international markets typically are made through letters of credit, but for some long-term, high volume customers, we accept payment by telegraphic transfer with a payment term of 15 days after delivery. We remain subject to negative impacts on our cash flow and liquidity due to the significant period of time our accounts receivable remain outstanding with respect to sales made under the longer payment terms. In 2015, we had accounts receivable turnover of 2.29 on an annualized basis, with sales outstanding of 159 days. In 2016, we had accounts receivable turnover of 2.10 on an annualized basis, with sales outstanding of 174 days. As of December 31, 2016, we had gross accounts receivable of \$45,122,692, of which \$22,541,201 was not yet past due, \$9,029,988 was less than 90 days past due, \$7,250,188 was over 90 days but within 180 days past due and \$6,301,315 over 180 days past due. We had an allowance for bad debt of \$3,019,931 for accounts receivables. The increase in gross accounts receivable was due to, among other things, a 3.0% increase in sales in the year ended December 31, 2016 to \$92.65 million, compared to \$89.94 million in 2015. Additionally, we have been more lenient towards the collection of accounts receivable from certain major customers to maintain good relationships and to attract new major accounts. While historically our collections have been reasonably assured, delays in collections and the significant period of time our accounts receivable remain outstanding may result in pressure on our cash flow and liquidity. We recognized a loss of \$2,603,745 from bad debts from continuing operations during the year ended December 31, 2016. This loss primarily resulted from the inability to collect accounts receivable from Nova Macao's customers on time. We are working on a study of our receivables management process and based upon the resulting recommendations intend to adopt additional protocols during this annual period to insure we are optimizing our collections as well as general management efficiencies. We expect our bad debt expense will decrease after adoption of the improved receivable management process.

***We may experience material disruptions to our ability to acquire sufficient inventory from third-party suppliers that could result in material delays, quality control issues, increased costs and loss of business opportunities, which may negatively impact our sales and financial results.***

We rely upon our third-party suppliers to produce our products and maintain sufficient inventory to meet customer demand. A material disruption at our suppliers' manufacturing facilities could prevent us from meeting customer demand, reduce our sales and negatively impact our financial results. We may also experience quality control issues as we seek out new suppliers or are forced to contract with new suppliers to meet increased customer demand. Any such material disruption may prevent us from shipping our products on a timely basis, reduce our sales and market share and negatively impact our financial results. Our third-party supplier contracts are generally of annual or shorter duration, or manufactured products are sourced on the basis of individual purchase orders. There is no assurance that we will be able to maintain our current relationships with these parties or, if necessary, establish future arrangements with other third-party suppliers on commercially reasonable terms. Further, while we maintain an active quality control program, we cannot assure that their manufacturing and quality control processes will be maintained at a level sufficient to meet our inventory needs or prevent the inadvertent sale of substandard products. While we believe that products manufactured by our current third-party suppliers could generally be procured from alternative sources, temporary or permanent loss of services from a significant manufacturer could cause disruption in our supply chain and operations.

***Our dependence on foreign suppliers and our increased global operations subject us to a variety of risks and uncertainties that could impact our operations and financial results.***

In 2017, we anticipate that the majority of our products will be purchased from foreign suppliers and manufacturers, predominantly in Asia. Our dependence on foreign suppliers means that we may be affected by changes in the value of the U.S. dollar relative to other foreign currencies. For example, any upward valuation in the Chinese yuan, the euro, or any other foreign currency against the U.S. dollar may result in higher costs to us for those goods. Declines in foreign currencies and currency exchange rates might negatively affect the profitability and business prospects of one or more of our foreign suppliers. This, in turn, might cause such foreign vendors to demand higher prices for products in their effort to offset any lost profits associated with any currency devaluation, delay product shipments to us, or discontinue selling to us, any of which could ultimately reduce our sales or increase our costs.

We, and our foreign suppliers, are also subject to other risks and uncertainties associated with changing economic and political conditions worldwide. These risks and uncertainties include import duties and quotas, compliance with anti-dumping regulations, work stoppages, economic uncertainties and adverse economic conditions (including inflation and recession), government regulations, employment and labor matters, wars and fears of war, political unrest, natural disasters, public health issues, regulations to address climate change and other trade restrictions. We cannot predict whether any of the countries from which our raw materials or products are sourced, or in which our products are currently manufactured or may be manufactured in the future, will be subject to trade restrictions imposed by the U.S. or foreign governments or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from foreign suppliers, including labor disputes resulting in work disruption, the imposition of additional import restrictions, restrictions on the transfer of funds and/or increased tariffs or quotas, or both, could increase the cost, reduce the supply of merchandise available to us, or result in excess inventory if merchandise is received after the planned or appropriate selling season, all of which could adversely affect our business, financial condition and operating results.

***A delay in getting non-U.S.-sourced products through port operations and customs in a timely manner could result in reduced sales, canceled sales orders and unanticipated inventory accumulation.***

Our business depends on our ability to source and distribute products in a timely manner. As a result, we rely on the free flow of goods through open and operational ports worldwide. Labor disputes or other disruptions at ports create significant risks for our business, particularly if work slowdowns, lockouts, strikes or other disruptions occur during our peak importing seasons. Any of these factors could result in reduced sales, canceled sales orders and unanticipated inventory accumulation and have a material adverse effect on our operating results, financial position and cash flows.

***We are subject to warranty claims for our products, which could result in unexpected expense.***

Many of our products carry warranties for defects in quality and workmanship. Historically, the amount for return of products, the discount provided to the customers and cost for the replacement parts has been immaterial. However, we may experience significant expense as the result of future product quality issues, product recalls or product liability claims which may have a material adverse effect on our business. The actual costs of servicing future warranty claims may exceed our expectations and have a material adverse effect on our results of operations, financial condition and cash flows.

***We may not be able to protect our product designs and other proprietary rights adequately, which could adversely affect our competitive position and reduce the value of our products and brands, and litigation to protect our intellectual property rights may be costly.***

We attempt to strengthen and differentiate our product portfolio by developing new and innovative brands and product designs and functionality. As a result, our patents, trademarks and other intellectual property rights are important assets to our business. Our success will depend in part on our ability to obtain and protect our products, methods, processes and other technologies, to preserve our trade secrets, and to operate without infringing on the proprietary rights of third parties in China, the U.S. and other international markets. Despite our efforts, any of the following may reduce the value of our owned and used intellectual property:

- Issued patents and trademarks that we own or have the right to use may not provide us with any competitive advantages;
- Our efforts to protect our proprietary rights may not be effective in preventing misappropriation of our intellectual property or that of those from whom we license our rights to use;
- Our efforts may not prevent the development and design by others of products or technologies similar to or competitive with, or superior to those we use or develop; or
- Another party may obtain a blocking patent and we or our licensors would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in our products.

Effective protection of intellectual property rights may be unavailable or limited in China or certain other countries. Policing the unauthorized use of our proprietary technology can be difficult and expensive. Litigation might be necessary to protect our intellectual property rights, which may be costly and may divert our management's attention away from our core business. Furthermore, there is no guarantee that litigation would result in an outcome favorable to us. If we are unable to protect our proprietary rights adequately, it would have a negative impact on our operations.



***We, or the owners of the intellectual property rights licensed to us, may be subject to claims that we or such licensors have infringed the proprietary rights of others, which could require us and our licensors to obtain a license or change designs.***

Although we do not believe any of our products infringe upon the proprietary rights of others, there is no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against us or those from whom we have licenses or that any such assertions or prosecutions will not have a material adverse effect on our business. Regardless of whether any such claims are valid or can be asserted successfully, defending against such claims could cause us to incur significant costs and could divert resources away from our other activities. In addition, assertion of infringement claims could result in injunctions that prevent us from distributing our products. If any claims or actions are asserted against us or those from whom we have licenses, we may seek to obtain a license to the intellectual property rights that are in dispute. Such a license may not be available on reasonable terms, or at all, which could force us to change our designs.

***We incur significant costs as a result of our operating as a public company and our management is required to devote substantial time to compliance with the regulatory requirements placed on a public company.***

As a public company with substantial operations, we incur significant legal, accounting and other expenses. The costs of preparing and filing annual, quarterly and current reports, proxy statements and other information with the SEC and furnishing audited reports to shareholders is time-consuming and costly.

It has also been time-consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and this remains an ongoing process. Certain members of our management have limited or no experience operating a company whose securities are listed on a national securities exchange or with the rules and reporting practices required by the federal securities laws as applied to a publicly traded company. We have needed to recruit, hire, train and retain additional financial reporting, internal control and other personnel in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act, we may not be able to obtain the independent accountant certifications required by the Sarbanes-Oxley Act.

***If we fail to establish and maintain an effective system of internal controls, we may not be able to report our financial results accurately. Any inability to report and file our financial results accurately and timely could harm our business and adversely affect the trading price of our common stock.***

We are required to establish and maintain internal controls over financial reporting and disclosure controls and procedures and to comply with other requirements of the Sarbanes-Oxley Act and the rules promulgated by the SEC. At present, we have instituted internal controls, but, as discussed below, we are in the process of correcting certain material weaknesses in our internal controls. Our management, including our Chief Executive Officer and Chief Financial Officer, cannot guarantee that our internal controls and disclosure controls and procedures will prevent all possible errors. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the possibility that judgments in decision-making can be faulty and subject to simple error or mistake. Furthermore, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, measures of control may become inadequate because of changes in conditions or the degree of compliance with policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Prior to becoming parts of a public company, Nova Furniture and its subsidiaries, Diamond Bar and Bright Swallow, were private operating companies with no experience operating as a public company or establishing the level of internal control over financial reporting required by the Sarbanes-Oxley Act, and Nova LifeStyle, the U.S. parent company, was a non-operating public shell. Prior to June 4, 2013, our Board of Directors lacked independent directors and an audit committee, and we lacked, and currently lack, sufficient accounting personnel with appropriate understanding of the generally accepted accounting principles in the U.S., or U.S. GAAP, and SEC reporting requirements. We have taken, and are taking, certain actions intended to remediate this issue regarding our internal control over financial reporting. For example, we previously engaged an outside Sarbanes-Oxley Act consultant in March 2012 to assist in testing and improving our internal controls and to assist with the design of effective documented financial accounting policies and procedures for our U.S. parent company and all subsidiaries. As of the date of this filing and during the year ended December 31, 2016, we have taken certain actions to remediate other identified material weaknesses related to our lack of independent directors and an audit committee, particularly with respect to our continued search for an appropriate candidate for Vice President of Finance, as discussed in greater detail herein. We have added independent directors and established an audit committee as a separately designated committee of the Board of Directors with a written charter, as of June 4, 2013. Mr. Bin Liu, an independent director elected to the Board of Directors at our annual meeting of shareholders held on May 19, 2015, serves as the chair of the Audit Committee and as an “audit committee financial expert” as defined under Item 407(d)(5) of Regulation S-K. We are still searching for appropriate candidates for a Vice President of Finance position, which requires the candidate to have experience in U.S. GAAP and SEC financial reporting. We are still in the process of searching for an acceptable candidate. In addition, we plan to provide additional training to our accounting personnel on U.S. GAAP, and other regulatory requirements regarding the preparation of financial statements. Until such time as we hire qualified accounting personnel with the requisite U.S. GAAP knowledge and experience and train our current accounting personnel, we have engaged an outside CPA with U.S. GAAP knowledge and experience to supplement our current internal accounting personnel and assist us in the preparation of our financial statements to ensure that our financial statements are prepared in accordance with U.S. GAAP. However, the measures we have taken may not be sufficient to mitigate the foregoing risks associated with the lack of sufficient accounting personnel with appropriate understanding of U.S. GAAP and SEC reporting requirements. We anticipate that these actions have had, and will have, a material impact on our internal control over financial reporting in 2016, and in future periods.

***Our accounting personnel who are primarily responsible for the preparation and supervision of the preparation of our financial statements under generally accepted accounting principles in the U.S. have limited relevant education and training in U.S. GAAP and SEC rules and regulations pertaining to financial reporting, which could impact our ability to prepare our financial statements and convert our books and records to U.S. GAAP.***

Our manufacturing operations were in China and we historically have maintained the books and records of our subsidiaries outside of the United States in accordance with generally accepted accounting principles in the PRC, or PRC GAAP. Our accounting personnel outside the United States who have the primary responsibilities of preparing and supervising the preparation of financial statements under U.S. GAAP have limited relevant education and training in U.S. GAAP and related SEC rules and regulations. As such, they may be unable to identify potential accounting and disclosure issues that may arise upon the conversion of our books and records from PRC GAAP to U.S. GAAP, which could affect our ability to prepare our financial statements in accordance with U.S. GAAP. We have taken steps to ensure that our financial statements are prepared in accordance with U.S. GAAP, including our hiring of a U.S. accounting firm to work with our accounting personnel and management outside of the United States to convert our books and records to U.S. GAAP and prepare our financial statements. Until such time as we hire qualified accounting personnel or train our current accounting personnel with the requisite U.S. GAAP and SEC reporting experience, however, the measures we have taken may not be sufficient to mitigate the foregoing risks associated with the limited education and training of our accounting personnel in U.S. GAAP and related SEC rules and regulations.

***We are a holding company that depends on cash flow from our wholly owned subsidiaries to meet our obligations, and any inability of our subsidiaries to pay us dividends or make other payments to us when needed could disrupt or have a negative impact on our business.***

We are a holding company with no material assets other than the stock of our wholly owned subsidiaries, Bright Swallow, Diamond Bar, Nova Furniture and Nova Samoa. We rely on dividends paid by our subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. If our subsidiaries are unable to pay us dividends and make other payments to us when needed because of regulatory restrictions or otherwise, we may be materially and adversely limited in our ability to make investments or acquisitions that could be beneficial to our business, pay dividends or otherwise fund and conduct our business.

*We may not be able to attract the attention of major brokerage firms because we became public by means of a share exchange, which could limit our ability to obtain future capital and financing.*

There may be risks associated with our becoming public by means of a share exchange, or reverse merger with a public shell company that had no revenues, operations or material assets prior to the time of the share exchange. Analysts of major brokerage firms may not provide coverage for our company because there is no incentive for brokerage firms to recommend the purchase of our common stock. Furthermore, we can give no assurance that brokerage firms will, in the future, want to conduct any secondary offerings on our behalf, which could limit our ability to obtain future capital and financing.

#### **Risks Related to Business in China**

*If relations between the U.S. and China worsen, our business could be adversely affected and investors may be unwilling to hold or buy our stock and our stock price may decrease.*

At various times during recent years, the U.S. and China have had significant disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversies between the U.S. and China, whether or not directly related to our business, could reduce the price of our common stock. These controversies also could make it more difficult for us to provide our products to our customers in the U.S. The international trade policies of China and the U.S. could adversely affect our business, and the imposition of trade sanctions relating to imports, taxes, import duties and other charges on imports from China, including those applied specifically to furniture products, or the imposition of taxes, import duties or other charges on exports to the U.S. could increase our costs and decrease our earnings.

*The nature and application of many laws of China create an uncertain environment for business operations and they could have a negative effect on us.*

The legal system in China is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents. In 1979, China began to promulgate a comprehensive system of laws and has since introduced many laws and regulations to provide general guidance on economic and business practices in China and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic and commercial matters, but these recently enacted laws and regulations may not cover all aspects of business activities in China sufficiently. In particular, because these laws and regulations are relatively new, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, there may be certain instances when we may not be aware of our violation of these policies and rules until sometime after such violation.

The PRC government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. Our ability to enforce commercial claims or to resolve commercial disputes under these laws and regulations is unpredictable, however, because the implementation, interpretation and enforcement of these laws and regulations is limited and, given their relative newness, involve uncertainties. For example, contracts governed by PRC law tend to contain less detail than those under U.S. law and generally are not as comprehensive in defining the rights and obligations of the contracting parties. Consequently, contracts in China are more vulnerable to disputes and legal challenges than those in the U.S. In addition, contract interpretation and enforcement in China is not as developed as in the U.S., and the result of any contract dispute is subject to significant uncertainties. We currently are not subject to any contract dispute, but we cannot assure you that we will not be subject to future contract disputes with our suppliers and other customers under contracts governed by PRC law, and if such disputes arise, we cannot assure you that we will prevail.

Furthermore, the political, governmental and judicial systems in China are impacted sometimes by corruption. There is no assurance we will be able to obtain recourse in any legal disputes with the suppliers, customers or other parties with whom we conduct business, if desired, through China's developing and sometimes corrupt judicial systems. Any rights we may have under PRC law to specific performance or to seek an injunction are severely limited, and without a means of recourse by virtue of the PRC legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

***PRC regulations relating to the registration requirements for PRC resident shareholders owning shares in offshore companies may subject our PRC resident shareholders to personal liability and limit our ability to acquire companies in China or to inject capital into our operating subsidiaries in China, limit our subsidiaries' ability to distribute profits to us or otherwise materially and adversely affect our business.***

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. We cannot predict fully how Circular 37 will affect our business operations or future strategies because of ongoing uncertainty over how Circular 37 is interpreted and implemented, and how or whether SAFE will apply it to us.

We have requested our PRC resident beneficial owners to make the necessary applications, filings and amendments as required under SAFE regulations in connection with their equity interests in us. We attempt to ensure that our subsidiaries in China comply, and that our PRC resident beneficial owners subject to these rules comply, with the relevant SAFE regulations. We cannot provide any assurances that all of our present or prospective direct or indirect PRC resident beneficial owners will comply fully with all applicable registrations or required approvals. The failure or inability of our PRC resident beneficial owners to comply with the applicable SAFE registration requirements may subject these beneficial owners or us to fines, legal sanctions and restrictions described above.

***Dividends distributed by us to our non-PRC resident shareholders may be subject to PRC withholding taxes.***

Before the EIT Law came into effect on January 1, 2008, dividends paid to foreign investors by FIEs, such as dividends paid to us by our subsidiaries in China, were exempt from PRC withholding tax. We are a Nevada holding company and substantially all of our income is derived from dividends we receive from our subsidiaries, including those in China. Pursuant to the EIT Law, dividends generated after January 1, 2008, and distributed to us by our subsidiaries in China are subject to withholding tax at a rate of 10%, provided that we are determined by the relevant PRC tax authorities to be a "non-resident enterprise" under the EIT Law and hold at least 25% of the equity interest of our subsidiaries. If we are determined to be a "resident enterprise," we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as "resident enterprises" for PRC enterprise income tax purposes. In addition, it is possible that future guidance issued with respect to the new "resident enterprise" classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares.

The SAT promulgated "Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement" on October 27, 2009, or SAT Circular 601, which provides guidance for determining whether a resident of a contracting state is the "beneficial owner" of an item of income under China's tax treaties and tax arrangements. According to SAT Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The agent or conduit company normally refers to a company that is registered in a jurisdiction other than China and merely meets the minimum legal requirements on organizational form and is not engaged in substantive operational activities for manufacturing, distribution or management. It is still unclear how SAT Circular 601 is implemented by SAT or its local counterparts in practice and whether we could be recognized as a "beneficial owner." If we are deemed a non-resident enterprise but not qualified as a beneficial owner, we will not be entitled to a reduced 5% withholding tax and the 10% withholding tax would be imposed on our dividend income received from our subsidiaries. As a result, our net income would be reduced and our operating results would be adversely affected.

***Our compliance with the Foreign Corrupt Practices Act may put us at a competitive disadvantage, while our failure to comply with the Foreign Corrupt Practices Act may result in substantial penalties.***

We are required to comply with the United States Foreign Corrupt Practices Act, or the FCPA, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Although we inform our personnel that such practices are illegal, we cannot assure you that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties. Non-U.S. companies, including some of our competitors, are not subject to the provisions of the FCPA. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in mainland China. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage.

#### **Risks Related to Our Securities**

***The market price for our common stock may be volatile, which could make it more difficult or impossible for an investor to sell our common stock for a positive return on their investment.***

The trading price of our common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include, but are not limited to, our quarterly operating results or the operating results of other companies in our industry, announcements by us or our competitors of acquisitions, new products, product improvements, commercial relationships, intellectual property, legal, regulatory or other business developments and changes in financial estimates or recommendations by stock market analysts regarding us or our competitors. In addition, the stock market in general, and the market for companies with substantial operations based in China or that became public by means of a reverse acquisition with a public shell company in particular, has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated or disproportionate to their operating performance. These broad market fluctuations may materially affect our stock price, regardless of our operating results. Furthermore, the market for our common stock historically has been limited and we cannot assure you that a larger market will ever be developed or maintained. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, these factors may make it more difficult or impossible for you to sell our common stock for a positive return on your investment.

***Shares of our common stock lack a significant trading market, which could make it more difficult for an investor to sell our common stock.***

Our common stock began trading on The NASDAQ Stock Market LLC on January 17, 2014; however, there is no assurance that an active trading market in our common stock will develop, or if such a market develops, that it will be sustained. As a result, an investor may find it more difficult to dispose of our common stock.

***Future sales of shares of our common stock by our shareholders could cause our stock price to decline.***

Future sales of shares of our common stock could adversely affect the prevailing market price of our stock. As of March 31, 2017, St. Joyal and Mr. Ho, our Chief Financial Officer, our two largest shareholders, owned 18% and 15%, respectively, of our outstanding shares of common stock. If our significant shareholders sell a large number of shares, or if we issue a large number of shares, the market price of our stock could decline. Moreover, the perception in the public market that significant shareholders might sell shares of our stock could depress the market for our shares.

Our management and certain of our other significant shareholders who received shares of our common stock issued pursuant to the Share Exchange Agreement were subject to lockup agreements that prohibited their sale of all shares of our common stock held currently or acquired by them in the future to the general public until certain occurrences. These lockup agreements terminated in June and August of 2014. As a result, if such shareholders sell substantial amounts of our common stock in the public market, such sales could create a circumstance commonly referred to as an “overhang,” in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price we deem reasonable or appropriate.

***We may issue additional shares of our common stock or debt securities to raise capital or complete acquisitions, which would reduce the equity interest of our shareholders.***

Our Articles of Incorporation, as amended, authorize the issuance of up to 75,000,000 shares of common stock, par value \$0.001 per share. As of December 31, 2016, there were 48,306,756, authorized and unissued shares of our common stock available for future issuance among which 858,334 shares are issuable upon exercise of outstanding warrants, based on 26,693,244 shares of our common stock outstanding. Although we have no commitments as of the date of this report to issue our securities, we may issue a substantial number of additional shares of our common stock or debt securities to complete a business combination or to raise capital. On February 20, 2014, we filed a shelf registration statement on Form S-3 under which we 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 March 7, 2014 and expired on March 6, 2017.

On April 14, 2014, we entered into a Securities Purchase Agreement with certain purchasers pursuant to which we sold to the Buyers, in a registered direct offering, an aggregate of 1,320,059 shares of common stock, par value \$0.001 per share, at a negotiated purchase price of \$6.78 per share, for aggregate gross proceeds to us of \$8.95 million.

As part of the transaction, the Buyers also received (i) Series A warrants to purchase up to 660,030 shares of Common Stock in the aggregate at an exercise price of \$8.48 per share (the “Series A Warrants”); (ii) Series B warrants to purchase up to 633,628 shares of Common Stock in the aggregate at an exercise price of \$6.82 per share (the “Series B Warrants”); and (iii) Series C warrants to purchase up to 310,478 shares of Common Stock in the aggregate at an exercise price of \$8.53 per share (the “Series C Warrants” and together with the Series A Warrants and the Series B Warrants, the “Warrants”). The Series A Warrants had a term of four years and were exercisable by the holders at any time after the date of issuance. The Series B Warrants had a term of six months and were exercisable by the holders at any time after the date of issuance. The Series C Warrants had a term of four years and were exercisable by the holders at any time after the date of issuance. After the six month anniversary of the issuance date of the Series C Warrants, to the extent that a holder of a Series C Warrant had exercised less than 70% of such holder’s Series B Warrants and the closing sale price of the Common Stock was equal to or greater than \$9.81 for a period of ten consecutive trading days, then we were entitled to purchase the entire then-remaining portion of such holder’s Series C Warrants for \$1,000. The shares and warrants were registered on a takedown of our shelf registration statement described below. The Series B Warrants expired on October 14, 2014, and none of the Series B Warrants were excised prior to such expiration.

