F-4/A 1 ff42021a5_lianluosmart.htm REGISTRATION STATEMENT

As filed with the Securities and Exchange Commission on March 31, 2021
Registration No. 333-249660

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

Amendment No. 5 to

FORM F-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LIANLUO SMART LIMITED

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of registrant name into English)

British Virgin Islands	**3841**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Room 1003B, 10th Floor, BeiKong Technology