On May 28, 2015, we entered into a Securities Purchase Agreement (the “2015 Purchase Agreement”) with certain purchasers (the “Purchasers”) pursuant to which we offered to the Purchasers, in a registered direct offering, an aggregate of 2,970,509 shares of common stock, par value \$0.001 per share. 2,000,001 shares of our common stock were sold to the Purchasers at a negotiated purchase price of \$2.00 per share, for aggregate gross proceeds to us of \$4,000,002, before deducting fees to the placement agent and other estimated offering expenses payable by us. In accordance with the terms of the 2015 Purchase Agreement, the outstanding Series A Warrants described above and issued in connection with the transactions contemplated by the 2014 Purchase Agreement were exchanged for 660,030 shares of our Common Stock, and the outstanding Series C Warrants described above and issued in connection with the transactions contemplated by the 2014 Purchase Agreement were exchanged for 310,478 Shares of our Common Stock.

As contemplated under the 2015 Purchase Agreement and pursuant to a concurrent private placement, we also sold to the Purchasers a warrant to purchase one share of our Common Stock for each share purchased for cash in the offering, pursuant to that certain Common Stock Purchase Warrant, by and between us and each Purchaser (the “2015 Warrants”). The 2015 Warrants are exercisable beginning on the six month anniversary of the date of issuance (the “Initial Exercise Date”) at an exercise price of \$2.71 per share and will expire on the five year anniversary of the Initial Exercise Date. The purchase price of one share of our Common Stock under the 2015 Warrants is equal to the exercise price.

The issuance of additional shares of our common stock may significantly reduce the equity interest of our existing shareholders and adversely affect prevailing market prices for our common stock.

***We do not expect to pay dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.***

We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the Board of Directors may consider relevant. Furthermore, China has currency and capital transfer regulations that require us to comply with complex regulations for the movement of capital and restrict the amount of capital available for distribution as dividends from our subsidiaries in China. See “Risks Related to Our Business – We are a holding company that depends on cash flow from our wholly owned subsidiaries to meet our obligations, and any inability of our subsidiaries to pay us dividends or make other payments to us when needed could disrupt or have a negative impact on our business.” Although our management believes we are in compliance with these regulations, should these regulations or their interpretation by PRC courts or regulatory agencies change, we may not be able to pay dividends to our shareholders outside of China. Our management intends to follow a policy of retaining all of our earnings to finance the development and execution of our strategy and the expansion of our business. If we do not pay dividends, our common stock may be less valuable because a return on your investment will occur only if our stock price appreciates.

***Our principal shareholders have the ability to exert significant control in matters requiring a shareholder vote and could delay, deter or prevent a change of control in our company.***

As of March 31, 2017, St. Joyal and Mr. Ho, our Chief Financial Officer, our two largest shareholders, owned 18% and 15%, respectively, of our outstanding shares of common stock. Together and individually, St. Joyal and Mr. Ho exert significant influence over us, giving them the ability, among other things, to exercise significant control over the election of all or a majority of the Board of Directors and to approve significant corporate transactions. Such share ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company. Without the consent of St. Joyal and Mr. Ho, we could be prevented from entering into potentially beneficial transactions if such transactions conflict with our principal shareholders’ interests. The interests of St. Joyal and Mr. Ho may differ from the interests of our other shareholders.

***Provisions in the Nevada Revised Statutes and our Amended and Restated Bylaws could make it very difficult for an investor to bring any legal actions against our directors or officers for violations of their fiduciary duties or could require us to pay any amounts incurred by our directors or officers in any such actions.***

Members of our Board of Directors and our officers will have no liability for breaches of their fiduciary duty of care as a director or officer, except in limited circumstances, pursuant to provisions in the Nevada Revised Statutes and our Amended and Restated Bylaws as authorized by the Nevada Revised Statutes. Specifically, Section 78.138 of the Nevada Revised Statutes provides that a director or officer is not individually liable to the company or its shareholders or creditors for any damages as a result of any act or failure to act in his or her capacity as a director or officer unless it is proven that (1) the director’s or officer’s act or failure to act constituted a breach of his or her fiduciary duties as a director or officer and (2) his or her breach of those duties involved intentional misconduct, fraud or a knowing violation of law. This provision is intended to afford directors and officers protection against and to limit their potential liability for monetary damages resulting from suits alleging a breach of the duty of care by a director or officer. Accordingly, you may be unable to prevail in a legal action against our directors or officers even if they have breached their fiduciary duty of care. In addition, our Amended and Restated Bylaws allow us to indemnify our directors and officers from and against any and all costs, charges and expenses resulting from their acting in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood, we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay. Accordingly, our indemnification obligations could divert needed financial resources and may adversely affect our business, financial condition, results of operations and cash flows, and adversely affect prevailing market prices for our common stock.

#### **Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

Our principal executive offices and those of Diamond Bar are in leased office space with showroom, distribution and warehouse space in Commerce, California. Diamond Bar also maintains showrooms in leased space at Las Vegas Market in Nevada and High Point Market in North Carolina. Nova Macao leases office space in Macao. Bright Swallow leases office space in Hong Kong.

We believe that our existing office and distribution facilities are adequate for current and presently foreseeable operations. In general, our properties are well maintained, considered adequate and being utilized for their intended purposes. See Note 19 to our consolidated financial statements contained herein, which disclose lease agreements.

**Item 3. Legal Proceedings**

We may become involved in various lawsuits and legal proceedings arising in the ordinary course of business. Litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may have an adverse effect on our business, financial conditions or operating results. We are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

**Item 4. Mine Safety Disclosures**

Not applicable.



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Effective January 17, 2014, our common stock is now quoted on The NASDAQ Stock Market under the symbol "NVFY."

The following table sets forth the range of the high and low bid prices per share of our common stock for each quarter (or portion thereof) as reported on The NASDAQ Stock Market during 2015 and 2016.

	High	Low
<b>2015</b>		
First Quarter (through March 31, 2015)	\$ 3.70	1.74
Second Quarter (through June 30, 2015)	3.43	1.87
Third Quarter (through September 30, 2015)	\$ 2.68	1.77
Fourth Quarter (through December 31, 2015)	2.34	1.75
<b>2016</b>		
First Quarter (through March 31, 2016)	\$ 1.92	\$ 1.00
Second Quarter (through June 30, 2016)	1.29	0.39
Third Quarter (through September 30, 2016)	\$ 4.23	\$ 0.40
Fourth Quarter (through December 31, 2016)	5.15	1.88

#### Holders of Record

On March 31, 2017, there were approximately 62 record holders of record based on information provided by our transfer agent. Many of our shares of common stock are held in street or nominee name by brokers and other institutions on behalf of shareholders and we are unable to estimate the total number of shareholders represented by these record holders.

#### Dividend Policy

Dividends may be declared and paid out of legally available funds at the discretion of our Board of Directors. We do not anticipate or contemplate paying dividends on our common stock in the foreseeable future. The timing, amount and form of dividends, if any, will depend on, among other things, our results of operations, financial condition, cash requirements and other factors deemed relevant by our Board of Directors. We currently intend to utilize all available funds to develop our business.

#### Shelf Registration

On February 20, 2014, 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 March 7, 2014 and expires on March 6, 2017.

### Item 6. Selected Financial Data

Not required.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Safe Harbor Declaration

*The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from the results described in or implied by these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly under the heading "Risk Factors."*

## Overview

Nova LifeStyle, Inc. is a broad based distributor and retailer of contemporary styled residential furniture incorporated into a dynamic marketing and sales platform offering retail as well as online selection and purchase fulfillment globally. We monitor popular trending and work 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, 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)), Colorful World, Giorgio Mobili, and Bright Swallow.

Our customers principally consist of distributors and retailers having specific geographic coverages that deploy middle to high end private label home furnishings having very little competitive overlap within our specific furnishings 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, thus allowing us to continually focus on building both same store sales growth as well as drive the expansion of 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 other than the ownership interests of our wholly owned subsidiaries through which we market, design and sell residential furniture worldwide: Nova Macao, Bright Swallow, and 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; the purchase price was \$6.5 million in cash and was fully paid at the closing of the acquisition.

On October 24, 2013, Nova Dongguan incorporated Ding Nuo under the laws of the PRC and contributed capital of RMB 1 million (\$162,994). Nova Dongguan made an additional capital contribution of RMB 0.1 million (\$16,305) on November 27, 2013 through one of Nova Dongguan's officers, Mr. Gu Xing Chang, who acted as the nominee shareholder of Ding Nuo.

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 and Chinese markets.

## Discontinued Operations

On September 23, 2016, Nova Furniture, a wholly-owned subsidiary of the Company (the "Seller"), entered into a Share Transfer Agreement (the "Agreement") with Kuka Design Limited, an unrelated company incorporated in British Virgin Islands ("Kuka Design BVI" or "Buyer"). Pursuant to the terms of the Agreement, the Seller sold all of the outstanding equity interests in Nova Dongguan, a wholly owned subsidiary of the Seller, to the Buyer for a total of \$8,500,000 (the "Transaction"), which such value was primarily derived from Nova Dongguan and Nova Dongguan's wholly owned subsidiary, Nova Museum, and 90.97% owned subsidiary, Ding Nuo. Upon consummation of the Transaction on October 25, 2016, the Buyer became the sole owner of Nova Dongguan. The purchase price of \$8,500,000 was fully paid on October 6, 2016.

On November 10, 2016, Nova Furniture ("Assignor") entered into a Trademark Assignment Agreement with Kuka Design BVI ("Assignee"). Pursuant to the terms of the Trademark Assignment Agreement, Assignor agreed to assign to the Assignee its full right to, and title in, the NOVA trademark in China for \$6,000,000 (the "Assignment Fee"). Assignee shall pay the Assignment Fee in two installments: \$1,000,000 on or before November 30, 2016, and \$5,000,000 on or before December 31, 2016. As of December 31, 2016, \$4,750,000 had been received, and the remaining balance of \$1,250,000 was fully paid in January 2017.

As a result, the operations of Nova Dongguan, Nova Museum and Ding Nuo are now accounted for as discontinued operations in the accompanying consolidated financial statements for all periods presented.

In the previous reports filed with SEC, the Company erroneously reported that Nova Samoa, another wholly-owned subsidiary entered into the Agreement and the Trademark Assignment Agreement with Kuka Design BVI and sold all of the issued and outstanding shares of Nova Furniture to Kuka Design BVI and assigned the right to, and title in, the NOVA trademark in China to Kuka Design BVI.

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

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) consumer acceptance of our new brands and product collections; and (iii) general economic conditions in the U.S., Canadian, European and other international markets. We believe most of our customers are willing to pay higher prices for our high quality and stylish products, timely delivery and strong production capacity, which we expect will allow us to maintain high gross profit margins for our products. We have diversified our products by acquiring the Diamond Sofa brand in the U.S. market and developing higher-margin products for the U.S. and international markets, and acquiring Bright Swallow for the Canadian market. Consumer preference trends favoring high quality and stylish products and lifestyle-based furniture suites also should allow us to maintain our high gross profit margins. The markets in North America, and particularly in Europe, remain challenging because such markets are experiencing a slower than anticipated recovery from the recent international financial crisis. However, we believe that discretionary purchases of furniture by middle to upper middle-income consumers, our target global consumer market, will increase along with expected growth in the worldwide furniture trade and the recovery of housing markets. Furthermore, we believe that our expansion of direct sales in the U.S. will have a positive impact on our net sales and net income, while helping to diversify our customer base and end consumer markets.

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

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

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

The accompanying 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, Bright Swallow, Nova Macao, Nova Furniture and Nova Samoa, and its former subsidiaries, Nova Dongguan, Nova Museum and Ding Nuo.

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

In preparing 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 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, the allowance for bad debt, valuation of inventories, unrecognized tax benefits, valuation allowance for deferred tax assets, assumptions used in assessing impairment of long-lived assets and goodwill and fair value of warrant derivative liability. Actual results could differ from those estimates.

### ***Accounts Receivable***

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 \$3,019,931 and \$416,186 as of December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, bad debts from continuing operations were \$2,603,745 and \$660,136, respectively. As of December 31, 2016, we had gross receivable of \$45,122,692, of which \$7,250,188 was over 90 days but within 180 days past due and \$6,301,315 over 180 days past due. As of December 31, 2015, we had gross receivable of \$43,100,445, of which \$2,112,278 was over 90 days but within 180 days past due. The long overdue balances are mainly related to Nova Macao's customers in the U.S. 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.

During the years ended December 31, 2016 and 2015, bad debts from discontinued operations were \$512,978, and \$9,460 respectively.

### ***Revenue Recognition***

Our revenue recognition policies are in compliance with ASC Topic 605, "Revenue Recognition." Sales revenue is recognized when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of ours exist and collectability is reasonably assured. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, or the possible return of the goods. Payments received before all of the relevant criteria for revenue recognition are recorded as unearned revenue.

Sales revenue represents the invoiced value of goods, net of value-added taxes, or VAT. All of our products sold in China are subject to VAT of 17% of the gross sales price. This VAT may be offset by VAT paid by us on raw materials and other materials purchased in China and included in the cost of producing the finished product. We record VAT payable and VAT receivable net of payments in the consolidated financial statements. The VAT tax return is filed offsetting the payables against the receivables. Sales and purchases are recorded net of VAT collected and paid when we act as an agent for the PRC government.

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 options of asking a discount from us for the products with quality issues or receiving replacement parts from us at no cost. The amount for return of products, the discount provided to the customers and cost for the replacement parts were immaterial for the years ended December 31, 2016 and 2015.

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

The accompanying consolidated financial statements are presented in USD. The functional currency of Nova LifeStyle, Nova Samoa, Nova Furniture, Nova Macao, Bright Swallow and Diamond Bar is the United States Dollar (“\$” or “USD”). The functional currency of our former PRC subsidiaries, Nova Dongguan, Nova Museum and Ding Nuo, is RMB. The functional currencies of our foreign operations are translated into USD for balance sheet accounts using the current exchange rates in effect as of the balance sheet date, except for equity account using the historical exchange rate, and for revenue and expense accounts using the weighted-average exchange rate during the fiscal year. The translation adjustments are recorded in the consolidated statements of income and comprehensive income, captioned “Accumulated other comprehensive income.” Gains and losses resulting from transactions denominated in foreign currencies are included in “Other income (expenses)” in the consolidated statements of income and comprehensive income. There have been no significant fluctuations in the exchange rate for the conversion of RMB to USD after the balance sheet date.

### ***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 based in Hong Kong focusing on customers in Canada, and Nova Macao is a furniture distributor based in Macao focusing on international customers. Each of our subsidiaries are operated under the same senior management of our company, and we view the operations of Diamond Bar, Bright Swallow and Nova Macao as a whole for making business decisions.

Prior to the disposal of Nova Dongguan, our furniture products sold through Nova Dongguan, Nova Macao, and Ding Nuo were created with similar production processes, in the same facilities, under the same regulatory environment and sold to customers using similar distribution systems. Although Nova Museum was principally engaged in the dissemination of the culture and history of furniture in China, it also served a function of promoting and marketing our image and products by providing a platform and channel for consumers to be exposed to us and our products, it was operated under the same management with the same resources and in the same location as Nova Dongguan, and it was an additive and supplemental unit to our main operations, the design and sale of furniture.

Until the disposal of Nova Dongguan and its subsidiaries, all of our long-lived assets for production were located at our facilities in Dongguan, Guangdong Province, China, and operated within the same environmental, safety and quality regulations governing furniture manufacturers. After the disposal of Nova Dongguan and its subsidiaries, 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 locations of 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

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Presentation of Financial Statements — Going Concern. This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. We do not anticipate that this adoption will have a significant impact on our consolidated financial position, results of operations, or cash flows.

In July 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-11, Inventory, which requires an entity to measure inventory within the scope at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The effective date for the standard is for fiscal years beginning after December 15, 2016. Early adoption is permitted. We do not anticipate that this adoption will have a significant impact on our consolidated financial position, results of operations, or cash flows.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. We do not anticipate that this adoption will have a significant impact on our consolidated financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In May 2014, the FASB issued No. 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB approved a one-year deferral of the effective date of the new revenue recognition standard. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net). In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-11, Revenue from Contracts with Customers (Topic 606) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of ASU 2014-09 and 2014-16, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606) - Narrow Scope Improvements and Practical Expedients. These ASUs clarify the implementation guidance on a few narrow areas and adds some practical expedients to the guidance Topic 606. We are evaluating the effect that these ASUs will have on our consolidated financial statements and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes amendments to accounting for income taxes at settlement, forfeitures, and net settlements to cover withholding taxes. The amendments in ASU 2016-09 are effective for public companies for fiscal years beginning after December 31, 2016, and interim periods within those annual periods. Early adoption is permitted but requires all elements of the amendments to be adopted at once rather than individually. We are evaluating the effect that ASU No. 2016-09 will have on our consolidated financial statements and related disclosures.

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. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This ASU is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. We are currently assessing the potential impact of ASU 2016-15 on our financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. We do not anticipate that the adoption of this ASU will have a significant impact on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. This update amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. This ASU is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We do not anticipate that the adoption of this ASU will have a significant impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim period within those fiscal years. Early adoption is permitted, including adoption in an interim period. The standard should be applied using a retrospective transition method to each period presented. We do not anticipate that the adoption of this ASU will have a significant impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard should be applied prospectively on or after the effective date. We will evaluate the impact of adopting this standard prospectively upon any transactions of acquisitions or disposals of assets or businesses.

In January 2017, the FASB issued ASU 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 for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

## Results of Operations

### Comparison of years Ended December 31, 2016 and 2015

The following table sets forth the results of our operations for the years ended December 31, 2016 and 2015. Certain columns may not add due to rounding.

	Years Ended December 31,			
	2016		2015	
	\$	% of Sales	\$	% of Sales
Net sales	92,648,195		89,943,415	
Cost of sales	(79,124,451)	(85%)	(74,664,644)	(83%)
Gross profit	13,523,744	15%	15,278,771	17%
Operating expenses	(14,289,836)	(15%)	(10,648,563)	(12%)
Income (loss) from operations	(766,092)	(1%)	4,630,208	5%
Other expenses, net	(362,564)	-%	(1,064,358)	(1%)
Income tax (benefit) expense	(836,620)	(1%)	161,443	-%
(Loss) Income from continuing operations	(292,036)	-%	3,404,407	4%
Loss from discontinued operations	(826,217)	(1%)	(1,204,165)	(1%)
Net (loss) income	(1,118,253)	(1%)	2,200,242	2%

### Net Sales

Net sales for the year ended December 31, 2016, were \$92.65 million, an increase of 3% from \$89.94 million in the same period of 2015; this increase in net sales resulted primarily from a 52% increase in average selling price, which was partially offset by a 32% decrease in sales volume. Our largest selling product categories in the years ended December 31, 2016 and 2015 were sofas, beds and dining tables, which accounted for approximately 61%, 11% and 7% of sales, respectively, for the year ended December 31, 2016; and 36%, 14% and 15% of sales, respectively, for the year ended December 31, 2015.

The \$2.71 million increase in net sales in the year ended December 31, 2016, compared to the same period of 2015, was mainly due to increased sales to China, Australia, Europe and Hong Kong. China sales increased by \$10.00 million in the year ended December 31, 2016, compared to \$0 million in 2015, primarily due to a new large sales order from a Chinese customer who was involved in a new project of building a senior care facility in China. North American sales decreased 23% to \$58.20 million in the year ended December 31, 2016, compared to \$75.45 million in 2015, as we aggressively changed our product mix and our sales and marketing strategies with the aim of diversifying sales. We sold high quality products while offering discounts during our promotion period, which lasted throughout the second and third quarter of 2016. We continued to increase marketing efforts in the U.S. markets while maintaining our marketing efforts and existing customer base in Europe. Sales to Europe were \$12.49 million in the year ended December 31, 2016, an increase of 18% from \$10.58 million in 2015, primarily as a result of the improving European economy. We anticipate increasing sales and marketing to the European market as the region's economic outlook improves. Hong Kong sales increased to \$2.50 million in the year ended December 31, 2016, compared to \$0.38 million in 2015, primarily due to an increase in the volume of sales orders from one customer who was engaged in a project in the United Kingdom. Sales to Australia increased to \$4.87 million in the year ended December 31, 2016, compared to \$0.54 million in 2015, primarily due to an increase in sales order from new customers in that region. Sales to Asia, excluding China and Hong Kong, increased 63% to \$4.35 million in the year ended December 31, 2016, compared to \$2.68 million in 2015, primarily due to the increases of sales orders from one customer in the Middle East.

### Cost of Sales

Cost of sales consists primarily of finished goods purchased from other manufacturers. Total cost of sales increased 6% to \$79.12 million in the year ended December 31, 2016, compared to \$74.66 million in 2015, due primarily to increase in purchases of higher quality with more costly products from third party manufacturers. The increase of products purchased from third party manufacturers is primarily due to changes to our product mix. In 2016, we have sold high quality products, which were purchased from outside manufacturers at relatively higher prices. Cost of sales as a percentage of sales increased to 85% in the year ended December 31, 2016, compared to 83% in the 2015. The increase in cost of sales as a percentage of sales resulted primarily from increased cost of higher quality products purchased from third party manufacturers.

### **Gross Profit**

Gross profit decreased by 11.5% to \$13.52 million in the year ended December 31, 2016, compared to \$15.28 million in 2015. The decrease in gross profit resulted primarily from an increase in cost of sales as a percentage of net sales. Our gross profit margin decreased to 15% in the year ended December 31, 2016, compared to 17% in 2015. The decrease in gross profit margin resulted primarily from increased cost of sales as a percentage of net sales, which was due primarily to an increased cost of high quality products purchased from third parties. In addition, in the year ended December 31, 2016, we encountered decreased sales volume due to our increasing average price of products.

### **Operating Expenses**

Operating expenses consist of selling, general and administrative expenses and research and development expenses. Operating expenses were \$14.29 million in the year ended December 31, 2016, compared to \$10.65 million in 2015. Selling expenses increased 15% to \$5.32 million in the year ended December 31, 2016, from \$4.63 million in 2015, due primarily to increased sales and marketing expense. General and administrative expense increased 49% to \$8.97 million in the year ended December 31, 2016, from \$6.02 million in 2015, primarily due to an increase in bad debt expense and stock compensation expenses.

### **Other Expenses, Net**

Other expenses, net was \$362,564 in the year ended December 31, 2016, compared with other expense, net, of \$1,064,358 in 2015, representing a decrease in other expense of \$0.70 million. The decrease in other expense was due primarily to a change in fair value and the extinguishment of warrant liability which decreased to \$0 in the year ended December 31, 2016 from \$767,096 as an expense in 2015, following the termination and surrender of the outstanding warrants in May 2015.

### **Income Tax Benefit (Expense)**

Income tax benefit was \$836,620 in the year ended December 31, 2016, compared with \$161,443 of income tax expense in 2015. The income tax benefit was mainly due to the deferred tax on our NOL carryforwards in the U.S. and a reversal of our tax liability reserves due to a statute of limitations expiration, partially offset by accruing interest on prior year ASC 740-10 (FIN 48) reserves.

### **Loss from Discontinued Operations**

The subsidiaries that were sold on October 25, 2016, Nova Dongguan, Nova Museum, and Ding Nuo, are reported as discontinued operations in our consolidated financial statements. Income from discontinued operations, net of tax, decreased approximately \$0.38 million, or 31%, from a loss of approximately \$1.20 million for the year ended December 31, 2015 to a loss of approximately \$0.82 million for the year ended December 31, 2016.

### **Net (Loss) Income**

As a result of the foregoing, our net loss was \$1.12 million in the year ended December 31, 2016, as compared with \$2.2 million of net income in 2015. This increase in net loss was mainly due to an increase in operating expenses by 34% for the year ended December 31, 2016, compared to in 2015. Our net loss margin from continuing operations was 0.32% in the year ended December 31, 2016, as compared with 3.79% of net profit margin for in 2015.

### **Liquidity and Capital Resources**

Our principal demands for liquidity are from our efforts to increase sales, to 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 and collections of accounts receivable, and credit facilities from banks.

As we continue to execute our growth strategy focused on aggressively expanding sales, particularly in the U.S., we remain focused on improving net margins and bottom line growth. As noted above, we have in recent periods found it necessary to increase reliance on third party providers in order to meet demand for particular products required by certain of our customers. We also believe there is elasticity in pricing our higher end products and an ongoing opportunity to improve our product mix which should help us to stay in step with cost increases.



We rely primarily on internally generated cash flow and proceeds under our existing credit facilities 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. On May 28, 2015, we raised approximately \$3.65 million after deducting fees to the placement agent of \$335,000 and other offering expenses paid of \$20,000 by entering into a Securities Purchase Agreement with certain purchasers in a registered direct offering. During 2016, we raised approximately \$3.09 million from exercise of warrants.

We had net working capital of \$58,407,707 at December 31, 2016, an increase of \$9.78 million from net working capital of \$48,627,874 at December 31, 2015. The ratio of current assets to current liabilities was 6.02-to-1 at December 31, 2016.

The following is a summary of cash provided by or used in each of the indicated types of activities during the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Cash (used in) provided by:		
Operating activities	\$ (6,421,503)	\$ (4,229,308)
Investing activities	6,098,402	(2,473,664)
Financing activities	1,925,654	6,452,072

Net cash used in operating activities was \$6.42 million in the year ended December 31, 2016, an increase of cash outflow of \$2.19 million from \$4.23 million of cash used in operating activities in 2015. The increase in cash outflow from continuing operations was attributable primarily to an increased cash outflow for advances to suppliers of \$5.73 million during the year ended December 31, 2016, compared to \$0.23 million inflow in 2015. Our cash outflow for accounts payable was \$3.86 million during the year ended December 31, 2016, compared to \$0.53 million outflow in 2015. That amount was partially offset by decreased cash outflow from accounts receivable of \$2.02 million for the year ended December 31, 2016, compared with cash outflow of \$8.78 million in 2015. Net operating cash flows from discontinued operations increased from an inflow of \$0.34 million in the year ended December 31, 2015 to an inflow of \$1.71 million in 2016.

Net cash provided by investing activities was \$6.10 million in the year ended December 31, 2016, an increase of cash inflow of \$8.57 million from \$2.47 million outflow in 2015. In the year ended December 31, 2016, we incurred cash outflow of \$7.0 million from advance to an unrelated party, and \$0.01 million from the acquisition of property and equipment, while we received \$13.21 million from the disposal of subsidiaries. In the year ended December 31, 2015, we had cash outflow of \$0.23 million for construction in progress in relation to Nova Macao's eCommerce platform. Net investing cash outflow from discontinued operations decreased from an outflow of \$2.19 million in the year ended December 31, 2015 to an outflow of \$0.09 million in the same period of 2016, primarily due to lesser amount was spent on acquisition of land use rights, property and equipment and new factory construction in Dongguan in 2016.

Net cash provided by financing activities was \$1.93 million in the year ended December 31, 2016, a decrease of \$4.53 million from cash inflow of \$6.45 million in 2015. In the year ended December 31, 2016, we repaid \$43.93 million for bank loans, borrowed \$44.41 million from bank loans, and received \$3.09 million from warrants exercised. In the year ended December 31, 2015, we repaid \$35.06 million for bank loans, borrowed \$36.03 million from bank loans, and had \$3.65 million in proceeds from the sale and issuance of common stock. Net financing cash inflow from discontinued operations decreased from an inflow of \$1.83 million in the year ended December 31, 2015 to an outflow of \$1.64 million in 2016.

As of December 31, 2016, we had gross accounts receivable of \$45,122,692, of which \$22,541,201 was not yet past due, \$9,029,988 was less than 90 days past due, \$7,250,188 was over 90 days but within 180 days past due and \$6,301,315 over 180 days past due. We had an allowance for bad debt of \$3,019,931 for accounts receivable. As of March 22, 2017, \$23,868,361 accounts receivable outstanding at December 31, 2016 had been collected.

As of March 22, 2017, \$41,029,482, or 95%, of gross accounts receivable outstanding at December 31, 2015 had been collected.

#### ***Private Placements***

On April 14, 2014, we entered into a Securities Purchase Agreement (the "2014 Purchase Agreement") with certain purchasers (the "Buyers") pursuant to which we sold to the Buyers, in a registered direct offering, an aggregate of 1,320,059 shares of common stock, par value \$0.001 per share, at a negotiated purchase price of \$6.78 per share, for aggregate gross proceeds to us of \$8.95 million, before deducting fees to the placement agent of \$716,000 and other estimated offering expenses of \$20,000 payable by us.

As part of the transaction, the Buyers also received (i) Series A warrants to purchase up to 660,030 shares of common stock in the aggregate at an exercise price of \$8.48 per share (the “Series A Warrants”); (ii) Series B warrants to purchase up to 633,628 shares of common stock in the aggregate at an exercise price of \$6.82 per share (the “Series B Warrants”); and (iii) Series C warrants to purchase up to 310,478 shares of common stock in the aggregate at an exercise price of \$8.53 per share (the “Series C Warrants” and together with the Series A Warrants and the Series B Warrants, the “Warrants”). The Series A Warrants had a term of four years and were exercisable by the holders at any time after the date of issuance. The Series B Warrants had a term of six months and were exercisable by the holders at any time after the date of issuance. The Series C Warrants had a term of four years and were exercisable by the holders at any time after the date of issuance. After the six month anniversary of the issuance date of the Series C Warrants, to the extent that a holder of Series C Warrant had exercised less than 70% of such holder's Series B Warrants and the closing sale price of the common stock was equal to or greater than \$9.81 for a period of ten consecutive trading days, then we were entitled to purchase the entire then-remaining portion of such holder's Series C Warrants for \$1,000. The shares and warrants were registered on a takedown of our shelf registration statement described below. The Series B Warrants expired on October 14, 2014, and none of the Series B Warrants were exercised prior to such expiration.

On May 28, 2015, we entered into a Securities Purchase Agreement (the “2015 Purchase Agreement”) with certain purchasers (the “Purchasers”) pursuant to which we offered to the Purchasers, in a registered direct offering, an aggregate of 2,970,509 shares of common stock, par value \$0.001 per share. Of these shares, 2,000,001 shares were sold to the Purchasers at a negotiated purchase price of \$2.00 per share, for aggregate gross proceeds to us of \$4,000,002, before deducting fees to the placement agent and other estimated offering expenses payable by us. In accordance with the terms of the 2015 Purchase Agreement, the outstanding Series A Warrants described above and issued in connection with the transactions contemplated by the 2014 Purchase Agreement were exchanged for 660,030 shares of our common stock, and the outstanding Series C Warrants described above and issued in connection with the transactions contemplated by the 2014 Purchase Agreement were exchanged for 310,478 Shares of our common stock.

As contemplated under the 2015 Purchase Agreement and pursuant to a concurrent private placement, we also sold to the Purchasers a warrant to purchase one share of our common stock for each share purchased for cash in the offering, pursuant to that certain common stock Purchase Warrant, by and between us and each Purchaser (the “2015 Warrants”). The 2015 Warrants are exercisable beginning on the six month anniversary of the date of issuance (the “Initial Exercise Date”) at an exercise price of \$2.71 per share and will expire on the five year anniversary of the Initial Exercise Date. The purchase price of one share of our common stock under the 2015 Warrants is equal to the exercise price.

### **Lines of Credit**

Diamond Bar entered into an agreement with a bank in California for a line of credit of up to \$5,000,000 with annual interest of 4.25% and maturity on June 1, 2015. On June 8, 2015, the bank extended and modified the terms of the loan agreement to extend the line of credit up to a maximum of \$6,000,000 until July 31, 2015 and \$5,000,000 thereafter with an annual interest rate of 4.25% and maturity on September 1, 2015 (the term of which the bank allowed to extend until the renewal described in the following sentence while the bank conducted its own audit associated therewith). On September 28, 2015, Diamond Bar extended the line of credit up to a maximum of \$6,000,000 with annual interest of 3.75% (4% from December 17, 2015) and maturity on June 1, 2017. On January 20, 2016, Diamond Bar increased the line of credit up to a maximum of \$8,000,000 with annual interest of 3.75%. The line of credit is secured by all of the assets of Diamond Bar and is guaranteed by Nova LifeStyle. As of December 31, 2016 and 2015, Diamond Bar had \$6,129,841 and \$5,659,357 outstanding on the line of credit, respectively. During the years ended December 31, 2016 and 2015, the Company recorded interest expense of \$213,967 and \$196,001, respectively. As of December 31, 2016, Diamond Bar had \$1,870,159 available for borrowing without violating any covenants.

The Diamond Bar loan has the following covenants: (i) maintain a minimum tangible net worth of not less than \$10 million; (ii) maintain a ratio of debt to tangible net worth not in excess of 2.500 to 1.000; (iii) the pre-tax income must be not less than 1.000% of total revenue quarterly; and (iv) maintain a current ratio in excess of 1.250 to 1.000. As of December 31, 2016, Diamond Bar was in compliance with the stated covenants. In addition, the loan agreement provides for a cross default provision whereby an event of default on this loan will cause the Nova Macao loan, which is described below, to also be in default, as both loans are from the same lender.

On January 22, 2015, Nova Macao renewed a line of credit, with an annual interest rate of 4.25% and principal of up to \$6,500,000, with a commercial bank in Hong Kong to extend the maturity date to January 29, 2016. On February 16, 2016, Nova Macao extended the maturity date of its line of credit to January 31, 2017, with an annual interest rate of 4% and principal of up to \$6,500,000. The loan requires monthly payment of interest and that the interest rate will be adjusted annually. The loan was secured by assignment of Sinosure (China Export and Credit Insurance Company) credit insurance and is guaranteed by Nova LifeStyle and Diamond Bar. As of December 31, 2016 and 2015, Nova Macao had \$1,848,000 outstanding on the line of credit. During the years ended December 31, 2016 and 2015, the Company paid interest of \$69,828 and \$79,629, respectively. As of December 31, 2016, the Company had \$4,652,000 available for borrowing without violating any covenants.

The Nova Macao loan had the following covenants: (i) total outstanding under working capital advance shall not exceed the lesser of (a) the credit commitment of \$6,500,000, (b) the insurance claim limit and (c) borrowing base allowed of 80% advance rate against certain eligible accounts receivable; (ii) eligible accounts receivable are insured buyers by Sinasure assigned to the bank and within established insurance limit; (iii) the bank has an absolute right to exclude any portion of the accounts receivable from the aging report for computation of the borrowing base as it deems fit; (iv) in case the aggregate outstanding amount of credit facilities exceeds the available amount of facilities conferred by the aforesaid computation of borrowing base, the excess amount shall be settled within 7 days by Nova Macao. As of December 31, 2016, Nova Macao was in compliance with the stated covenants. Nova Macao did not extend the line of credit and paid off the outstanding balance in February 2017.

On April 25, 2012, Nova Dongguan entered into an agreement with a commercial bank in Dongguan for a line of credit of up to \$3,016,045 (RMB 20 million) with maturity on April 24, 2015. On November 20, 2014, the Company paid off the line of credit and entered into a new agreement with a reduced line of credit of up to \$1,508,023 (RMB 10 million) with a maturity on May 19, 2015. On May 5, 2015, Nova Dongguan extended the line of credit of \$527,808 (RMB 3.5 million) and \$980,215 (RMB 6.5 million) with maturities on September 6, 2015 and October 18, 2015, respectively. On September 21, 2015, Nova Dongguan paid off the lines of credit and entered into a new agreement with an increased line of credit of up to \$3,016,045 (RMB 20 million) for a period up to September 20, 2018. As of October 31, 2016 and 2015, Nova Dongguan had \$1,049,659 (RMB 7.10 million) and \$2,756,560 (RMB 17.9 million) outstanding, respectively. The loan of \$1,931,773 (RMB 12.9 million) currently bears monthly interest of 0.51458% and requires monthly payment of the interest. The loan is due for repayment on September 24, 2016. On September 23, 2016, this line of credit was extended to October 24, 2016. On October 24, 2016, Nova Dongguan paid off this loan. On November 10, 2015, Nova Dongguan borrowed an additional \$748,750 (RMB 5.0 million), which bears monthly interest of 0.47125% and requires monthly payment of the interest with maturity date on November 9, 2016.

On January 26, 2016, Nova Dongguan borrowed an additional \$314,475 (RMB 2.1 million), which bears monthly interest of 0.47125% and requires monthly payment of the interest with maturity date on January 25, 2017. The loans are secured by the buildings of Nova Dongguan and guaranteed by the Company's former CEO. During the years ended December 31, 2016 and 2015, the Company recorded interest expense of \$145,645 and \$112,002, respectively, for discontinued operations related to the applicable line of credit agreements. This line of credit was disposed of on the date of sales of subsidiaries (See Note 3 – Discontinued Operations).

#### **Shelf Registration; Resale Registration Statement**

On February 20, 2014, we filed a shelf registration statement on Form S-3 under which we 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 March 7, 2014 and expired on March 6, 2017. As noted above, the shares and warrants issued by us under the registered direct offerings completed in April 2014 and May 2015, were registered on takedowns under the shelf registration.

On July 21, 2015, we filed a resale registration statement on Form S-3 with the SEC to provide for the resale of the shares of our common stock issuable upon exercise of the 2015 Warrants. The Form S-3 was declared effective by the SEC on July 31, 2015.

#### **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 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 7A. Quantitative and Qualitative Disclosures about Market Risk**

Not required.

#### **Item 8. Financial Statements and Supplementary Data**

Our financial statements, together with the report thereon, appear in a separate section of this Annual Report beginning on page F-1.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

As disclosed on our Current Report on Form 8-K filed by the Company on September 23, 2016 (the “September 8-K”), the Company was advised on September 19, 2016 that the Company’s independent registered public accounting firm, Crowe Horwath (HK) CPA Limited, decided to terminate its audit and assurances services to public companies subject to the statutes and regulations of the United States, effective as of October 1, 2016. According, the Company, with the approval of its audit committee, terminated the services of Crowe Horwath (HK) CPA Limited (“CHHK”), effective September 22, 2016, and retained the services of Centurion ZD CPA Limited (formerly known as DCAW (CPA) Limited) (“Centurion”), effective September 22, 2016.

CHHK’s report on the financial statements of the Company for the fiscal year ended December 31, 2015 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the Company’s fiscal year ended December 31, 2015 and through September 22, 2016, there were no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K) between CHHK and the Company on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which disagreements, if not resolved to CHHK’s satisfaction, would have caused CHHK to make reference to the subject matter in their report on the Company’s consolidated financial statements for such periods. Furthermore, no “reportable events” occurred within the periods covered by CHHK’s reports on the Company’s consolidated financial statements, or subsequently up to the date of CHHK’s dismissal. As used herein, the term “reportable event” means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 304 of Regulation S-K.

The Company provided CHHK with a copy of the disclosures included in the September 8-K, and requested that CHHK review such disclosures and provide a letter addressed to the Securities and Exchange Commission (“SEC”) stating whether they agreed with the statements made therein. A copy of the letter furnished by CHHK was filed with the September 8-K as exhibit 16.1 thereto.

During the Company’s fiscal years ended December 31, 2015 and 2014 and through September 22, 2016, neither the Company nor anyone on its behalf consulted Centurion regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the consolidated financial statements of the Company; or (ii) any matter that was either the subject of a disagreement or a reportable event as described above; and there was neither a written report nor oral advice was provided to the Company by Centurion concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, our principal executive officer and principal financial officer, respectively, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this annual report. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016, our disclosure controls and procedures were not effective as of such date as identified in our internal control over financial reporting below.

Notwithstanding the material weakness discussed below, management has concluded that the consolidated financial statements included in this form 10-K present fairly, in all material aspects, the Company’s financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

## **Internal Control over Financial Reporting**

Our management, with oversight from our audit committee effective as of June 4, 2013, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements. In designing and evaluating internal controls, management recognizes that any internal controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of control systems must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2016, based upon the updated framework in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992 and updated in May 2013. Based on this assessment, our management concluded that, as of December 31, 2016, our internal control over financial reporting was not effective. Specifically, management has identified a material weakness owing to the fact that we currently lack sufficient accounting personnel with the appropriate level of knowledge, experience and training in U.S. GAAP and SEC reporting requirements.

We have taken, and are taking, certain actions to remediate the material weakness related to our lack of U.S. GAAP experience. We plan to hire additional credentialed professional staff and consulting professionals with greater knowledge and experience of U.S. GAAP and related regulatory requirements to oversee our financial reporting process in order to ensure our compliance with U.S. GAAP and other relevant securities laws. For example, we have interviewed several candidates for a Vice President of Finance position and we are still in the process of searching for an acceptable candidate. In addition, we provided additional training to our accounting personnel on U.S. GAAP, and other regulatory requirements regarding the preparation of financial statements in 2016. Until such time as we hire qualified accounting personnel with the requisite U.S. GAAP knowledge and experience and train our current accounting personnel, we have engaged an outside CPA with U.S. GAAP knowledge and experience to supplement our current internal accounting personnel and assist us in the preparation of our financial statements to ensure that our financial statements are prepared in accordance with U.S. GAAP. In addition to above stated remediation plan we previously engaged an outside Sarbanes-Oxley Act consultant in March 2012 to assist us with improving the design and operations of our internal controls over financial reporting for our U.S. parent company and all subsidiaries.

We believe the measures described above will remediate the material weakness from the prior year identified above. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine that additional measures are necessary to address control any future deficiencies.

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

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Item 9B. Other Information**

On April 10, 2017, our Board of Directors appointed Thanh H. Lam as our Chief Executive Officer. Thanh H. Lam, age 49, was appointed our President and a member of our Board on June 30, 2011, and was elected as Chairperson of the Board on June 4, 2013. Ms. Lam was appointed as our Interim Chief Executive Officer on October 7, 2016. Ms. Lam was a co-founder of the Diamond Sofa brand and previously was the Chief Executive Officer of Diamond Bar in Commerce, California, our wholly-owned subsidiary acquired by the Company in August 2011. Ms. Lam has pioneered the Diamond Sofa brand since 1992 and, prior to our acquisition of the Diamond Sofa brand, was in charge of its product development and merchandising for the U.S. market and managed its national sales force and oversaw distribution. In 2005, Ms. Lam was featured in a Furniture Today "Fresh Faces" profile, one of the highest honors bestowed to exceptional and talented young entrepreneurs in the furniture industry. Ms. Lam received her Bachelor of Science degree in Business Administration and Finance from the California State University of Los Angeles. Ms. Lam brings to the Board many years of experience in developing a furniture brand and marketing to the U.S. furniture industry. The Board believes that Ms. Lam's in-depth knowledge of the U.S. furniture market and knowledge of our business through her work with the Diamond Sofa brand will assist us in our future growth and expansion plans.

The employment agreement between the Company and Ms. Lam, dated May 3, 2013, remains in full force and effect.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information relating to nominees for director of Nova LifeStyle, compliance with Section 16(a) of the Securities Exchange Act of 1934, and the Company's code of ethics is set forth under the captions "Proposal 1—Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Corporate Governance," and "Code of Ethics," respectively, in the Proxy Statement for the Annual Meeting of Stockholders to be held on June 8, 2017. Such information is incorporated herein by reference. The definitive Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2016.

### **Item 11. Executive Compensation**

Information required by this Item 11 relating to executive compensation and other matters is set forth under the captions "Executive Compensation," "Non-Employee Director Compensation," and "Corporate Governance" in the Proxy Statement referred to in Item 10. Such information is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information related to ownership of common stock of Nova LifeStyle by certain persons is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement referred to in Item 10 above. Such information is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information relating to existing or proposed relationships or transactions between Nova LifeStyle and any affiliate of Nova LifeStyle, as well as matters related to director independence, is set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement referred to in Item 10. Such information is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

Information relating to Nova LifeStyle's principal accountant's fees and services is set forth under the caption "Principal Accountant Fees and Services" in the Proxy Statement referred to in Item 10. Such information is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of or are included in this Annual Report:

1. Financial statements listed in the Index to Financial Statements, filed as part of this Annual Report beginning on page F-1; and
2. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger by and between Stevens Resources, Inc. and Nova LifeStyle, Inc., dated June 14, 2011 (Incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
2.2	Share Exchange Agreement and Plan of Reorganization by and between Nova Furniture Limited and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
2.3	Return to Treasury Agreement by and between Nova LifeStyle, Inc. and Alex Li, dated June 30, 2011 (Incorporated herein by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.1	Articles of Incorporation (Incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-163019) filed on November 10, 2009)
3.2	Amended and Restated Bylaws (Incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.3	Certificate of Amendment to Articles of Incorporation filed with the Secretary of the State of Nevada on December 15, 2009, and effective as of September 9, 2009 (Incorporated herein by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.4	Articles of Merger between Stevens Resources, Inc. and Nova LifeStyle, Inc. amending the Articles of Incorporation filed with the Secretary of State of the State of Nevada on June 14, 2011, and effective as of June 27, 2011 (Incorporated herein by reference to Exhibit 3.4 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.5	Articles of Exchange of Nova Furniture Limited and Nova LifeStyle, Inc. filed with the Secretary of State of the State of Nevada on June 30, 2011 (Incorporated herein by reference to Exhibit 3.5 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
4.1	Specimen Stock Certificate (Incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
4.2	Form of Regulation S Subscription Agreement (Incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.3	Form of Regulation D Subscription Agreement (Incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.4	Form of Regulation S Warrant (Incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.5	Form of Regulation D Warrant (Incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.6	Form of Regulation S Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.7	Form of Regulation D Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.8	Form of Regulation S Subscription Agreement (Incorporated herein by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.9	Form of Regulation D Subscription Agreement (Incorporated herein by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.10	Form of Regulation S Warrant (Incorporated herein by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.11	Form of Regulation D Warrant (Incorporated herein by reference to Exhibit 4.11 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)

- 4.12 Form of Regulation S Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.12 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
- 4.13 Form of Regulation D Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.13 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
- 4.14 Form of Series A Warrant (Incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
- 4.15 Form of Series B Warrant (Incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
- 4.16 Form of Series C Warrant (Incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
- 10.1 Option to Purchase Agreement, dated September 30, 2009 (Incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-163019) filed on November 10, 2009)
- 10.2 Shareholder Agreement by and between Nova Furniture Limited and St. Joyal, dated January 1, 2011 (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.3 Intellectual Property Rights Transfer Agreement by and between Nova Furniture (Dongguan) Co., Ltd. and Ya Ming Wong, dated January 7, 2011 (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.4 Form of Product Franchise Agreement (Incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.5 Promissory Note, dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.6 Lock-Up Agreement between Ya Ming Wong and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.9 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.7 Lock-Up Agreement between Yuen Ching Ho and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.10 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.8 Lock-Up Agreement between Jun Jiang and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.11 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.9 Lock-Up Agreement between Qiang Liu and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.12 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.10 Stock Purchase Agreement between Nova LifeStyle, Inc. and Jun Zhang, dated August 31, 2011 (Incorporated herein by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on September 6, 2011)
- 10.11 Trademark Purchase and Assignment Agreement by and between St. Joyal and Nova LifeStyle, Inc., dated August 31, 2011 (Incorporated herein by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on September 6, 2011)
- 10.12 First Amendment to Intellectual Property Rights Transfer Agreement by and between Nova Furniture (Dongguan) Co., Ltd. and Ya Ming Wong, dated September 21, 2011 (Incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-177353) filed on October 17, 2011)
- 10.13 Stock Acquisition Agreement by and between Nova LifeStyle, Inc. and Bright Swallow International Group Limited, dated March 22, 2013 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on March 26, 2013)
- 10.14# Amended and Restated Employment Agreement between Nova LifeStyle, Inc. and Thanh H. Lam, dated May 3, 2013 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on May 9, 2013)
- 10.15# Form of Director Agreement (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 3, 2013)
- 10.16# Employment Agreement between Nova LifeStyle, Inc. and Ya Ming Wong, dated November 7, 2013 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on November 12, 2013)
- 10.17# Employment Agreement between Nova LifeStyle, Inc. and Yuen Ching Ho, dated November 7, 2013 (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on November 12, 2013)



10.18	First Amendment to Lock-Up Agreement between Ya Ming Wong and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.19	First Amendment to Lock-Up Agreement between Yuen Ching Ho and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.20	First Amendment to Lock-Up Agreement between Jun Jiang and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.21	First Amendment to Lock-Up Agreement between Qiang Liu and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.22	Lock-Up Agreement between Ah Wan Wong and Nova LifeStyle, Inc., dated August 18, 2011 (Incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.23	Lock-Up Agreement between Man Shek Ng and Nova LifeStyle, Inc., dated August 18, 2011 (Incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.24	First Amendment to Lock-Up Agreement between Ah Wan Wong and Nova Lifestyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.25	First Amendment to Lock-Up Agreement between Man Shek Ng and Nova Lifestyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.26	Stock Award Agreement between Tanh H. Lam and Nova Lifestyle, Inc., effective May 3, 2013 (Incorporated herein by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.27	Securities Purchase Agreement by and among Nova LifeStyle, Inc. and each of the investors listed on the Schedule of Buyers attached thereto, dated April 14, 2014 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
10.28	Placement Agent Agreement by and between Nova LifeStyle, Inc. and FT Global Capital, Inc., dated March 31, 2014 (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
10.29#	Nova LifeStyle, Inc. 2014 Omnibus Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A (File No. 333-163019) filed on July 10, 2014)
10.30#	Nova LifeStyle, Inc. Form of Restricted Stock Award Agreement (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A (File No. 333-163019) filed on July 10, 2014)
10.31#	Employment Agreement between Nova LifeStyle, Inc. and Ya Ming Wong, dated March 25, 2015 and effective as of November 10, 2014 (Incorporated herein by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K filed on March 26, 2015)
10.32#	Employment Agreement between Nova LifeStyle, Inc. and Yuen Ching Ho, dated March 25, 2015 and effective as of November 10, 2014 (Incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed on March 26, 2015)
10.33#	Employment Agreement between Nova LifeStyle, Inc. and Ya Ming Wong, dated March 25, 2016 and effective as of November 11, 2015 (Incorporated herein by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K filed on March 28, 2016)
10.34#	Employment Agreement between Nova LifeStyle, Inc. and Yuen Ching Ho, dated March 25, 2016 and effective as of November 11, 2015 (Incorporated herein by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K filed on March 28, 2016)
10.35†	<a href="#">Share Transfer Agreement between Nova Furniture Limited and Kuka Design Limited, dated September 23, 2016</a>
10.36†	<a href="#">Trademark Assignment Agreement between Nova Furniture Limited and Kuka Design Limited, dated November 10, 2016</a>
14.1	Code of Business Conduct and Ethics of Nova Lifestyle, Inc. (Incorporated herein by reference to Exhibit 14.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 10, 2013)

21.1†	<a href="#">Subsidiaries of the Registrant</a>
23.1†	<a href="#">Consent of Centurion ZD CPA Limited</a>
24.1†	<a href="#">Power of Attorney (Included on the Signature Page of this Annual Report on Form 10-K)</a>
31.1†	<a href="#">Certification of Principal 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 Principal 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="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

# Indicates management contract or compensatory plan, contract or arrangement.  
† Filed herewith.  
‡ Furnished herewith.

NOVA LIFESTYLE, INC.

Consolidated Financial Statements  
Years Ended December 31, 2016 and 2015

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of  
Nova LifeStyle, Inc.

We have audited the accompanying consolidated balance sheets of Nova LifeStyle, Inc. and its subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, changes in stockholders’ equity and cash flows for each of the years in the two-year period ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ Centurion ZD CPA Limited

Centurion ZD CPA Limited  
Hong Kong, China  
April 14, 2017

NOVA LIFESTYLE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,587,743	\$ 920,227
Accounts receivable, net	42,102,761	42,684,259
Advance to suppliers	13,669,752	7,936,141
Inventories	2,781,123	2,514,319
Assignment fee receivable (Note 3)	1,250,000	--
Receivable from an unrelated party (Note 8)	7,000,000	--
Prepaid expenses and other receivables	642,891	508,999
Taxes receivable	14,893	8,494
Assets of discontinued operations	<u>--</u>	<u>11,260,606</u>
<b>Total Current Assets</b>	<u>70,049,163</u>	<u>65,833,045</u>
<b>Noncurrent Assets</b>		
Plant, property and equipment, net	171,276	200,077
Lease deposit	43,260	43,260
Goodwill	218,606	218,606
Intangible assets, net	5,686,623	6,247,481
Deferred tax asset	874,759	61,000
Assets of discontinued operations, non-current	<u>--</u>	<u>17,144,538</u>
<b>Total Noncurrent Assets</b>	<u>6,994,524</u>	<u>23,914,962</u>
<b>Total Assets</b>	<u>\$ 77,043,687</u>	<u>\$ 89,748,007</u>

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,368,775	\$ 5,708,259
Lines of credit	7,977,841	1,848,000
Advance from customers	513,880	63,789
Accrued liabilities and other payables	780,960	1,438,105
Liabilities of discontinued operations	<u>--</u>	<u>8,147,018</u>
<b>Total Current Liabilities</b>	<u>11,641,456</u>	<u>17,205,171</u>
<b>Noncurrent Liabilities</b>		
Lines of credit	--	5,659,357
Income tax payable	2,136,788	2,160,449
Liabilities of discontinued operations, non-current	<u>--</u>	<u>4,731,348</u>
<b>Total Noncurrent Liabilities</b>	<u>2,136,788</u>	<u>12,551,154</u>
<b>Total Liabilities</b>	<u>13,778,244</u>	<u>29,756,325</u>
<b>Contingencies and Commitments</b>		
<b>Stockholders' Equity</b>		
Common stock, \$0.001 par value; 75,000,000 shares authorized, 27,309,695 and 24,254,160 shares issued and outstanding; as of December 31, 2016 and 2015, respectively	27,309	24,254
Additional paid-in capital	36,885,462	31,761,983
Statutory reserves	6,241	6,241
Accumulated other comprehensive income	--	1,570,534
Retained earnings	<u>26,346,431</u>	<u>26,628,670</u>
<b>Total Stockholders' Equity</b>	<u>63,265,443</u>	<u>59,991,682</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 77,043,687</u>	<u>\$ 89,748,007</u>

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

NOVA LIFESTYLE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Net Sales</b>	\$ 92,648,195	\$ 89,943,415
<b>Cost of Sales</b>	<u>79,124,451</u>	<u>74,664,644</u>
<b>Gross Profit</b>	<u>13,523,744</u>	<u>15,278,771</u>
<b>Operating Expenses</b>		
Selling expenses	5,324,270	4,631,758
General and administrative expenses	<u>8,965,566</u>	<u>6,016,805</u>
<b>Total Operating Expenses</b>	<u>14,289,836</u>	<u>10,648,563</u>
<b>(Loss) Income From Operations</b>	<u>(766,092)</u>	<u>4,630,208</u>
<b>Other Income (Expenses)</b>		
Non-operating (income) expense, net	46,717	43,237
Foreign exchange transaction loss	(6,386)	(7,003)
Loss on change in fair value and extinguishment of warrant liability	--	(767,096)
Interest expense	(283,795)	(275,630)
Financial expense	<u>(119,100)</u>	<u>(57,866)</u>
<b>Total Other Expenses, Net</b>	<u>(362,564)</u>	<u>(1,064,358)</u>
<b>(Loss) Income Before Income Taxes and Discontinued operations</b>	(1,128,656)	3,565,850
<b>Income Tax (Benefit) Expense</b>	<u>(836,620)</u>	<u>161,443</u>
<b>(Loss) Income From Continuing Operations</b>	(292,036)	3,404,407
<b>Loss From Discontinued Operations, net of tax</b>	<u>(826,217)</u>	<u>(1,204,165)</u>
<b>Net (Loss) Income</b>	(1,118,253)	2,200,242
<b>Other Comprehensive Income (Loss)</b>		
Release of foreign currency translation adjustments upon disposal of subsidiaries	836,014	--
Foreign currency translation	<u>(734,520)</u>	<u>(1,004,633)</u>
<b>Comprehensive (Loss) Income</b>	<u>\$ (1,016,759)</u>	<u>\$ 1,195,609</u>
Basic weighted average shares outstanding	<u>25,432,037</u>	<u>22,825,652</u>
Diluted weighted average shares outstanding	<u>25,432,037</u>	<u>22,825,652</u>
<b>(Loss) income from continuing operations per share of common stock</b>		
Basic	<u>\$ (0.01)</u>	<u>\$ 0.15</u>
Diluted	<u>\$ (0.01)</u>	<u>\$ 0.15</u>
<b>Loss from discontinued operations per share of common stock</b>		
Basic	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
<b>Net (loss) income per share of common stock</b>		
Basic	<u>\$ (0.04)</u>	<u>\$ 0.10</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ 0.10</u>

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>Common stock Shares</u>	<u>Amount</u>	<u>Additional Paid in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Statutory Reserves</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
<b>Balance</b> —January 1, 2015	20,897,316	\$ 20,897	\$ 24,751,476	\$ 2,575,167	\$ 6,241	\$ 24,428,428	\$ 51,782,209
Exercise of warrants	1,062,912	1,063	2,231,052	--	--	--	2,232,115
Sales of common stock, net of issuance cost of \$355,000	2,000,001	2,000	3,643,002	--	--	--	3,645,002
Stock issued to officers	189,209	189	790,811	--	--	--	791,000
Stock issued to consultants	63,332	63	191,939	--	--	--	192,002
Stock compensation for board of directors	41,390	42	153,703	--	--	--	153,745
Net income	--	--	--	--	--	2,200,242	2,200,242
Foreign currency translation loss	--	--	--	(1,004,633)	--	--	(1,004,633)
<b>Balance</b> —December 31, 2015	24,254,160	\$ 24,254	\$ 31,761,983	\$ 1,570,534	\$ 6,241	\$ 26,628,670	\$ 59,991,682
Exercise of warrants	1,141,667	1,142	3,092,776	-	-	-	3,093,918
Stock issued to officers	350,000	349	424,277	-	-	-	424,626
Stock issued to employees and service providers	967,500	968	582,457	-	-	-	583,425
Stock issued to consultants	495,389	495	919,074	-	-	-	919,569
Stock compensation for board of directors	100,979	101	104,895	-	-	-	104,996
Disposal of subsidiaries	-	-	-	(836,014)	-	836,014	-
Net loss	-	-	-	-	-	(1,118,253)	(1,118,253)
Foreign currency translation loss	-	-	-	(734,520)	-	-	(734,520)
<b>Balance</b> —December 31, 2016	<u>27,309,695</u>	<u>\$ 27,309</u>	<u>\$ 36,885,462</u>	<u>\$ -</u>	<u>\$ 6,241</u>	<u>\$ 26,346,431</u>	<u>\$ 63,265,443</u>

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



**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>Cash Flows From Operating Activities</b>		
Net income (loss) from continuing operations	\$ (292,036)	\$ 3,404,407
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	603,155	512,884
Deferred tax expense	(813,760)	(52,742)
Stock compensation expense	1,637,362	1,377,328
Change in fair value and extinguishment of warrant liability	--	767,096
Bad debt expenses	2,603,745	660,136
Changes in operating assets and liabilities:		
Accounts receivable	(2,022,248)	(8,782,341)
Advance to suppliers	(5,733,611)	231,046
Inventories	(266,804)	(1,193,622)
Other current assets	298,115	(724,046)
Accounts payable	(3,856,326)	(533,545)
Advance from customers	450,091	(58,251)
Accrued liabilities and other payables	(710,327)	(295,394)
Taxes payable	(30,060)	115,616
<b>Net Cash Used in Continuing Operations</b>	(8,132,704)	(4,571,428)
<b>Net Cash Provided by Discontinued Operations</b>	1,711,201	342,120
<b>Net Cash Used in Operating Activities</b>	(6,421,503)	(4,229,308)
<b>Cash Flows From Investing Activities</b>		
Deposits on plant construction and equipment		(52,398)
Payment for land compensation fee and occupancy tax	--	--
Purchase of property and equipment	(13,494)	--
Proceeds from disposal of subsidiaries, net of \$43,873 of cash disposed of	13,206,127	--
Advances to an unrelated party (Note 8)	(7,000,000)	--
Construction in progress	--	(231,864)
<b>Net Cash Provided by (Used in) Continuing Operations</b>	6,192,633	(284,262)
<b>Net Cash Used in Discontinued Operations</b>	(94,231)	(2,189,402)
<b>Net Cash Provided by (Used in) Investing Activities</b>	6,098,402	(2,473,664)
<b>Cash Flows From Financing Activities</b>		
Proceeds from line of credit and bank loan	44,405,074	36,034,645
Repayment to line of credit and bank loan	(43,934,591)	(35,057,901)
Proceeds from warrant exercised	3,093,918	--
Proceeds from equity financing, net of expenses of \$355,000	--	3,645,002
<b>Net Cash Provided by Continuing Operations</b>	3,564,401	4,621,746
<b>Net Cash (Used in) Provided by Discontinued Operations</b>	(1,638,747)	1,830,326
<b>Net Cash Provided by Financing Activities</b>	\$ 1,925,654	\$ 6,452,072

NOVA LIFESTYLE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	\$ (2,839)	\$ (5,379)
Net (decrease) increase in cash and cash equivalents	1,599,714	(256,279)
Cash and cash equivalents, beginning of year	988,029	1,244,308
Cash and cash equivalents, ending of year	<u>\$ 2,587,743</u>	<u>\$ 988,029</u>
<b>Analysis of cash and cash equivalents</b>		
Included in cash and cash equivalents per consolidated balance sheets	\$ 2,587,743	\$ 920,227
Included in assets of discontinued operations	-	67,802
Cash and cash equivalents, end of year	<u>\$ 2,587,743</u>	<u>\$ 988,029</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
<b>Continuing operations:</b>		
Cash paid during the period for:		
Income tax payments	\$ 7,200	\$ 131,292
Interest paid	\$ 282,951	\$ 275,860
<b>Discontinued operations:</b>		
Cash paid during the period for:		
Income tax payments	\$ --	\$ --
Interest paid	\$ 145,645	\$ 112,465
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Construction in progress and deposits for equipment and factory construction transfer to fixed assets	\$ --	\$ 2,406,995
Deposit on plant construction and website design transfer to construction in progress	\$ --	\$ 1,208,200
Issuance of common stock in exchange of surrender and termination of warrants	\$ --	\$ 2,232,115

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

**NOVA LIFESTYLE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**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 our subsidiaries through which we market, design and sell 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”), 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 Furniture. Diamond Bar, doing business as Diamond Sofa, was incorporated in California on June 15, 2000. Nova Macao is a trading company, importing, marketing and selling products designed and manufactured by Nova Furniture (Dongguan) Co., Ltd. (“Nova Dongguan”) and third party manufacturers for the U.S. and international markets. Diamond Bar markets and sells products manufactured by us and 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.

The sale of three of the Company’s former subsidiaries, Nova Dongguan, Nova Dongguan Chinese Style Furniture Museum (“Nova Museum”), and Dongguan Ding Nuo Household Products Co., Ltd. (“Ding Nuo”), was consummated on October 25, 2016, and as a result, they are now accounted for as discontinued operations in the accompanying consolidated financial statements for all periods presented. Accordingly, assets and liabilities, revenues and expenses, and cash flows related to the business of these subsidiaries have been appropriately reclassified in the accompanying consolidated financial statements as discontinued operations for all periods presented. Additional information with respect to the sale of these subsidiaries is presented at Note 3.

Nova Dongguan is a wholly foreign-owned enterprise, or WFOE, and was incorporated under the laws of the PRC on June 6, 2003. Nova Dongguan organized Nova Museum on March 17, 2011 as a non-profit organization under the laws of the PRC engaged in the promotion of the culture and history of furniture in China. Nova Dongguan markets and sells products in China to stores in our former franchise network and to wholesalers and agents for domestic retailers and exporters. Nova Dongguan also provides design expertise and facilities to manufacture branded products and products for international markets under original design manufacturer and original equipment manufacturer agreements, or ODM and OEM agreements. On October 24, 2013, Nova Dongguan incorporated Ding Nuo under the laws of the PRC and contributed capital of RMB 1 million (\$162,994). Nova Dongguan made an additional capital contribution of RMB 0.1 million (\$16,305) on November 27, 2013 through one of Nova Dongguan’s officers who acted as the nominee shareholder of Ding Nuo; accordingly, Nova Dongguan effectively controls 100% of Ding Nuo. Ding Nuo was established mainly for engaging in business with IKEA.

The “Company” and “Nova” collectively refer to Nova LifeStyle, the U.S. parent, and its subsidiaries, Nova Furniture, Nova Samoa, Nova Macao, Diamond Bar, and BSI. The “Company” may also from time to time in these Notes include the Company’s former subsidiaries, Nova Furniture BVI, Nova Dongguan, Nova Museum and Ding Nuo.

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

***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The 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.

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

In preparing 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 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, the allowance for bad debt, valuation of inventories, unrecognized tax benefits, valuation allowance for deferred tax assets, assumptions used in assessing impairment of long-lived assets and goodwill and fair value of warrant derivative liability. 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, 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 asset 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 Diamond Bar reporting unit. Accordingly, as of December 31, 2016 and 2015, the Company concluded there was no impairment of goodwill of Diamond Bar.

On April 24, 2013, Nova LifeStyle completed the acquisition of Bright Swallow. Under the acquisition method of accounting, the total purchase is allocated to tangible assets and intangible assets acquired and liabilities assumed based on their fair values with the excess charged to goodwill. Nova LifeStyle recognized \$808,518 of goodwill from the acquisition. In June 2014, the Company performed an interim goodwill impairment assessment for Bright Swallow using a two-step impairment test based on Bright Swallow's actual performance for the first six-months of 2014 and updated revenue and expense projections. Based on this analysis, the Company concluded that all of the goodwill pertaining to Bright Swallow was impaired in June 2014. The goodwill impairment charge was non-cash. The goodwill impairment charge was not deductible for income tax purposes and, therefore, the Company did not record a corresponding tax benefit in 2014.

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

For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### ***Accounts Receivable***

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. Based on historical collection activity, the Company recorded \$3,019,931 and \$484,936 as allowance for bad debt as of December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, bad debts from continuing operations were \$2,603,745 and \$660,136, respectively. During the years ended December 31, 2016 and 2015, bad debts from discontinued operations were \$512,978 and \$9,460 respectively.

### ***Inventories***

Inventories are stated at the lower of cost or market value with cost determined on a weighted-average basis. Management compares the cost of inventories with the net realizable value and an allowance is made for writing down their inventories to market value, if lower. The Company did not record any write-downs of inventory at December 31, 2016 and 2015.

### ***Plant, Property and Equipment and Construction in Progress***

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 10% salvage value and estimated lives as follows:

Building and workshops	20 years
Computer and office equipment	5 years
Decoration and renovation	10 years
Machinery	10 years
Autos	5 years

Depreciation of plant, property and equipment attributable to manufacturing activities is capitalized as part of inventories, and expensed to cost of goods sold when inventories are sold.

Construction in progress represents capital expenditure in respect of direct costs of construction or acquisition and design fees incurred. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate category of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. Construction in progress is not depreciated until such time as the asset is completed and is ready for its intended use.

### ***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.

Based on its review, the Company believes that, as of December 31, 2016 and 2015, there was no significant impairment of its long-lived assets.

### ***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 expense from continuing operations was \$95,877 and \$139,869 for the years ended December 31, 2016 and 2015, respectively. Research and development expense from the Company's discontinued operations was \$628,627 and \$932,616 for the years ended December 31, 2016 and 2015, respectively.

## 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.

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.

China's Corporate Income Tax Law ("CIT Law"), together with its Implementation Regulations, effective as of January 1, 2008, introduced a set of anti-avoidance measures under its special tax adjustments regulations. In January 2009, the State Administration of Taxation issued Circular of the State Administration of Taxation on the Issuance of the Implementation Measure of Special Tax Adjustments ("Circular 2"). The regulation is applied retrospectively for tax years beginning after January 1, 2008. Article 3 of Circular 2 states that in respect of transfer pricing administration, relevant tax authorities shall examine business transactions between enterprises and their related parties ("related-party transactions") and evaluate whether they are conducted on an arm's-length basis, in addition to conducting investigations and making adjustments, as required under the CIT Law and Article 36 of the PRC Tax Administration and Collection Law ("Tax Collection Law").

The significant uncertain tax position arose from the transfer pricing between Nova Dongguan and Nova Macao, wherein the Company determined that the gross profit generated by Nova Dongguan from sales to Nova Macao was materially different from profits generated from sales to third parties. The statute of limitations for transfer pricing issues is 10 years from the tax year in which the transfer pricing issue arises pursuant to PRC tax law.

A reconciliation of the January 1, 2015, through December 31, 2016, amount of unrecognized tax benefits excluding interest and penalties ("Gross UTB") is as follows:

	<b>Gross UTB</b>	
	<b>2016</b>	<b>2015</b>
<b>Beginning Balance – January 1</b>	<b>\$ 1,805,014</b>	<b>\$ 1,791,388</b>
(Decrease) increase in unrecorded tax benefits taken in the years ended December 31, 2016 and 2015, related to the Company's continuing operations	(162,633)	13,626
<b>Ending Balance – December 31</b>	<b>\$ 1,642,381</b>	<b>\$ 1,805,014</b>

During the years ended December 31, 2016 and 2015, the Company recorded income tax (benefit) expense from its continuing operations of approximately (\$836,620) and \$161,443, respectively.

As of December 31, 2016 and 2015, the Company has recorded \$1,642,000 and \$1,805,000 of unrecognized tax benefit related to its continuing operations.

At December 31, 2016 and 2015, the Company had cumulatively accrued approximately \$494,000 and \$355,000 for estimated interest and penalties related to unrecognized tax benefits 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, which totaled approximately \$139,000 and \$128,000 related to the Company's continuing operations, respectively. The Company does not anticipate any significant changes to its unrecognized tax benefits within the next 12 months.

For the years ended December 31, 2016 and 2015, the Company did not record unrecognized tax benefits related to transfer pricing adjustments between Nova Dongguan and Nova Macau since the intercompany sales between the two entities appears to comply with reasonable arm's length principles.

Nova Dongguan and Ding Nuo were subject to taxation in the PRC. Nova Dongguan's PRC income tax returns are generally not subject to examination by the tax authorities for tax years before 2010. With a few exceptions, the tax years 2010-2015 remain open to examination by tax authorities in the PRC. Unrecognized tax benefit related to transfer pricing adjustment between Dongguan and Macau is generally not subject to examination by the PRC tax authorities for tax years before 2005. The tax years 2013-2016 for US entities remain open to examination by tax authorities in the US.

### ***Revenue Recognition***

The Company's revenue recognition policies are in compliance with ASC Topic 605, "Revenue Recognition." Sales revenue is recognized when a formal arrangement exists, the price is fixed or determinable, the delivery is completed and no other significant obligations of the Company exist and collectability is reasonably assured. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, or the possible return of the goods. Payments received before all of the relevant criteria for revenue recognition are recorded as unearned revenue.

Sales revenue represents the invoiced value of goods, net of value-added taxes ("VAT"). All of the Company's products sold in China are subject to the PRC VAT of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials purchased in China and included in the cost of producing the finished product. The Company records VAT payable and VAT receivable net of payments in the consolidated financial statements. The VAT tax return is filed offsetting the payables against the receivables. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government.

The Company's sales policy allows for the return of product within the warranty period if the product is defective and the defects are the Company's fault. As alternatives for the product return option, the customers have options of asking a discount from the Company for the products with quality issues or receiving replacement parts from the Company at no cost. The amount for return of products, the discount provided to the Company's customers and the cost for replacement parts were immaterial for years ended December 31, 2016 and 2015.

### ***Franchise Arrangements***

In 2010, the Company's former subsidiaries in China began entering into area product franchise agreements with franchisees who operate specialty furniture stores carrying only Nova-branded products. The product franchise agreement provides for the franchisee to retail Nova-brand furniture products for a period of one year from the date of the agreement. The franchisee is required to pay a deposit of RMB 30,000 at the signing of the agreement, which is used as payment for future purchases and is deferred on the Company's balance sheet as a customer deposit. The franchisee is required to guarantee a minimum purchase amount from the Company during the contract period. The Company had the right to terminate the agreement should the franchisee fail to meet the minimum purchase amount. The Company previously provides the franchisee with store images and designs, signage, floor plan product information and training. In addition, the Company would rebate a per square meter subsidy to the franchisee for the store build-out within 12 months from the agreement date. Under the program, the Company established standard renovation amounts (the "Renovation Subsidy") for various cities in China. The franchisee was able to obtain, in the form of credits against purchase orders, percentages of the Renovation Subsidy applicable in the city in which the franchisee is located, as follows: 0% to 30% of the Renovation Subsidy applied to the first purchase order and 5% of each purchase order thereafter until the aggregate of all credits equals 100% of the Renovation Subsidy, or 12 months from the date of the franchise agreement, whichever occurs first. In accordance with ASC 605-50, as the Company does not receive an identifiable benefit from these rebates, the rebates are recorded as a reduction of revenue on sales to the franchisees. All of the franchise agreements relating to the Company's operations were divested in connection with its discontinued operations (see Note 3 – Discontinued Operations).

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

Cost of sales consists primarily of finished goods purchased from other manufacturers, material costs, labor costs and related overhead that are directly attributable to the production of the products. Write-down of inventory to the lower of cost or market value is also recorded in the cost of sales.

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

Shipping and handling costs related to delivery of finished goods are included in selling expenses. During the twelve months ended December 31, 2016 and 2015, shipping and handling costs from continuing operations were \$724 and \$5,705, respectively. During the twelve months ended December 31, 2016 and 2015, shipping and handling costs from discontinued operations were \$417,563 and \$578,553, respectively.

### ***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 \$2,580,728 and \$2,313,367 for the years ended December 31, 2016 and 2015, respectively. Advertising expense from discontinued operations was \$62,218 and \$209,129 for the years ended December 31, 2016 and 2015, respectively.

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

The Company accounts for share-based compensation awards to employees in accordance with FASB ASC Topic 718, "Compensation – Stock Compensation", which requires that share-based payment transactions with employees be measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period.

The Company accounts for share-based compensation awards to non-employees in accordance with FASB ASC Topic 718 and FASB ASC Subtopic 505-50, "Equity-Based Payments to Non-employees". Share-based compensation associated with the issuance of equity instruments to non-employees is measured at the fair value of the equity instrument issued or committed to be issued, as this is more reliable than the fair value of the services received. The fair value is measured at the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete.

### ***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) earnings per share for the years ended December 31, 2016 and 2015:

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
(Loss) Income from continuing operations	\$ (292,036)	\$ 3,404,407
Loss from discontinued operations	(826,217)	(1,204,165)
Net (loss) income	(1,118,253)	2,200,242
Weighted average shares outstanding – basic and diluted*	25,432,037	22,825,652
Income (loss) from continuing operations per share		
– basic and diluted	\$ (0.01)	\$ 0.15
Loss from discontinued operations per share		
– basic and diluted	(0.03)	(0.05)
Net income (loss) per share		
– basic and diluted	\$ (0.04)	\$ 0.10

\* Including 616,451 and 158,188 vested shares granted that were not yet issued for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, warrants to purchase 858,334 and 2,050,001 shares of common stock were outstanding and exercisable, respectively. For the years ended December 31, 2016 and 2015, 858,334 and 2,050,001 shares purchasable under warrants were excluded from EPS, respectively, as their effects were anti-dilutive. For all the periods presented, the unvested restricted stock were anti-dilutive.

### ***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.

Two major customers accounted for 21% (11% and 10% for each) of the Company's sales for the year ended December 31, 2016. No customer accounted for 10% or more of the Company's sales for the year ended December 31, 2015.

The Company purchased its products from five major vendors during the years ended December 31, 2016, and from four major vendors during the years ended December 31, 2015, accounting for a total of 80% (22%, 19%, 16%, 12% and 11% for each) and 75% (22%, 21%, 16%, and 16% for each) of the Company's purchases, respectively. Accounts payable to these vendors were \$446,428 and \$4,294,228 as of December 31, 2016 and 2015, respectively.

Prior to its divestment of its PRC subsidiaries, the operations of the Company were located principally in China and the U.S. Accordingly, the Company's Chinese subsidiaries' business, financial condition and results of operations were, from time to time influenced by the political, economic and legal environments in China, as well as by the general state of the PRC economy.

The Company's operations in the PRC were subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These included risks associated with, among others, the political, economic and legal environments in China and foreign currency exchange. The Company's results may be adversely affected by changes in PRC government policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Company's sales, purchase and expense transactions in China are denominated in Chinese Yuan Renminbi ("RMB"), and all of the assets and liabilities of the Company's former subsidiaries in China are also denominated in RMB. The RMB is not freely convertible into foreign currencies under the current law. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB may require certain supporting documentation in order to affect the remittance.

## Statement of Cash Flows

In accordance with FASB ASC Topic 230, "Statement of Cash Flows," cash flows from the Company's operations is calculated based upon local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows may not necessarily agree with changes in the corresponding balances on the balance sheet.

## Fair Value of Financial Instruments

Some of the Company's financial instruments, including cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued liabilities and short-term debt, have carrying amounts that approximate their fair values due to their short maturities. 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 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 Company analyzes all financial instruments with features of both liabilities and equity under ASC Topic 480, "Distinguishing Liabilities from Equity," and ASC Topic 815, "Derivatives and Hedging."

The carrying value of cash, accounts receivable, advance to suppliers, other receivables, accounts payable, lines of credit, advance from customers, other payables and accrued liabilities approximate estimated fair values because of their short maturities. The estimated fair value of the long-term lines of credit approximated the carrying amount as the interest rates are considered as approximate to the current rate for comparable loans at the respective balance sheet dates.

The carrying value of the warrant liability is determined using the Binomial Lattice option pricing model. Certain assumptions used in the calculation of the warrant liability represent Level-3 unobservable inputs. The Company did not have any assets or liabilities categorized as Level 1 or 2 as of December 31, 2016.

The following table summarizes the activity of Level 3 inputs measured on a recurring basis:

Fair Value Measurements of Common Stock Warrants Using Significant Unobservable Inputs (Level 3)

	For the Years Ended December 31,	
	2016	2015
Balance at January 1	\$ -	\$ 1,465,019
Adjustment resulting from change in fair value (a) and extinguishment of warrants recognized in earnings	-	767,096
1,053,670 common shares issued in exchange of surrender of 1,062,912 warrants		(2,232,115)
Balance at December 31	\$ -	\$ -

(a) *Adjustment resulting from change in fair value* is the amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to liabilities held at the reporting date. The unrealized gain or loss is recorded in change in fair value of warrant liability in the accompanying consolidated statements of income.

## Foreign Currency Translation and Transactions

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

The functional currency of Nova Dongguan, Nova Museum and Ding Nuo is RMB. The functional currencies of the Company's foreign operations are translated into USD for balance sheet accounts using the current exchange rates in effect as of the balance sheet date, except for the equity account using the historical exchange rate, and for revenue and expense accounts using the weighted-average exchange rate during the fiscal year. The translation adjustments are recorded in the consolidated statements of income and comprehensive income, captioned "Accumulated other comprehensive income." Gains and losses resulting from transactions denominated in foreign currencies are included in "Other income (expenses)" in the consolidated statements of income and comprehensive income. There have been no significant fluctuations in the exchange rate for the conversion of RMB to USD after the balance sheet date.

The RMB to USD exchange rates in effect as of October 25, 2016 (date of disposal of subsidiaries) and December 31, 2015, were RMB6.7641 = USD\$1.00 and RMB6.4936 = USD\$1.00, respectively. The weighted-average RMB to USD exchange rates in effect for the period from January 1, 2016 to October 25, 2016 (date of disposal of subsidiaries) and 2015 were RMB6.5904= USD\$1.00 and RMB6.1738= USD\$1.00, respectively. The exchange rates used in translation from RMB to USD were published by the People's Bank of the People's Republic of China.

### ***Comprehensive Income***

The Company follows FASB ASC 220 "Reporting Comprehensive Income." Comprehensive income is comprised of net income and all changes to the consolidated statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. Comprehensive income for the years ended December 31, 2016 and 2015 included net income and foreign currency translation adjustments.

### ***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 based in Hong Kong focusing on customers in Canada, and Nova Macao is a furniture distributor based in Macao focusing on international customers. They are all operated under the same senior management of the Company, and management views the operations of Diamond Bar, Bright Swallow and Nova Macao as a whole for making business decisions

Prior to the disposal of Nova Dongguan, the Company's furniture products sold through Nova Dongguan, Nova Macao, and Ding Nuo were created with similar production processes, in the same facilities, under the same regulatory environment and sold to customers using similar distribution systems. Although Nova Museum was principally engaged in the dissemination of the culture and history of furniture in China, it also served a function of promoting and marketing the Company's image and products by providing a platform and channel for consumers to be exposed to the Company and its products, it was operated under the same management with the same resources and in the same location as Nova Dongguan, and it was an additive and supplemental unit to the Company's main operations, the design and sale of furniture.

Until the disposal of Nova Dongguan and its subsidiaries, all of the Company's long-lived assets for production were located at its facilities in Dongguan, Guangdong Province, China, and operated within the same environmental, safety and quality regulations governing furniture manufacturers. After the disposal of Nova Dongguan and its subsidiaries, 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 US; if the customer directs the Company to ship its products to China, the sales are recorded as sold in China.

## *New Accounting Pronouncements*

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Presentation of Financial Statements — Going Concern. This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In July 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-11, Inventory, which requires an entity to measure inventory within the scope at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The effective date for the standard is for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In May 2014, the FASB issued No. 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB approved a one-year deferral of the effective date of the new revenue recognition standard. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net). In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-11, Revenue from Contracts with Customers (Topic 606) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of ASU 2014-09 and 2014-16, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606) - Narrow Scope Improvements and Practical Expedients. These ASUs clarify the implementation guidance on a few narrow areas and adds some practical expedients to the guidance Topic 606. The Company is evaluating the effect that these ASUs will have on its consolidated financial statements and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes amendments to accounting for income taxes at settlement, forfeitures, and net settlements to cover withholding taxes. The amendments in ASU 2016-09 are effective for public companies for fiscal years beginning after December 31, 2016, and interim periods within those annual periods. Early adoption is permitted but requires all elements of the amendments to be adopted at once rather than individually. The Company is evaluating the effect that ASU No. 2016-09 will have on the Company’s consolidated financial statements and related disclosures.

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. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This ASU is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently assessing the potential impact of ASU 2016-15 on its financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16—Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17 Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. This update amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. This ASU is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim period within those fiscal years. Early adoption is permitted, including adoption in an interim period. The standard should be applied using a retrospective transition method to each period presented. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard should be applied prospectively on or after the effective date. The Company will evaluate the impact of adopting this standard prospectively upon any transactions of acquisitions or disposals of assets or businesses.

In January 2017, the FASB issued ASU 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 for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

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

On September 23, 2016, Nova Furniture, a wholly-owned subsidiary of the Company (the "Seller"), entered into a Share Transfer Agreement (the "Agreement") with Kuka Design Limited, an unrelated company incorporated in British Virgin Islands ("Kuka Design BVI" or "Buyer"). Pursuant to the terms of the Agreement, the Seller sold all of the outstanding equity interests in Nova Dongguan, a wholly owned subsidiary of the Seller, to the Buyer for a total of \$8,500,000 (the "Transaction"), which such value was primarily derived from Nova Dongguan and Nova Dongguan's wholly owned subsidiary, Nova Museum, and 90.97% owned subsidiary, Ding Nuo. Upon consummation of the Transaction on October 25, 2016, the Buyer became the sole owner of Nova Dongguan. The purchase price of \$8,500,000 was fully paid on October 6, 2016.

On November 10, 2016, Nova Furniture entered into a Trademark Assignment Agreement with Kuka Design BVI. Pursuant to the terms of the Trademark Assignment Agreement, Nova Furniture agreed to assign to Kuka Design BVI its full right to, and title in, the NOVA trademark in China for \$6,000,000 (the "Assignment Fee"). Kuka Design BVI shall pay the Assignment Fee in two installments: \$1,000,000 on or before November 30, 2016, and \$5,000,000 on or before December 31, 2016. As the result of the assignment of NOVA trademark in China, Nova Furniture and its affiliated companies, including Nova Macao, will cease to use the NOVA trademark and brand in their business in China. Assignment Fee of \$4,750,000 has been received as of December 31, 2016, and the remaining balance of \$1,250,000 has been fully settled in January 2017.

The following table summarizes the net assets of Nova Dongguan, Nova Museum and Nova Ding Nuo at the date of disposal (October 25, 2016):

Cash and equivalents	\$	43,873
Accounts receivable, net		4,667,943
Advance to suppliers, net		69,161
Inventories		2,600,856
Prepaid expenses and other receivables		564,517
Taxes receivable		6,589
Heritage and cultural assets		119,875
Property, plant and equipment, net		13,293,530
Lease deposit		48,936
Deposits for equipment and factory construction		624,935
Intangible assets, net		1,746,856
Deferred tax assets		392
Accounts payable		(3,456,101)
Lines of credit		(1,049,659)
Advance from customers		(49,379)
Accrued liabilities and other payables		(718,793)
Deferred rental payable		(84,682)
Noncurrent FIN 48 liability		(7,403)
Net assets of Nova Dongguan and subsidiaries upon disposal		18,421,446
Consideration received		(13,250,000)
Consideration receivable as of December 31, 2016		(1,250,000)
Loss on disposal of subsidiaries	\$	(3,921,446)

As a result, the operations of Nova Dongguan, Nova Museum and Ding Nuo are now accounted for as discontinued operations in the accompanying consolidated financial statements for all periods presented.

The following table presents the components of discontinued operations reported in the consolidated statements of operations:

	For the years ended December 31,	
	2016	2015
Sales from external customers	\$ 14,796,374	\$ 18,876,697
Intrasegment sales	1,632,079	1,860,710
Cost of goods sold	(14,255,611)	(17,626,626)
Operating expenses	(3,469,576)	(4,191,133)
Loss before income taxes	(1,542,815)	(814,022)
Loss on disposal of subsidiaries	(3,921,446)	-
Income tax benefit (expense)	4,638,044	(390,143)
Income (loss) from discontinued operations	\$ 826,217	\$ (1,204,165)

The following table presents the major classes of assets and liabilities of discontinued operations of Nova Dongguan, Nova Museum and Ding Nuo reported in the consolidated balance sheets:

	<b><u>December 31, 2015</u></b>
Cash and cash equivalents	\$ 67,802
Accounts receivable, net	7,767,406
Advance to suppliers	22,729
Inventories	2,739,710
Prepaid expenses and other receivables	662,959
Current assets of discontinued operations	<u>11,260,606</u>
Heritage and cultural assets	124,868
Plant, property and equipment, net	15,001,318
Lease deposit	50,975
Deposits for equipment and factory construction	143,758
Intangible assets, net	1,815,168
Deferred tax asset	8,451
Assets of discontinued operations, non-current	<u>17,144,538</u>
Accounts payable	4,114,598
Lines of credit	2,756,560
Advance from customers	123,570
Accrued liabilities and other payables	1,146,517
Taxes payable	5,773
Liabilities of discontinued operations	<u>8,147,018</u>
Deferred rent payable	89,904
Income tax payable	4,641,444
Liabilities of discontinued operations, non-current	<u>\$ 4,731,348</u>

#### **Note 4 - Inventories**

The inventories as of December 31, 2016 and 2015, totaled \$2,781,123 and \$2,514,319, respectively, were all finished goods.

#### **Note 5 - Advance to Suppliers**

As of December 31, 2016 and 2015, the Company had an advance to suppliers of \$13,669,752 and \$7,936,141, respectively. During the year ended December 31, 2014, the Company made certain advance payments to one of its suppliers totaling \$5,000,000 to secure a favorable pricing structure on purchase orders submitted. As a result of production delays, on July 1, 2014, the Company entered into an agreement with this supplier to charge interest on these advances at an annual rate of 4.75% with maturity on March 31, 2015, interest to be paid monthly. Shipments received from the supplier were to be credited against the advance payments. The supplier had the option to repay the short-term advances for any product that it would not be able to deliver at any time. Initial shipments against these purchase orders were received by the Company in July 2014. The advance was paid in full on January 21, 2015. During the years ended December 31, 2016 and 2015 (prior to the date of payment in full), the supplier paid interest of \$0 and \$3,870 to the Company, respectively.

**Note 6 - Plant, Property and Equipment, Net**

As of December 31, 2016 and 2015, plant, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Computer and office equipment	\$ 274,735	\$ 261,240
Decoration and renovation	110,015	110,015
Less: accumulated depreciation	(213,474)	(171,178)
	<u>\$ 171,276</u>	<u>\$ 200,077</u>

Depreciation expense from continuing operations was \$42,297 and \$46,111 for the years ended December 31, 2016 and 2015, respectively. Depreciation expense from discontinued operations was \$1,120,559 and \$1,318,842 for the years ended December 31, 2016 and 2015, respectively.

**Note 7 - Intangible Assets**

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 for 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 estimated life was 15 years.

The Company's eCommerce platform is a website through which customers are able to browse and place orders online for the Company's products. For the downloadable mobile application, customers are able to download the application onto their own mobile devices to browse the Company's product offerings. The Nova sales kit application is used on mobile devices to enable the Company's sales representatives to display the Company's products and inventory to customers. The total cost associated with the development, programming, design and roll-out of the Company's eCommerce platform, downloadable mobile application, and Nova sales kit application is approximately \$1.20 million. The Company's eCommerce platform, downloadable mobile application, and Nova sales-kit application were completed and put into operation in 2015. These intangible assets are amortized using the straight-line method with estimated lives of 10 years for each.

Intangible assets consisted of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
eCommerce platform	\$ 1,208,200	\$ 1,208,200
Customer relationship	6,150,559	6,150,559
Trademarks	200,000	200,000
Less: accumulated amortization	(1,872,136)	(1,311,278)
	<u>\$ 5,686,623</u>	<u>\$ 6,247,481</u>

Amortization of intangible assets from continuing operations was \$560,858 and \$466,773 for the years ended December 31, 2016 and 2015, respectively. Amortization of intangible assets from discontinued operations was \$31,247 and \$28,872 for the years ended December 31, 2016 and 2015, respectively.

Annual amortization expense is expected to be approximately \$527,524 over each of the next five years.



**Note 8 - Receivables from an Unrelated Party, Prepaid Expenses and Other Receivables**

- (a) On September 22, 2016, in order to promote the Company's image and extend its customer reach, the Company entered into a memorandum of understanding with an unrelated party ("MOU") whereby the Company agreed to pay a total fee of \$16,000,000 for a period of twelve months, commencing on December 31, 2016, to finance the establishment and promotion of the unrelated party's Academic E-commerce platform and integrated training center in Hong Kong (the "Platform"). As of December 31, 2016, the Company prepaid \$7,000,000 to the unrelated party.

After December 31, 2016, the Company further prepaid \$6,835,000 to the unrelated party. However, having considered the recent market situation and the status of the establishment and promotion of the Platform, the Company does not wish to continue to finance the promotion of the Platform. On March 20, 2017, the Company and the unrelated party terminated the MOU and released both parties from all the obligations and liabilities under the MOU. The Company agreed to bear the costs of \$800,000 incurred by the unrelated party on the Platform. The prepaid amount should be repaid in two instalments. The Company received the first instalment of \$8,225,000 on April 11, 2017. The remaining balance of \$5,610,000 is to be repaid by the unrelated party to the Company on or before April 30, 2017.

- (b) Prepaid Expenses and Other Receivables consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Prepaid expenses	\$ 573,005	\$ 479,091
Other receivables	69,886	29,908
<b>Total</b>	<u>\$ 642,891</u>	<u>\$ 508,999</u>

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

Accrued liabilities and other payables consisted of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Other payables	\$ 47,790	\$ 46,598
Salary payable	30,207	80,639
Financed insurance premiums	66,314	66,960
Accrued consulting fees	-	19,078
Accrued rents	102,269	135,673
Accrued commission	494,108	460,475
Accrued marketing expense	-	450,000
Accrued expenses, others	40,272	178,682
<b>Total</b>	<u>\$ 780,960</u>	<u>\$ 1,438,105</u>

As of December 31, 2016 and 2015, other accrued expenses mainly included legal and professional fees, transportation expenses and utilities. Other payables represented other tax payable and meal expense.

**Note 10 - Lines of Credit**

Diamond Bar entered into an agreement with a bank in California for a line of credit of up to \$5,000,000 with annual interest of 4.25% and maturity on June 1, 2015. On June 8, 2015, the bank extended and modified the terms of the loan agreement to extend the line of credit up to a maximum of \$6,000,000 until July 31, 2015 and \$5,000,000 thereafter with an annual interest rate of 4.25% and maturity on September 1, 2015 (the term of which the bank allowed to extend until the renewal described in the following sentence while the bank conducted its own audit associated therewith). On September 28, 2015, Diamond Bar extended the line of credit up to a maximum of \$6,000,000 with annual interest of 3.75% (4% from December 17, 2015) and maturity on June 1, 2017. On January 20, 2016, Diamond Bar increased the line of credit up to a maximum of \$8,000,000 with annual interest of 3.75%. The line of credit is secured by all of the assets of Diamond Bar and is guaranteed by Nova LifeStyle. As of December 31, 2016 and 2015, Diamond Bar had \$6,129,841 and \$5,659,357 outstanding on the line of credit, respectively. During the years ended December 31, 2016 and 2015, the Company recorded interest expense of \$213,967 and \$199,874, respectively. As of December 31, 2016, Diamond Bar had \$1,870,159 available for borrowing without violating any covenants.

The Diamond Bar loan has the following covenants: (i) maintain a minimum tangible net worth of not less than \$10 million; (ii) maintain a ratio of debt to tangible net worth not in excess of 2.500 to 1.000; (iii) the pre-tax income must be not less than 1.000% of total revenue quarterly; and (iv) maintain a current ratio in excess of 1.250 to 1.000. As of December 31, 2016, Diamond Bar was in compliance with the stated covenants. In addition, the loan agreement provides for a cross default provision whereby an event of default on this loan will cause the Nova Macao loan, which is described below, to also be in default, as both loans are from the same lender.

On January 22, 2015, Nova Macao renewed a line of credit, with an annual interest rate of 4.25% and principal of up to \$6,500,000, with a commercial bank in Hong Kong to extend the maturity date to January 29, 2016. On February 16, 2016, Nova Macao extended the maturity date of line of credit to January 31, 2017, with an annual interest rate of 4% and principal of up to \$6,500,000. The loan requires monthly payment of interest and that the interest rate will be adjusted annually. The loan was secured by assignment of Sinasure (China Export and Credit Insurance Company) credit insurance and is guaranteed by Nova LifeStyle and Diamond Bar. As of December 31, 2016 and 2015, Nova Macao had \$1,848,000 outstanding on the line of credit. During the years ended December 31, 2016 and 2015, Nova Macao paid interest of \$69,830 and \$79,631, respectively. As of December 31, 2016, the Company had \$4,652,000 available for borrowing without violating any covenants. The Company did not extend the line of credit and paid off in February 2017.

The Nova Macao loan has the following covenants: (i) total outstanding under working capital advance shall not exceed the lesser of (a) the credit commitment of \$6,500,000, (b) the insurance claim limit and (c) borrowing base allowed of 80% advance rate against certain eligible accounts receivable; (ii) eligible accounts receivable are insured buyers by Sinasure assigned to the bank and within established insurance limit; (iii) the bank has an absolute right to exclude any portion of the accounts receivable from the aging report for computation of the borrowing base as it deems fit; (iv) in case the aggregate outstanding amount of credit facilities exceeds the available amount of facilities conferred by the aforesaid computation of borrowing base, the excess amount shall be settled within 7 days by Nova Macao. As of December 31, 2016, Nova Macao was in compliance with the stated covenants.

On April 25, 2012, Nova Dongguan entered into an agreement with a commercial bank in Dongguan for a line of credit of up to \$3,016,045 (RMB 20 million) with maturity on April 24, 2015. On November 20, 2014, the Company paid off the line of credit and entered into a new agreement with a reduced line of credit of up to \$1,508,023 (RMB 10 million) with a maturity on May 19, 2015. On May 5, 2015, Nova Dongguan extended the line of credit of \$527,808 (RMB 3.5 million) and \$980,215 (RMB 6.5 million) with maturities on September 6, 2015 and October 18, 2015, respectively. On September 21, 2015, Nova Dongguan paid off the lines of credit and entered into a new agreement with an increased line of credit of up to \$3,016,045 (RMB 20 million) for a period up to September 20, 2018. As of the date of disposal of Nova Dongguan and December 31, 2015, Nova Dongguan had \$1,049,659 (RMB 7.10 million) and \$2,756,560 (RMB 17.9 million) outstanding, respectively. The loan of \$1,931,773 (RMB 12.9 million) bears monthly interest of 0.51458% and requires monthly payment of the interest. The loan is due for repayment on September 24, 2016. On September 23, 2016, this line of credit was extended to October 24, 2016. On October 24, 2016, Nova Dongguan paid off this loan. On November 10, 2015, Nova Dongguan borrowed an additional \$748,750 (RMB 5.0 million), which bears monthly interest of 0.47125% and requires monthly payment of the interest with maturity date on November 9, 2016. On January 26, 2016, Nova Dongguan borrowed an additional \$314,475 (RMB 2.1 million), which bears monthly interest of 0.47125% and requires monthly payment of the interest with maturity date on January 25, 2017. The loans are secured by the buildings of Nova Dongguan and are guaranteed by the Company's former CEO. During the years ended December 31, 2016 and 2015, the Company recorded interest expense of \$145,645 and \$112,465, respectively, for discontinued operations related to the applicable line of credit agreements. This line of credit had been disposed as a result of disposal of subsidiaries (See Note 3 – Discontinued Operations).

#### Note 11 - Income Taxes

Taxes payable consisted of the following at December 31, 2016 and 2015:

	2016	2015
Tax receivable	\$ 14,893	8,494
Income tax payable - current	\$ -	-
Income tax payable – noncurrent	\$ 2,136,788	2,160,449

The components of income (loss) before income taxes from continuing operations consisted of the following for the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Loss subject to domestic income taxes only	\$ (2,614,069)	\$ (920,468)
Income subject to foreign income taxes only	1,485,413	4,486,318
<b>Total</b>	<b>\$ (1,128,656)</b>	<b>\$ 3,565,850</b>

The (benefit) provision for income taxes on income (loss) from continuing operations consisted of the following:

	<b>2016</b>	<b>2015</b>
<b>Current:</b>		
Federal	\$ (137,833)	\$ 105,879
State	800	17,610
PRC	114,173	90,696
	<u>(22,860)</u>	<u>214,185</u>
<b>Deferred:</b>		
Federal	(751,351)	(48,369)
State	(62,409)	(4,373)
<b>Total (benefit) provision for income taxes</b>	<b>\$ (836,620)</b>	<b>\$ 161,443</b>

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the federal statutory rate on income (loss) before income taxes from continuing operations:

	<b>2016</b>	<b>2015</b>
Tax at Federal Statutory rate	\$ (383,743)	\$ 1,212,389
Foreign Rate Differential	(168,882)	(403,625)
Change in fair value and extinguishment of warrant liability	-	260,813
ASC 740-10 Uncertain Tax Position	(23,660)	141,502
Tax exemption	(336,158)	(1,121,724)
Stock Based Compensation	96,963	122,666
Others	(21,140)	(50,578)
	<u>\$ (836,620)</u>	<u>\$ 161,443</u>

The following presents the aggregate dollar and per share effects of the Company's tax exemption:

The aggregate dollar effect of tax holiday

	<b>2016</b>	<b>2015</b>
Aggregate dollar effect of tax holiday	\$ 336,158	\$ 1,121,724

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred taxes are comprised of the following:

	<u>2016</u>	<u>2015</u>
Non-Current Deferred Tax Assets:		
Accrued liabilities	87,826	94,468
Fed & CA amortization	49,197	44,330
Stock compensation	116,748	116,332
U.S. NOL	882,939	-
Non-Current Deferred Tax Liabilities:		
Prepaid expenses	(217,852)	(134,701)
Fed & CA depreciation	(44,099)	(56,872)
Purchase accounting	-	(2,557)
Net Non-Current Deferred Tax Assets (Liabilities) before Valuation Allowance	874,759	61,000
Less: Valuation Allowance	-	-
Non-Current Deferred Tax Assets (Liabilities), Net:	<u>874,759</u>	<u>61,000</u>
Total Deferred Assets, Net:	<u>\$ 874,759</u>	<u>\$ 61,000</u>

Nova LifeStyle, Inc. and Diamond Bar are subject to U.S. federal and state income taxes. Nova Furniture BVI was incorporated in the BVI. There is no income tax for a company domiciled in the BVI. Accordingly, the Company's consolidated financial statements do not present any income tax provision related to the BVI tax jurisdiction where Nova Furniture BVI is domiciled. On April 24, 2013, the Company acquired all outstanding shares of Bright Swallow. Generally, there is no income tax for a company domiciled in the BVI.

For U.S. Federal income tax purpose, the Company has net operating loss, or NOL carryforwards of approximately \$2.39 million and \$0, at December 31, 2016 and 2015, respectively.

For U.S. California income tax purpose, the Company has net operating loss, or NOL carryforwards of approximately \$1.71 million and \$0, at December 31, 2016 and 2015, respectively.

Nova Dongguan, Nova Museum and Ding Nuo are governed by the Enterprise Income Tax Law of the PRC, Nova Museum and Ding Nuo are subject to a 25% corporate income tax, while Nova Dongguan is subject to a 15% corporate income tax rate. As of June 5, 2014, Nova Dongguan was approved by PRC taxing authorities for High-Tech enterprise status, which is taxed at preferential income tax rate of 15% for period from January 1, 2014 to December 31, 2015. On September 19, 2013, Bright Swallow moved the office from Macau to Hong Kong, which is subject to a 16.5% corporate income tax. Nova Museum is subject to a 25% corporate income tax in the first year and allowed to apply for tax-exempt status in the second year following its incorporation. Nova Macao is an income tax-exempt entity incorporated and domiciled in Macao.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$31 million as of December 31, 2016. Those earnings are considered to be permanently reinvested and accordingly, no deferred tax expense is recorded for U.S. federal and state income tax or applicable withholding taxes.

## Note 12 - Related Party Transactions

On September 30, 2011, Diamond Bar leased a showroom in High Point, North Carolina from the Company's president. The lease is to be renewed at the beginning of each year. On March 16, 2017, the Company renewed the lease for an additional one year term. The lease was \$32,916 for one year and only for use during two furniture exhibitions to be held between April 1, 2017 and March 31, 2018. During the years ended December 31, 2016 and 2015, the Company paid rental amounts of \$32,916, and are included in selling expenses from continuing operations.

## Note 13 - Deferred Rent Payable

Deferred rent payable represented supplemental payments the Company must pay to the residents who originally lived on the land in Dongguan, Guangdong Province, China, to which the Company acquired land use rights for commercial use.

The Company is required to pay an annual management fee of RMB 1,500 (\$226) per mu for a total 17.97 mu, or 11,977.42 square meters, from 2016 for 60 years for a total of approximately \$315,000 (RMB 2.10 million). The payment will be made annually with a 5% increase every 5 years. The Company records such fees as expenses on a straight-line basis.

With respect to the supplemental payments the Company must pay the residents who originally lived on the land in Dongguan, Guangdong Province, China, as described in the first sentence of this Note 9, the Company is required to pay an annual amount at RMB 800 (\$121) per mu for a total of 60 mu (or 40,000 square meters) starting from 2003 for 60 years for a total of approximately \$768,000 (RMB 5.13 million). The payment increases 10% every 5 years. The Company records such expense on a straight-line basis. During the years ended December 31, 2016 and 2015, the Company recorded expense of \$15,337 and \$19,474, respectively, from discontinued operations. As of December 31, 2016 and 2015, the Company had \$0 and \$89,904 of deferred rent payable, respectively.

## Note 14 - Stockholders' Equity

### Warrants

Following is a summary of the warrant activity for the years ended December 31, 2016 and 2015:

	Number of Warrants	Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Outstanding at January 1, 2015	1,241,462	7.90	2.99
Exercisable at January 1, 2015	1,241,462	7.90	2.99
Granted	2,000,001	2.71	5.50
Exercised/surrendered	(1,062,912)	2.1	-
Expired	(128,550)	4.50	-
Outstanding at January 1, 2016	2,050,001	2.74	4.82
Exercisable at January 1, 2016	2,050,001	2.74	4.82
Granted	-	-	-
Exercised / surrendered	(1,141,667)	2.71	-
Expired	(50,000)	4.00	-
Outstanding at December 31, 2016	858,334	2.71	3.92
Exercisable at December 31, 2016	858,334	2.71	3.92

### Shares issued to IR Firm

On July 1, 2014, the Company entered into a contract with an investor relations firm. The Company agreed to issue 100,000 shares of the Company's common stock to the firm for 12 months of investor relation services. The fair value of the 100,000 shares of common stock was \$462,000; the fair value was calculated based on the stock price of \$4.62 per share on July 1, 2014, and was amortized over the service term. During the years ended December 31, 2016 and 2015, the Company amortized \$0 and \$231,000 as IR expenses, respectively.

### *Shares and Warrants issued to Consultants*

On July 1, 2013, the Company entered into a consulting agreement with a consulting firm in China for providing management M&A, business strategy and financing consultation services effective July 15, 2013. The Company agreed to issue 50,000 shares of the Company's common stock to the firm for 12 months of consulting services starting on July 15, 2013. The Company also agreed to issue three-year warrants for the firm to purchase 50,000 shares of the Company's common stock with an exercise price of \$4 per share. Both the common stock and warrants were issued to the consultant or its designees within seven business days upon execution of the Agreement. The fair value of the 50,000 shares of common stock was \$200,000 at July 1, 2013, and that amount was amortized over the service term.

The warrants issued to the consulting firm are exercisable for a fixed number of shares, and are classified as equity instruments. The Company accounted for the warrants issued 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 three years, volatility of 353%, risk-free interest rate of 0.66% and dividend yield of 0%. No estimate of forfeitures was made as the Company has a short history of granting options and warrants. Because these equity-classified warrants are vested immediately and are non-forfeitable; based on ASC 505-50, the performance commitment had been reached at the grant date, and accordingly, the measurement date is the grant date. The fair value of the warrants issued to the consulting firm at grant date was \$194,989, and that amount was amortized over the service term in 2014. The warrants expired on July 14, 2016.

On August 15, 2014, the Company entered into a consulting agreement with a consulting firm for general business advisory, marketing and administration, and business strategy consulting services effective on September 1, 2014. The Company agreed to issue 10,000 shares of common stock to the firm for 12 months of consulting services starting on September 1, 2014. The fair value of the 10,000 shares of common stock was \$42,000, which was calculated based on the stock price of \$4.20 per share on September 1, 2014, and was amortized over the service term. During the years ended December 31, 2016 and 2015, the Company amortized \$0 and \$26,250 as consulting expenses, respectively.

On December 1, 2014, the Company entered into a consulting agreement with a consulting firm for management consulting services effective on December 1, 2014. The Company agreed to issue 60,000 shares of the Company's common stock to the firm for three years of consulting services. The shares will be issued according to the following vesting schedule set forth as follows: The initial 10,000 shares were required to be issued within 30 days upon signing of the agreement; for the remaining 50,000 shares, the Company has issued or will issue to the consultant 10,000 shares of common stock on or before each of June 1, 2015, December 1, 2015, June 1, 2016, December 1, 2016 and June 1, 2017. The Company or the consultant may terminate the agreement at any time by 90 days' written notice to the other party. The fair value of the 60,000 shares was \$224,400, which was calculated based on the stock price of \$3.74 per share on December 1, 2014 and will be amortized over the service term. During the years ended December 31, 2016 and 2015, the Company amortized \$74,800 as consulting expenses in each year.

On March 1, 2015, the Company entered into a marketing agreement with a consultant for marketing and product promotion services effective on March 1, 2015. The Company agreed to grant the consultant \$100,000 worth of shares of the Company's common stock for 12 months of consulting services starting on March 1, 2015. The shares vested immediately on March 1, 2015. The share price was calculated as the average closing price per share for ten trading days immediately prior to the execution of the agreement and was amortized over the service term. On March 9, 2015, the Company issued 38,745 shares at an average price of \$2.581 per share to the consultant. During the years ended December 31, 2016 and 2015, the Company amortized \$16,667 and \$83,333 as consulting expenses, respectively.

On September 14, 2015, the Company entered into a business marketing advisory agreement with a consultant for marketing and general consulting services effective on August 15, 2015. The Company agreed to pay the consultant a monthly fee of \$5,000 and also granted 18,348 shares of the Company's common stock to the consultant for 12 months of services starting on August 15, 2015. Twenty-five percent (25%) of those shares vested on November 15, 2015, 25% on February 15, 2016, 25% on May 15, 2016 and the remaining 25% vest on August 15, 2016. The fair value of the 18,348 shares was \$45,870, which was calculated based on the stock price of \$2.50 per share on August 15, 2015 and will be amortized over the service term. During the years ended December 31, 2016 and 2015, the Company amortized \$28,669 and \$17,201 as consulting expenses, respectively.

On February 1, 2016, the Company entered into a marketing agreement with a consultant for marketing development strategies and consulting services for 15 months. The Company agreed to grant the consultant 10,000 shares of the Company's common stock per month, for a total commitment of 150,000 shares of common stock. The fair value of the 150,000 shares was \$204,000, which was calculated based on the stock price of \$1.36 per share on February 1, 2016, the date the agreement was executed, and will be amortized over the service term. During the year ended December 31, 2016, the Company amortized \$149,600 as consulting expenses.

On February 1, 2016, the Company entered into an agreement with a consultant for E-Commerce consulting service with a term of 24 months. The Company agreed to grant the consultant 10,000 shares of the Company's common stock per month, for a total commitment of 240,000 shares. Twelve and half percent (12.5%) of those shares vested or will vest on April 30, 2016, 12.5% on July 30, 2016, 12.5% on October 31, 2016, 12.5% on January 31, 2017, 12.5% on April 30, 2017, 12.5% on July 30, 2017, 12.5% on October 31, 2017, and the remaining 12.5% on January 31, 2018. The fair value of the 240,000 shares was \$326,400, which was calculated based on the stock price of \$1.36 per share on February 1, 2016, the date the agreement was executed, and will be amortized over the service term. During the year ended December 31, 2016, the Company amortized \$149,600 as consulting expenses.

On February 1, 2016, the Company entered into a consulting agreement with a consultant for planning, coordinating and strategy implementation services for a term of 6 months. The Company agreed to grant the consultant \$10,000 worth of shares of the Company's common stock per month. During the years ended December 31, 2016, 83,386 shares vested, based on the stock prices as of the end of each month commencing February 2016 and concluding September 2016. During the year ended December 31, 2016, the Company amortized \$60,000 as consulting expense.

On November 15, 2016, the Company entered into a consulting and strategy service agreement with a consultant for marketing and general consulting services effective on November 14, 2016. The Company agreed to grant 100,000 shares of the Company's common stock to the consultant for 12 months of services starting on November 14, 2016. Twenty-five percent (25%) of those shares vested on December 15, 2016, 25% on February 15, 2017, 25% on May 15, 2017 and the remaining 25% vest on August 15, 2017. The fair value of the 100,000 shares was \$294,000, which was calculated based on the stock price of \$2.94 per share on November 15, 2016 and will be amortized over the service term. During the years ended December 31, 2016, the Company amortized \$37,858 as consulting expenses.

On November 15, 2016, the Company entered into a consulting agreement with a consultant for business development and financial advisory service for a term of 12 months. The Company agreed to grant the consultant 100,000 shares of the Company's common stock. The fair value of the 100,000 shares was \$294,000, which was calculated based on the stock price of \$2.94 per share on November 15, 2016 and will be amortized over the service term. During the year ended December 31, 2016, the Company amortized \$36,750 as consulting expense.

On November 15, 2016, 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 \$20,000 worth of shares of the Company's common stock based on the price per share on November 15, 2016. The Company also granted the consultant \$15,000 worth of shares of the Company's common stock per month starting from December 1, 2016 for 12 months. During the year ended December 31, 2016, the Company amortized \$17,500 as consulting expense.

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

##### ***Private Placement on April 14, 2014***

On April 14, 2014, the Company entered into a Securities Purchase Agreement with certain purchasers (the "Buyers") pursuant to which the Company sold to the Buyers, in a registered direct offering, an aggregate of 1,320,059 shares of common stock, par value \$0.001 per share, at a negotiated purchase price of \$6.78 per share, for aggregate gross proceeds to the Company of \$8.95 million, before deducting fees to the placement agent of \$716,000 and other estimated offering expenses of \$20,000 payable by the Company.

As part of the transaction, the Buyers also received (i) Series A warrants to purchase up to 660,030 shares of common stock in the aggregate at an exercise price of \$8.48 per share (the "Series A Warrants"); (ii) Series B warrants to purchase up to 633,628 shares of common stock in the aggregate at an exercise price of \$6.82 per share (the "Series B Warrants"); and (iii) Series C warrants to purchase up to 310,478 shares of common stock in the aggregate at an exercise price of \$8.53 per share (the "Series C Warrants" and together with the Series A Warrants and the Series B Warrants, the "Warrants"). According to FASB ASC 815-40-15, these Warrants will be classified as a liability on the balance sheet, initially recorded at fair value with changes in fair value recorded in earnings at each reporting period as they had a settlement provision for adjusting the strike price if new equity is issued at a later date at a price below the strike price.

The Series A Warrants had a term of four years and are exercisable by the holders at any time after the date of issuance. The Series B Warrants had a term of six months and are exercisable by the holders at any time after the date of issuance. All of the Series B Warrants expired on October 14, 2014 and none of the Series B warrants have been exercised. The Series C Warrants have a term of four years and are exercisable by the holders at any time after the date of issuance. After the six month anniversary of the issuance date of the Series C Warrants, to the extent that a holder of Series C Warrant exercised less than 70% of such holder's Series B Warrants and the closing sale price of the common stock was equal to or greater than \$9.81 for a period of ten consecutive trading days, and the Company could purchase the entire then-remaining portion of such holder's Series C Warrants for \$1,000. On October 14, 2014, the Company's closing sale price of the common stock was not equal to or greater than \$9.81 for a period of ten consecutive trading days, accordingly, the Company cannot purchase the entire then-remaining portion of such holder's Series C Warrants for \$1,000.

In addition, at the closing, the Company granted the placement agent or its designees warrants to purchase that number of shares of common stock of the Company equal to seven percent (7%) of the aggregate number of shares placed in the placement (the "Placement Agent Warrants"). The Placement Agent Warrants had the same terms, including exercise price, anti-dilution and registration rights, as the warrants issued to the investors in the placement. At the closing, the placement agent and its designees received Placement Agent Warrants to purchase up to 92,404 shares of common stock.

The Company recorded \$0 and \$767,096 as expense from change in fair value and extinguishment of the warrant liability for the years ended December 31, 2015 and 2016, respectively.

In connection with a Securities Purchase Agreement entered into on May 28, 2015, the Company issued 660,030 shares of common stock to the holders of the Company's Series A Warrants in exchange for the termination and surrender of such warrants, 310,478 shares of the Company's common stock was issued to the holders of the Company's Series C Warrants in exchange for the surrender and termination of such warrants, and 92,404 shares of the Company's common stock were issued to the placement agent of the Company's Placement Agent Warrants in exchange for the surrender and termination of such warrants. As of December 31, 2016, there were no warrants from the April 14, 2014 private placement outstanding.

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

On May 28, 2015, the Company entered into a Securities Purchase Agreement with certain purchasers (the "Purchasers") pursuant to which the Company offered to the Purchasers, in a registered direct offering, an aggregate of 2,970,509 shares of common stock, par value \$0.001 per share. Of these, 2,000,001 shares were sold to the Purchasers at a negotiated purchase price of \$2.00 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 entered on April 14, 2014, the outstanding 2014 Series A Warrants were exchanged for 660,030 shares of common stock, and the outstanding 2014 Series C Warrants were exchanged for 310,478 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 \$2.71 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 Issued to Independent Directors***

In July 2014, the Company entered into restricted stock award agreements under the 2014 Omnibus Long-Term Incentive Plan with four independent directors of the Board. The Company agreed to grant 5,000 shares of the Company's common stock to one independent director and 4,000 shares to each of its other three independent directors, in each case with a grant date of July 9, 2014. The restricted period lapsed as to 25% of the restricted stock on each of the three-month, six-month, nine-month and twelve-month anniversaries of the grant date. The fair value of these shares was \$75,990, which was calculated based on the stock price of \$4.47 per share on July 9, 2014. During the years ended December 31, 2016 and 2015, the Company amortized \$0 and \$33,566 as directors' stock compensation expenses, respectively.

In March 2015, the Company entered into restricted stock award agreements under the 2014 Omnibus Long-Term Incentive Plan with three independent directors of the Board. The Company agreed to grant 12,195 shares of the Company's common stock to each of these independent directors with a grant date of March 24, 2015. The restricted period lapses as to 25% of the restricted stock on September 30, 2015, December 31, 2015, March 31, 2016 and September 30, 2016, subject to the director remaining in the continuous service of the Company or its affiliates on each applicable vesting date. The fair value of these shares was \$119,999, which was calculated based on the stock price of \$3.28 per share on March 24, 2015. During the years ended December 31, 2016 and 2015, the Company amortized \$26,959 and \$93,040 as directors' stock compensation expenses, respectively.

In May 2015, the Company entered into a restricted stock award agreement under the 2014 Omnibus Long-Term Incentive Plan with a new independent director. The Company agreed to grant 12,195 shares of the Company's common stock to the new independent director with a grant date of May 19, 2015. The restricted period lapses as to 25% of the restricted stock on September 30, 2015, December 31, 2015, March 31, 2016 and September 30, 2016, subject to the director remaining in the continuous service of the Company or its affiliates on each applicable vesting date. The fair value of these shares was \$38,292, which was calculated based on the stock price of \$3.14 per share on May 19, 2015. During the years ended December 31, 2016 and 2015, the Company amortized \$14,477 and \$23,815 as directors' stock compensation expenses, respectively.

On August 9, 2016, the Board approved a restricted stock award agreement under the 2014 Omnibus Long-Term Incentive Plan with four independent directors. The Company agreed to grant \$40,000 worth of stocks to each of its four independent directors. The restricted period lapses as of 25% of the restricted stock granted and vested on September 30, 2016 based on the closing price of common stock on Nasdaq as of August 9, 2016, 25% of the restricted stock granted and vested on December 31, 2016 based on the closing price of common stock on Nasdaq as of September 30, 2016, 25% of the restricted stock granted and vested on March 31, 2017 based on the closing price of common stock on Nasdaq as of December 31, 2016, and 25% of the restricted stock granted and vested on June 30, 2016 based on the closing price of common stock on Nasdaq as of March 31, 2017. During the year ended December 31, 2016, the Company amortized \$63,562 as directors' stock compensation expenses.

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

On May 18, 2016, the Company entered into agreements with three designers for product design services for a term of 24 months. The Company agreed to grant each designer 240,000 shares of the Company's common stock. Twenty five percent (25%) of those shares vested or will vest on May 31, 2016, 25% on December 18, 2016, 25% on June 18, 2017 and the remaining 25% on December 18, 2017. The fair value of these shares was \$388,800, which was calculated based on the stock price of \$0.54 per share on May 18, 2016, the date the agreement was executed, and will be amortized over the service term. During the year ended December 31, 2016, the Company amortized \$121,433 as stock compensation expenses, respectively.

On May 20, 2016, the Company entered into restricted stock award agreements under the 2014 Omnibus Long-Term Incentive Plan with the Company's non-director employees for their hard work and dedication over the past years. The Company's agreed to grant an aggregate 600,000 shares of the Company's common stock to the Company's employees on May 20, 2016. The shares were fully vested as of the grant date. The fair value of these shares was \$366,000, which was calculated based on the stock price of \$0.61 per share on May 20, 2016. During the year ended December 31, 2016, the Company recorded \$366,000 as stock compensation expenses, respectively.

On November 14, 2016, the Company entered into an employment agreement with an executive for one year. The Company agreed to grant an award of 30,000 restricted Stock Units to Executive pursuant to the Company's 2014 Omnibus Long-Term Incentive Plan. The fair value of these shares was \$92,100, which was calculated based on the stock price of \$3.07 per share on November 11, 2016, the date the awards were determined by the Compensation Committee of the Board. Twenty-five percent (25%) of those shares vested on December 30, 2016, 25% on March 31, 2017, 25% on June 30, 2017 and the remaining 25% vest on September 30, 2017. During the year ended December 31, 2016, the Company amortized \$12,112 as stock compensation.

On November 15, 2016, the Company entered into an agreement with a designer for furniture design services effective on November 15, 2016 for 1 year. The Company agreed to grant the designer 100,000 shares of the Company's common stock. The fair value of the 100,000 shares was \$294,000, which was calculated based on the stock price of \$2.94 per share on November 15, 2016 and will be amortized over the service term. Twenty-five percent (25%) of those shares vested on February 15, 2017, 25% on May 15, 2017, 25% on August 15, 2017 and the remaining 25% vest on November 15, 2017. During the year ended December 31, 2016, the Company amortized \$36,750 as stock compensation.

#### **Note 15 - 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 PRC laws and regulations described below that require such annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as a general statutory reserve fund, Nova Macao is restricted in its ability to transfer a portion of its net assets to the Company as a dividend.

#### ***Surplus Reserve Fund***

Prior to the Company's divestment of Nova Dongguan and Ding Nuo were required to transfer 10% of net income, as determined under PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the subsidiary's registered capital. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issuance is not less than 25% of the registered capital.

At December 31, 2016 and 2015, 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 16 - Geographical Sales**

Geographical distribution of sales consisted of the following for the years ended December 31, 2016 and 2015:

<b>Geographical Areas</b>	<b>2016</b>	<b>2015</b>
North America	\$ 58,203,291	\$ 75,447,905
Europe	12,488,328	10,579,444
China*	10,002,059	-
Australia	4,871,892	535,145
Asia**	4,349,661	2,676,669
Hong Kong	2,499,418	384,832
Other countries	233,546	319,420
	<u>\$ 92,648,195</u>	<u>\$ 89,943,415</u>

\* excluding Hong Kong

\*\* excluding China and Hong Kong

## Note 17 - Commitments and Contingencies

### *Lease Commitments*

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. The monthly rental payment is \$42,000 with an annual 3% increase. The rent is recorded on a straight-line basis over the term of the lease.

On January 7, 2014, the Company entered into a sublease agreement with Diamond Bar for warehouse space with a five year term commencing on November 1, 2013 and expiring on October 31, 2018. The Company subleased a portion of its warehouse space to one of its customers with a one-year term commencing on December 1, 2013 and expiring on November 30, 2014. The Company renewed the contract for another one-year term on November 30, 2014. On October 1, 2015, the Company extended the contract for a one-year term with expiration on October 31, 2016. On November 1, 2016, the Company extended the contract for one-year term with expiration on October 31, 2017. The sublease income was recorded against the rental expense. During the years ended December 31, 2016 and 2015, the Company recorded \$73,902 and \$75,301 sublease income, respectively.

On September 19, 2013, Bright Swallow entered into a lease agreement for office space in Hong Kong with a two year term, commencing on October 1, 2013 and expiring on September 30, 2015. On September 15, 2015, Bright Swallow renewed the lease for another two year term, commencing on October 1, 2015 and expiring on September 30, 2017. The monthly rental payment is 20,000 Hong Kong Dollars (\$2,578).

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.

Total rental expense from continuing operations for the years ended December 31, 2016 and 2015 was \$675,717 and \$670,347, respectively. The rental expense is recorded on a straight-line basis over the term of the lease.

The total minimum future lease payments are as follows:

12 Months Ended December 31,	Amount
2017	\$ 576,713
2018	472,714
2019	-
2020	-
2021	-
Thereafter	-
Total	\$ 1,049,427

### *Employment Agreements*

On May 3, 2013, the Company entered into an amended and restated employment agreement with Thanh H. Lam to serve as the Company's president for a five-year term. The agreement provides for an annual salary of \$80,000, a grant of 200,000 shares of the Company's common stock and an annual bonus at the sole discretion of the Board. The 200,000 shares to be issued to Ms. Lam are subject to the terms of a stock award agreement. The first 50,000 shares of common stock were vested immediately, and the remaining shares vest at 50,000 shares per year for three years on each anniversary of the effective date of the stock award agreement. The fair value of the shares was based on the stock price of \$3.82 per share on May 3, 2013. During the years ended December 31, 2016 and 2015, the Company recorded \$64,626 and \$191,000, as stock-based compensation to Ms. Lam, respectively.

On November 10, 2014, the Company's Board of Directors ratified the 2015 annual compensation of the Company's Chief Executive Officer, Chief Financial Officer and President as approved by the Company's Compensation Committee, and, upon the recommendation of the Company's Compensation Committee, approved the grant of Restricted Stock Units to the Company's CEO, CFO and President. The cash compensation for such officers remained the same as in 2014 (\$100,000 for CEO, \$80,000 for CFO and \$80,000 for the President). In addition, each of them received a grant of 46,403 Restricted Stock Units ("RSU"). The fair value of the 46,403 shares of RSU was \$200,000, which was calculated based on the stock price of \$4.31 per share on October 27, 2014, the date the awards were determined by the Compensation Committee. The RSU grants vested 25% on March 30, 2015, 25% on June 30, 2015, 25% on September 30, 2015 and 25% on December 31, 2015. During the nine months ended September 30, 2016 and 2015, the Company recorded \$0 and \$450,000, respectively, as stock-based compensation to the officers. During years ended December 31, 2016 and 2015, the Company recorded \$0 and \$600,000 as stock-based compensation to the officers, respectively.

On March 21, 2016, the Company granted Restricted Stock Units to the Company's CEO, CFO and President. Each of them will receive a grant of 100,000 Restricted Stock Units ("RSU"). The fair value of the 300,000 shares of RSU was \$360,000, which was calculated based on the stock price of \$1.20 per share on March 21, 2016. The RSU grants vested 25% on March 30, 2016 and 25% on September 30, 2016; the remaining RSU grants will vest according to the following schedule: 25% on September 30, 2016 and 25% on December 31, 2016. During the years ended December 31, 2016, the Company recorded \$360,000 as stock-based compensation to the officers.

On March 25, 2016, the Company entered into one-year employment agreements, effective as of November 11, 2015, with Mr. Ya Ming (Jeffrey) Wong and Mr. Yuen Ching (Sammy) Ho to serve as the Company's CEO and CFO, respectively. These agreements are in substantially the same form as the previous one-year employment agreements entered into on March 25, 2015 (which expired by their terms), and provide for annual salaries of \$100,000 for Mr. Wong and \$80,000 for Mr. Ho, and annual bonuses at the sole discretion of the Board of Directors. The employment agreements also reflect the RSU grants described in the immediately preceding paragraph. On October 3, 2016, Mr. Wong resigned his position as CEO, terminated his employment agreement, and forfeited 25,000 RSUs granted to him under such agreement.

#### **Note 18 - Subsequent Events**

The Company has evaluated all events through the issuance of the consolidated financial statements and no subsequent event is identified.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: April 14, 2017

By:

/s/ Thanh H. Lam

Thanh H. Lam

Chairperson and Chief Executive Officer

(Principal Executive Officer)

## Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thanh H. Lam and Yuen Ching Ho, jointly and severally, his or her attorneys-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Thanh H. Lam</u> Thanh H. Lam	Chief Executive Officer, President, Director and Chairperson (Principal Executive Officer)	April 14, 2017
<u>/s/ Yuen Ching Ho</u> Yuen Ching Ho	Chief Financial Officer and Director (Principal Financial and Accounting Officer)	April 14, 2017
<u>/s/ Bin Liu</u> Bin Liu	Director	April 14, 2017
<u>/s/ Umesh Patel</u> Umesh Patel	Director	April 14, 2017
<u>/s/ Huy P. La</u> Huy P. La	Director	April 14, 2017

## EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger by and between Stevens Resources, Inc. and Nova LifeStyle, Inc., dated June 14, 2011 (Incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
2.2	Share Exchange Agreement and Plan of Reorganization by and between Nova Furniture Limited and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
2.3	Return to Treasury Agreement by and between Nova LifeStyle, Inc. and Alex Li, dated June 30, 2011 (Incorporated herein by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.1	Articles of Incorporation (Incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-163019) filed on November 10, 2009)
3.2	Amended and Restated Bylaws (Incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.3	Certificate of Amendment to Articles of Incorporation filed with the Secretary of the State of Nevada on December 15, 2009, and effective as of September 9, 2009 (Incorporated herein by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.4	Articles of Merger between Stevens Resources, Inc. and Nova LifeStyle, Inc. amending the Articles of Incorporation filed with the Secretary of State of the State of Nevada on June 14, 2011, and effective as of June 27, 2011 (Incorporated herein by reference to Exhibit 3.4 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
3.5	Articles of Exchange of Nova Furniture Limited and Nova LifeStyle, Inc. filed with the Secretary of State of the State of Nevada on June 30, 2011 (Incorporated herein by reference to Exhibit 3.5 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
4.1	Specimen Stock Certificate (Incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
4.2	Form of Regulation S Subscription Agreement (Incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.3	Form of Regulation D Subscription Agreement (Incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.4	Form of Regulation S Warrant (Incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.5	Form of Regulation D Warrant (Incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.6	Form of Regulation S Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.7	Form of Regulation D Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 22, 2011)
4.8	Form of Regulation S Subscription Agreement (Incorporated herein by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.9	Form of Regulation D Subscription Agreement (Incorporated herein by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.10	Form of Regulation S Warrant (Incorporated herein by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.11	Form of Regulation D Warrant (Incorporated herein by reference to Exhibit 4.11 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.12	Form of Regulation S Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.12 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.13	Form of Regulation D Registration Rights Agreement (Incorporated herein by reference to Exhibit 4.13 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on January 18, 2012)
4.14	Form of Series A Warrant (Incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
4.15	Form of Series B Warrant (Incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
4.16	Form of Series C Warrant (Incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)

- 10.1 Option to Purchase Agreement, dated September 30, 2009 (Incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-163019) filed on November 10, 2009)
- 10.2 Shareholder Agreement by and between Nova Furniture Limited and St. Joyal, dated January 1, 2011 (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.3 Intellectual Property Rights Transfer Agreement by and between Nova Furniture (Dongguan) Co., Ltd. and Ya Ming Wong, dated January 7, 2011 (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.4 Form of Product Franchise Agreement (Incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.5 Promissory Note, dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 30, 2011)
- 10.6 Lock-Up Agreement between Ya Ming Wong and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.9 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.7 Lock-Up Agreement between Yuen Ching Ho and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.10 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.8 Lock-Up Agreement between Jun Jiang and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.11 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.9 Lock-Up Agreement between Qiang Liu and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.12 to the First Amendment to the Company's Current Report on Form 8-K (File No. 333-163019) filed on August 10, 2011)
- 10.10 Stock Purchase Agreement between Nova LifeStyle, Inc. and Jun Zhang, dated August 31, 2011 (Incorporated herein by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on September 6, 2011)
- 10.11 Trademark Purchase and Assignment Agreement by and between St. Joyal and Nova LifeStyle, Inc., dated August 31, 2011 (Incorporated herein by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on September 6, 2011)
- 10.12 First Amendment to Intellectual Property Rights Transfer Agreement by and between Nova Furniture (Dongguan) Co., Ltd. and Ya Ming Wong, dated September 21, 2011 (Incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-177353) filed on October 17, 2011)
- 10.13 Stock Acquisition Agreement by and between Nova LifeStyle, Inc. and Bright Swallow International Group Limited, dated March 22, 2013 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on March 26, 2013)
- 10.14 Amended and Restated Employment Agreement between Nova LifeStyle, Inc. and Thanh H. Lam, dated May 3, 2013 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on May 9, 2013)
- 10.15# Form of Director Agreement (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 3, 2013)
- 10.16# Employment Agreement between Nova LifeStyle, Inc. and Ya Ming Wong, dated November 7, 2013 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on November 12, 2013)
- 10.17# Employment Agreement between Nova LifeStyle, Inc. and Yuen Ching Ho, dated November 7, 2013 (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on November 12, 2013)
- 10.18 First Amendment to Lock-Up Agreement between Ya Ming Wong and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
- 10.19 First Amendment to Lock-Up Agreement between Yuen Ching Ho and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
- 10.20 First Amendment to Lock-Up Agreement between Jun Jiang and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)

10.21	First Amendment to Lock-Up Agreement between Qiang Liu and Nova LifeStyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.22	Lock-Up Agreement between Ah Wan Wong and Nova LifeStyle, Inc., dated June 30, 2011 (Incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.23	Lock-Up Agreement between Man Shek Ng and Nova LifeStyle, Inc., dated August 18, 2011 (Incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.24	First Amendment to Lock-Up Agreement between Ah Wan Wong and Nova Lifestyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.25	First Amendment to Lock-Up Agreement between Man Shek Ng and Nova Lifestyle, Inc., dated March 25, 2014 (Incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.26	Stock Award Agreement between Tanh H. Lam and Nova Lifestyle, Inc., effective May 3, 2013 (Incorporated herein by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K (File No. 333-163019) filed on March 31, 2014)
10.27	Securities Purchase Agreement by and among Nova LifeStyle, Inc. and each of the investors listed on the Schedule of Buyers attached thereto, dated April 14, 2014 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
10.28	Placement Agent Agreement by and between Nova LifeStyle, Inc. and FT Global Capital, Inc., dated March 31, 2014 (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on April 14, 2014)
10.29#	Nova LifeStyle, Inc. 2014 Omnibus Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A (File No. 333-163019) filed on July 10, 2014)
10.30#	Nova LifeStyle, Inc. Form of Restricted Stock Award Agreement (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A (File No. 333-163019) filed on July 10, 2014)
10.31#	Employment Agreement between Nova LifeStyle, Inc. and Ya Ming Wong, dated March 25, 2015 and effective as of November 10, 2014 (Incorporated herein by reference to Exhibit 10.31 to the Company's annual report on Form 10-K filed on March 26, 2015)
10.32#	Employment Agreement between Nova LifeStyle, Inc. and Yuen Ching Ho, dated March 25, 2015 and effective as of November 10, 2014 (Incorporated herein by reference to Exhibit 10.32 to the Company's annual report on Form 10-K filed on March 26, 2015)
10.33#	Employment Agreement between Nova LifeStyle, Inc. and Ya Ming Wong, dated March 25, 2016 and effective as of November 11, 2015
10.34#	Employment Agreement between Nova LifeStyle, Inc. and Yuen Ching Ho, dated March 25, 2016 and effective as of November 11, 2015
10.35†	<a href="#">Share Transfer Agreement between Nova Furniture Limited and Kuka Design Limited, dated September 23, 2016</a>
10.36†	<a href="#">Trademark Assignment Agreement between Nova Furniture Limited and Kuka Design Limited, dated November 10, 2016</a>
14.1	Code of Business Conduct and Ethics of Nova Lifestyle, Inc. (Incorporated herein by reference to Exhibit 14.1 to the Company's Current Report on Form 8-K (File No. 333-163019) filed on June 10, 2013)
21.1†	<a href="#">Subsidiaries of the Registrant</a>
23.1†	<a href="#">Consent of Centurion ZD CPA Limited</a>
24.1†	<a href="#">Power of Attorney (Included on the Signature Page of this Annual Report on Form 10-K)</a>
31.1†	<a href="#">Certification of Principal 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 Principal 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="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

# Indicates management contract or compensatory plan, contract or arrangement.  
† Filed herewith.  
‡ Furnished herewith.



**SHARE TRANSFER AGREEMENT**

By

Nova Furniture Limited

a company incorporated in British Virgin Islands

and

Kuka Design Limited

a company incorporated in British Virgin Islands

Dated as of September 23, 2016

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## SHARE TRANSFER AGREEMENT

This Share Transfer Agreement is made effective as of the 23rd day of September, 2016 by and between Nova Furniture Limited, a company incorporated in British Virgin Islands (the “**Nova BVI**” or “**Seller**”) and Kuka Design Limited, a company incorporated in British Virgin Islands (“**Kuka**” or “**Buyer**”). Buyer and Seller are sometimes hereinafter collectively referred to as the “**Parties**” and each individually as a “**Party**”.

### **WHEREAS:**

- A. The Seller is Nova Furniture Limited in BVI, a company incorporated in British Virgin Islands (“**NOVA BVI**”); and
- B. NOVA BVI is the sole owner and shareholder of Nova Furniture (Dongguan) Co., Ltd. in China (“Nova Dongguan”), and Nova Dongguan owns 100% of Nova Dongguan Chinese Style Furniture Museum (“Nova Museum”) and 90.91% of Dongguan Ding Nuo Household Products Co., Ltd.; and
- C. Upon the terms and subject to the conditions set forth in this Agreement, the Seller has agreed to sell all of the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. held by the Seller to the Buyer; and
- D. Upon the terms and subject to the conditions set forth in this Agreement, the Buyer has agreed to purchase all of the issued and outstanding common shares of Nova Furniture (Dongguan) Co., Ltd. from the Seller.

**NOW THEREFORE**, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, covenant and agree as follows:

### **1. DEFINITIONS**

1.1 Definitions. The following terms have the following meanings in this Agreement, unless the context indicates otherwise:

- (a) “**Agreement**” shall mean this Agreement, and all the exhibits and other documents attached or referred hereto, and all amendments and supplements, if any, hereto;
  - (b) “**Closing**” shall mean the completion of the Transaction, in accordance with Section 7 hereof, at which the Closing Documents shall be exchanged by the parties, except for those documents or other items specifically required to be exchanged at a later time;
  - (c) “**Closing Date**” shall mean a date mutually agreed upon by the parties hereto in writing and in accordance with Section 7 hereof following the satisfaction or waiver by Buyer and Seller of the conditions precedent set out in Section 5
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hereof, respectively, provided that such date shall be no later than October 30, 2016 unless mutually agreed to in writing by the Parties;

- (d) **“Closing Documents”** shall mean the papers, instruments and documents required to be executed and delivered at the Closing pursuant to this Agreement;
- (e) **“Liabilities”** shall include any direct or indirect indebtedness, guaranty, endorsement, claim, loss, damage, deficiency, cost, expense, obligation or responsibility, fixed or unfixed, known or unknown, asserted choate or inchoate, liquidated or unliquidated, secured or unsecured;
- (f) **“Taxes”** shall mean all international, federal, state, provincial and local income taxes, capital gains taxes, value-added taxes, franchise, personal property and real property taxes, levies, assessments, tariffs, duties (including any customs duties), business license or other fees, sales, use and any other taxes relating to the assets of the designated party or the business of the designated party for all periods up to and including the Closing Date, together with any related charge or amount, including interest, fines, penalties and additions to tax, if any, arising out of tax assessments;
- (g) **“Transaction”** shall mean the purchase of all of the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. by Buyer from the Seller in consideration as described in section 2.

1.2 Currency. All references to currency in this Agreement are to United States Dollars, unless expressly stated otherwise.

## 2. OFFER, PURCHASE AND SALE OF SHARES

2.1 Offer, Purchase and Sale of Shares. Subject to the terms and conditions of this Agreement, the Seller hereby covenants and agrees to sell, assign and transfer to Buyer, and Buyer hereby covenants and agrees to purchase from the Seller, all of the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. at the Purchase Price as defined below in section 2.2 of this Agreement. The Buyer understands and agrees that it purchases all the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. which include all the assets and liabilities of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries.

2.2 Consideration. Parties agree that the aggregate value of all of the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. (the **“Shares”**) is US\$ 8,500,000 (the **“Purchase Price”**), which value is primarily derived from Nova Furniture (Dongguan) Co., Ltd.’s direct, wholly-owned operating entity Nova Museum and Ding Nuo.

2.3 Payment of Purchase Price. The Buyer shall pay the Purchase Price to the bank account below before the Closing Date:

Account Name: Nova Furniture Macao Commercial Offshore, Ltd.

Account Number: 001-223445-151

Bank: The Hongkong and Shanghai Banking Corp Ltd (HSBC), Macao office

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2.4 Closing Date. The Closing will take place, subject to the terms and conditions of this Agreement, on the Closing Date.

### 3. REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer that the statements contained in this Article 3 are true and correct as of the date hereof:

#### 3.1 Organization of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries.

- (a) Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries are corporations duly organized, validly existing and in good standing under the laws of their respective jurisdictions of incorporation and each has the requisite corporate power and authority to own, lease and carry on its business as now being conducted. Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries are duly qualified to do business and are in good standing as foreign corporations in each of the jurisdictions in which they own property, lease property, do business.
- (b) All of the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. have been duly authorized, are validly issued, were not issued in violation of any pre-emptive rights and are fully paid and non-assessable, are not subject to preemptive rights and were issued in full compliance with the laws of the PRC. There are no outstanding options, warrants, subscriptions, conversion rights, or other rights, agreements, or commitments obligating Nova Furniture (Dongguan) Co., Ltd. to issue any additional shares of Nova Furniture (Dongguan) Co., Ltd.
- (c) The issued and outstanding shares of each of Nova Furniture (Dongguan) Co., Ltd.'s subsidiaries have been duly authorized, are validly issued, were not issued in violation of any pre-emptive rights and are fully paid and non-assessable, are not subject to preemptive rights and were issued in full compliance with all applicable laws. There are no outstanding options, warrants, subscriptions, conversion rights, or other rights, agreements, or commitments obligating Nova Furniture (Dongguan) Co., Ltd. or any of its subsidiaries to issue any additional common stock of any of Nova Furniture (Dongguan) Co., Ltd.'s subsidiaries, or any other securities convertible into, exchangeable for, or evidencing the right to subscribe for or acquire any shares of the common stock of any of Nova Furniture (Dongguan) Co., Ltd.'s subsidiaries.

3.2 Ownership of Equity. Seller (i) has good and valid title to and beneficial ownership of the number of shares of capital stock of Nova Furniture (Dongguan) Co., Ltd. free and clear of all liens, pledges, security interests and encumbrances, (ii) has not granted any option, warrant or other right in or to any of the Shares, and (iii) is not a party to any voting trust, voting agreement or shareholder agreement with respect to the Shares.

3.3 Authority. Seller has all requisite corporate power and authority to execute and deliver this Agreement and any other document contemplated by this Agreement (collectively, the

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“**Seller Documents**”) to be signed by Seller and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of each of the Seller Documents by Seller and the consummation by Seller of the transactions contemplated hereby have been duly authorized by its board of directors and approved by the shareholder of the Seller. This Agreement has been, and the other Seller Documents when executed and delivered by Seller as contemplated by this Agreement will be, duly executed and delivered by Seller and this Agreement is, and the other Seller Documents when executed and delivered by Seller, as contemplated hereby will be, valid and binding obligations of Seller enforceable in accordance with their respective terms, except:

- (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally;
- (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies; and
- (c) as limited by public policy.

3.4 **Legal Proceedings.** There are no suits, actions, claims, proceedings or investigations pending or, to the knowledge of Seller, threatened against, relating to or involving any Seller or Nova Furniture (Dongguan) Co., Ltd. that would or would reasonably be expected to impair the ability of Seller or Nova Furniture (Dongguan) Co., Ltd. to perform its respective obligations hereunder or prevent or delay the consummation of the Transaction.

3.5 **Non-Contravention.** Neither the execution, delivery and performance of this Agreement, nor the consummation of the Transaction, will:

- (a) conflict with, result in a violation of, cause a default under (with or without notice, lapse of time or both) or give rise to a right of termination, amendment, cancellation or acceleration of any obligation contained in or the loss of any material benefit under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the material properties or assets of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries under any term, condition or provision of any loan or credit agreement, note, debenture, bond, mortgage, indenture, lease or other agreement, instrument, permit, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Nova Furniture (Dongguan) Co., Ltd. or any of its subsidiaries, or any of their respective material property or assets;
  - (b) violate any provision of the Articles of Incorporation, Bylaws or any other documents of Nova Furniture (Dongguan) Co., Ltd. or any of its subsidiaries or any applicable laws; or
  - (c) violate any order, writ, injunction, decree, statute, rule, or regulation of any court or governmental or regulatory authority applicable to Nova Furniture (Dongguan) Co., Ltd. or its subsidiaries or any of their respective material property or assets.
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3.6 Actions and Proceedings. There is no basis for and there is no action, suit, judgment, claim, demand or proceeding outstanding or pending, or threatened against or affecting Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries that, if adversely resolved or determined, would have a material adverse effect on the business, operations, assets and properties of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries taken as a whole (a “**Material Adverse Effect**”). There is no reasonable basis for any claim or action that, based upon the likelihood of its being asserted and its success if asserted, would have such a Material Adverse Effect.

3.7 Compliance.

- (a) Each of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries is in compliance with, is not in default or violation in any material respect under, and has not been charged with or received any notice at any time of any material violation of any statute, law, ordinance, regulation, rule, decree or other applicable regulation to its business or operations;
- (b) None of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries is subject to any judgment, order or decree entered in any lawsuit or proceeding applicable to its business and operations that would constitute a Material Adverse Effect;
- (c) Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries has operated in material compliance with all laws, rules, statutes, ordinances, orders and regulations applicable to its business. None of Nova Furniture (Dongguan) Co., Ltd. or its subsidiaries has received any notice of any violation thereof, nor is aware of a valid basis therefore.

3.8 Tax Matters.

- (a) None of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries are presently under (nor have any of them received notice of any contemplated) investigation or audit by any regulatory or governmental agency or body or any foreign or state taxing authority concerning any fiscal year or period ended prior to the date hereof;
- (b) To the Seller’s knowledge, there are no liens for Taxes upon any of the assets of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries, except for liens for Taxes not yet due and payable.
- (c) Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries have paid, or made provision for the payment of, all material Taxes required to be paid with respect to their businesses and assets.

3.9 No Brokers. None of Nova Furniture (Dongguan) Co., Ltd., Nova Furniture (Dongguan) Co., Ltd.’s subsidiaries or Seller has incurred any obligation or liability to any party for any brokerage fees, agent’s commissions or finder’s fees in connection with the Transaction contemplated by this Agreement

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#### 4. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller that the statements contained in this Article 4 are true and correct as of the date hereof:

4.1 Organization and Good Standing. Buyer is duly incorporated, organized, validly existing and in good standing under the laws of Hong Kong and has all requisite corporate power and authority to own, lease and carry on its business as now being conducted.

4.2 Authority. Buyer has all requisite corporate power and authority to execute and deliver this Agreement and any other document contemplated by this Agreement (collectively, the “**Buyer Documents**”) to be signed by Buyer and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of each of the Buyer Documents by Buyer and the consummation by Buyer of the transactions contemplated hereby have been duly authorized by its board of directors and approved by the shareholder of the Buyer. This Agreement has been, and the other Buyer Documents when executed and delivered by Buyer as contemplated by this Agreement will be, duly executed and delivered by Buyer and this Agreement is, and the other Buyer Documents when executed and delivered by Buyer, as contemplated hereby will be, valid and binding obligations of Buyer enforceable in accordance with their respective terms, except:

- (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors’ rights generally;
- (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies; and
- (c) as limited by public policy.

4.3 Information Concerning the Company. Buyer is solely responsible for conducting its own due diligence with respect to Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries’ liabilities and for gathering enough information upon which to base a decision in purchasing the Shares. Buyer acknowledges that Seller has not made any representations with respect to Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries or their status or as to the value or merit of an investment in the Shares, except as explicitly stated in this Agreement. Buyer understands that Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries are sold “AS IS, WHERE IS”, without any representation or warranty except as explicitly stated in this Agreement.

4.4 Non-Contravention; Buyers’ Consents. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby and thereby do not and will not:

- (a) violate, or result in a breach of, or constitute an occurrence of default under any provision of, result in the acceleration or cancellation of any obligation under, or give rise to a right by any third party to terminate or amend its obligations under, any contract to which Buyer is a party or by which it or its assets or properties are
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bound, or result in the creation of any encumbrance upon any of its assets or properties, which violation, breach, default or encumbrance would individually or in the aggregate be material to Buyer or materially impair or delay or prevent the consummation of the transactions contemplated hereby,

- (b) violate any applicable Law of any governmental body having jurisdiction over Buyer, which violation would individually or in the aggregate be materially adverse to Buyer, or
- (c) require the consent, authorization, order or approval of, filing or registration with, or waiver of any right of first refusal or first offer from, any governmental body or any third party, that has not been obtained, except as would not individually or in the aggregate be materially adverse to Buyer.

4.5 Litigation. There are no actions, suits, claims, investigations or other legal proceedings pending or, to the knowledge of Buyer, threatened against or by Buyer that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement.

4.6 Compliance with Laws. The Buyer is in material compliance with all laws and regulations of or from any governmental body applicable to its business and assets.

4.7 No Brokers. Buyer has not incurred any obligation or liability to any party for any brokerage fees, agent's commissions or finder's fees in connection with the Transaction contemplated by this Agreement.

## 5. CLOSING CONDITIONS

5.1 Conditions Precedent to Closing by Buyer. The obligation of Buyer to consummate the Transaction is subject to the satisfaction or written waiver of the conditions set forth below by a date mutually agreed upon by the parties hereto in writing and in accordance with Section 7. The Closing of the Transaction contemplated by this Agreement will be deemed to mean a waiver of all conditions to Closing. These conditions precedent are for the benefit of Buyer and may be waived by Buyer in its sole discretion.

- (a) Representations and Warranties. The representations and warranties of the Seller set forth in this Agreement will be true, correct and complete in all respects as of the Closing Date, as though made on and as of the Closing Date.
  - (b) Performance. All of the covenants and obligations that the Seller are required to perform or to comply with pursuant to this Agreement at or prior to the Closing must have been performed and complied with in all material respects.
  - (c) Transaction Documents. This Agreement and all other documents necessary to consummate the Transaction, all in form and substance reasonably satisfactory to Buyer, will have been executed and delivered to Buyer.
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- (d) No Material Adverse Change. No Material Adverse Effect will have occurred since the date of this Agreement.
- (e) Surrender of Shares. Seller shall surrender all of the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. to Buyer endorsed in blank for transfer from Seller to Buyer.

5.2 Conditions Precedent to Closing by Seller. The obligation of the Seller to consummate the Transaction is subject to the satisfaction or written waiver of the conditions set forth below by a date mutually agreed upon by the parties hereto in writing and in accordance with Section 7. The Closing of the Transaction will be deemed to mean a waiver of all conditions to Closing. These conditions precedent are for the benefit of the Seller and may be waived by Seller in their discretion.

- (a) Representations and Warranties. The representations and warranties of Buyer set forth in this Agreement will be true, correct and complete in all respects as of the Closing Date, as though made on and as of the Closing Date.
- (b) Payment of Purchase Price. The Purchase Price has been transferred to the bank accounts of the Seller or its designated bank account pursuant to Article 2 of this Agreement.
- (c) Performance. All of the covenants and obligations that the Buyer are required to perform or to comply with pursuant to this Agreement at or prior to the Closing must have been performed and complied with in all material respects.
- (d) Transaction Documents. This Agreement and all other documents necessary to consummate the Transaction, all in form and substance reasonably satisfactory to Seller, will have been executed and delivered to Seller.

## 6. ADDITIONAL COVENANTS OF THE PARTIES

6.1 Confidentiality. All information regarding the business of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries including, without limitation, financial information that Seller provides to Buyer during its due diligence investigation of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries will be kept in strict confidence by Buyer and will not be used (except in connection with due diligence), dealt with, exploited or commercialized by Buyer or disclosed to any third party (other than Seller's professional accounting and legal advisors) without Seller's prior written consent unless it is required by the law or regulations.

6.2 Conduct of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries. From the date of this Agreement to the Closing Date, and except to the extent that Buyer otherwise consents in writing, Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries will operate its business substantially as presently operated and only in the ordinary course and in compliance with all applicable laws, and use its best efforts to preserve its good reputation and present business organization and to preserve its relationships with persons having business dealings with it.

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6.3 Existing Liabilities of Nova Furniture (Dongguan) Co., Ltd. and its Subsidiaries. The Buyer understands it acquires all of the issued and outstanding shares of Nova Furniture (Dongguan) Co., Ltd. and the Buyer agrees to assume all the existing liabilities and responsibilities of Nova Furniture (Dongguan) Co., Ltd. and its subsidiaries, including but not limited to the existing RMB 20 million bank loan owed by Nova Dongguan to Dongguan Rural Credit Cooperatives (东莞农村商业银行) and additional severance payment to employees of Nova Dongguan based on the years of their services to Nova Dongguan upon their termination according to Chinese labor law.

6.4 Notification. Between the date of this Agreement and the Closing Date, each of the parties to this Agreement will promptly notify the other parties in writing if it becomes aware of any fact or condition that causes or constitutes a material breach of any of its representations and warranties as of the date of this Agreement, if it becomes aware of the occurrence after the date of this Agreement of any fact or condition that would cause or constitute a material breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition.

6.5 Public Announcements. Buyer and Seller agree that they will not release or issue any reports or statements or make any public announcements relating to this Agreement or the Transaction contemplated herein without the prior written consent of the other party, except as may be required to comply with applicable laws or regulatory requirements.

## **7. CLOSING**

7.1 Closing. The Closing shall take place on the Closing Date at the office of Nova Dongguan or at such other location as agreed to by the parties.

7.2 Closing Deliveries of Seller. At Closing, Seller will deliver or cause to be delivered the following, fully executed and in form and substance reasonably satisfactory to Buyer:

- (a) copies of the resolutions or consent action adopted by or on behalf of the Board of Directors and the shareholders of Buyer evidencing approval of this Agreement and the Transaction
- (b) A fully executed and completed copy of this Agreement and any other necessary documents, each duly executed by Seller, as required to give effect to the Transaction
- (c) share certificate or equivalent document representing the Nova Furniture (Dongguan) Co., Ltd. Shares;

7.3 Closing Deliveries of Buyer. At Closing, Buyer will deliver or cause to be delivered the following, fully executed and in form and substance reasonably satisfactory to Seller:

- (a) copies of the resolutions or consent action adopted by or on behalf of the Board of Directors and the shareholders of Buyer evidencing approval of this Agreement and the Transaction;
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- (b) A fully executed and completed copy of this Agreement and any other necessary documents, each duly executed by Buyer, as required to give effect to the Transaction; and
- (c) evidence of payment of Purchase Price by the Buyer to the bank account in accordance with section 2.3 hereof.

## 8. INDEMNIFICATION

Each Party shall indemnify and hold harmless the other Party from and against any and all losses, damages, expenses and liabilities or actions, investigations, inquiries, arbitrations, claims or other proceedings in respect thereof (collectively “**Actions**”) (Liabilities and Actions are herein collectively referred to as “**Losses**”), that arise by reason of representations by such Party in this Agreement being untrue in any material respect or by reason of a breach of any of obligations of such Party under this Agreement. The Buyer shall also indemnify and hold harmless Nova Lifestyle, Inc. and its officers and directors (collectively “**Nova US**”) from and against any and all the Losses that arise by reason of representations by the Buyer in this Agreement being untrue in any material respect or by reason of a breach of any of obligations of the Buyer under this Agreement. Losses include, but are not limited to, all reasonable legal fees, court costs and other expenses incurred in connection with investigating, preparing, defending, paying, settling or compromising any suit in law or equity arising out of this Agreement or for any breach of this Agreement notwithstanding the absence of a final determination as to breaching Party’s obligations to reimburse the other Party or Nova US for such Losses and the possibility that such payments might later be held to have been improper.

## 9. TERMINATION

9.1 Termination. This Agreement may be terminated at any time prior to the Closing Date contemplated hereby by:

- (a) mutual agreement of Buyer and Seller;
- (b) Buyer, if there has been a material breach by the Seller of any material representation, warranty, covenant or agreement set forth in this Agreement that is not cured, to the reasonable satisfaction of Buyer, within ten business days after notice of such breach is given by Buyer;
- (c) Seller, if there has been a material breach by Buyer of any material representation, warranty, covenant or agreement set forth in this Agreement on the part of Buyer that is not cured by the breaching party, to the reasonable satisfaction of the Seller, within ten business days after notice of such breach is given by Buyer.

9.2 Effect of Termination. In the event of the termination of this Agreement as provided in Section 9.1, this Agreement will be of no further force or effect, provided, however, that no termination of this Agreement will relieve any party of liability for any breaches of this Agreement that are based on a wrongful refusal or failure to perform any obligations.

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## 10. MISCELLANEOUS PROVISIONS

10.1 Amendment. This Agreement may not be amended except by an instrument in writing signed by each of the parties.

10.2 Expenses. Each party will bear its own costs incurred in connection with the preparation, execution and performance of this Agreement and the Transaction contemplated hereby, including all fees and expenses of its own agents, representatives and accountants.

10.3 Entire Agreement. This Agreement, the schedules attached hereto and the other documents in connection with this transaction contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior arrangements and understandings, both written and oral, expressed or implied, with respect thereto. Any preceding correspondence or offers are expressly superseded and terminated by this Agreement.

10.4 Notices. All notices and other communications required or permitted under this Agreement must be in writing and will be deemed given if sent by email, personal delivery, faxed with electronic confirmation of delivery, internationally-recognized express courier or registered or certified mail (return receipt requested), postage prepaid, to the parties at the addresses provided in this Agreement.

All such notices and other communications will be deemed to have been received:

- (a) In the case of email, on the day after the email has been sent;
- (b) in the case of personal delivery, on the date of such delivery;
- (c) in the case of a fax, when the party sending such fax has received electronic confirmation of its delivery;
- (d) in the case of delivery by internationally-recognized express courier, on the third business day following dispatch; and
- (e) in the case of mailing, on the seventh business day following mailing.

10.5 Headings. The headings contained in this Agreement are for convenience purposes only and will not affect in any way the meaning or interpretation of this Agreement.

10.6 Assignment. This Agreement may not be assigned (except by operation of law) by any party without the consent of the other parties.

10.7 Governing Law and Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to any other choice or conflict of law provision that would cause the application of the laws of any other jurisdiction other than New York. Buyer and Seller irrevocably consent to the jurisdiction of the courts of the County of New York, State of New York and of any Federal court located in such county in connection with any action, suit or proceedings arising out of or relating to this Agreement or any action taken or omitted hereunder, and waive personal service of any summons, complaint or

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other process, and agree that the service thereof may be made by certified or registered mail directed to any or all of the Parties at the addresses listed on the signature pages attached hereto.

10.8 Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party.

10.9 Gender. All references to any party will be read with such changes in number and gender as the context or reference requires.

10.10 Counterparts. This Agreement may be executed in one or more counterparts, all of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

10.11 Effective. This Agreement becomes effective upon the parties' execution.

**IN WITNESS WHEREOF**, the Parties hereto have executed this Agreement as of the first date written above by the undersigned thereunto duly authorized.

**SELLER**

Nova Furniture Limited (**Nova BVI**)

By: /s/ Thanh H. Lam  
Name: Thanh H. Lam  
Title:  
Address:

Tel.:  
Email:

**BUYER**

Kuka Design Limited

By: /s/ Gu Jiangsheng  
Name: GU Jiangsheng  
Title:  
Address: Room 901, 9/F, Easey Commercial  
Bldg., 253-261 Hennessy Road, Wanchai,  
Hong Kong  
Tel.: 6570-3676  
Email: kuka\_design@yahoo.com

**TRADEMARK ASSIGNMENT AGREEMENT**

THIS ASSIGNMENT AGREEMENT is made between Nova Furniture Limited a company incorporated in British Virgin Islands, (the "Assignor") and Kuka Design Limited, a company incorporated in British Virgin Islands and having its principal office at Room 901, 9/F, Easey Commercial Bldg., 253-261 Hennessy Road, Wanchai, Hong Kong, (the "Assignee").

WHEREAS, the Assignor is the owner of the Chinese trademark registration(s) and /or application(s) listed on Schedule A hereto, (the "Trademark(s)").

WHEREAS, the Assignor has agreed to assign the Trademark(s) to the Assignee, and the Assignee has agreed to accept said assignment.

NOW THEREFORE, for good and valuable consideration in the sum of \$6,000,000 USD, the sufficiency of which is hereby acknowledged, the Assignor hereby assigns to the Assignee, its successors and assigns, all its full right to and title in the Trademark(s), together with the goodwill of the business in the goods to which the Trademark(s) pertain. Assignee shall pay the agreed upon consideration in two installments as follows: \$1,000,000 USD on or before November 30, 2016, and \$5,000,000 USD on or before December 31, 2016.

IN WITNESS WHEREOF, the Assignor and Assignee have caused this Agreement to be executed by their duly authorized officers.

**ASSIGNOR,**

Dated this 10<sup>th</sup> date of November 2016

By: /s/ Thanh H. Lam  
Thanh H. Lam  
Director  
Nova Furniture Limited

**ASSIGNEE,**

Dated this 10<sup>th</sup> date of November 2016

By: s/ Gu Jiangsheng  
Gu Jiangsheng  
Director  
Kuka Design Limited

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**Schedule A**

**Assigned Mark(s)**

<u>Mark</u>	<u>Registration No.</u>	<u>Registration Date</u>	<u>Country</u>
NOVA	441900400004342	24 March 2011	China

Nova LifeStyle, Inc. and subsidiaries as of December 31, 2015

Subsidiary Name	Jurisdiction of Incorporation	Percentage Owned
Diamond Bar Outdoors, Inc.	California, U.S.	100%
Bright Swallow International Group Limited	British Virgin Islands	100%
Nova Furniture Limited	British Virgin Islands	100%
* Nova Furniture Macao Commercial Offshore Ltd.	Macao	100%

\* Indicates subsidiary of a subsidiary.





中正達會計師事務所有限公司  
**Centurion ZD CPA Limited**  
 Certified Public Accountants (Practising)

HK office: 7th Floor, Nan Dao Commercial Building, 359-361 Queen's Road Central, Hong Kong

香港 皇后大道中 359-361 號 南島商業大廈 7 樓

Tel: (852) 2851 7954 Fax: (852) 2545 4086

Kowloon office: Room 2105-06, 21/F., Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong

九龍 旺角 亞皆老街 8 號 朗豪坊辦公大樓 2105-06 室

Tel: (852) 2780 0607 Fax: (852) 2780 0013

#### CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-205768, 333-193746, 333-177353 and 333-180496) and the Registration Statement on Form S-8 (File No. 333-197735) of Nova LifeStyle, Inc. (the "Company") of our report dated April 14, 2017, relating to the Company's consolidated financial statements which appears in this Annual Report on Form 10-K of the Company for the year ended December 31, 2016.

/s/ Centurion ZD CPA Limited

Centurion ZD CPA Limited

Hong Kong, China

April 14, 2017

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

I, Thanh H. Lam, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended December 31, 2016, 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: April 14, 2017

By:

/s/ Thanh H. Lam

Thanh H. Lam  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Yuen Ching Ho, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended December 31, 2016, 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: April 14, 2017

By:

/s/ Yuen Ching Ho

Yuen Ching Ho  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thanh H. Lam, Chief Executive Officer of Nova Lifestyle, Inc., certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Nova LifeStyle, Inc. for the fiscal year ended December 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Nova LifeStyle, Inc.

Date: April 14, 2017

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

I, Yuen Ching Ho, Chief Financial Officer of Nova Lifestyle, Inc., certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Nova LifeStyle, Inc. for the fiscal year ended December 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Nova LifeStyle, Inc.

Date: April 14, 2017

By: /s/ Yuen Ching Ho  
Yuen Ching Ho  
Chief Financial Officer

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are not to be incorporated by reference into any filing of Nova LifeStyle, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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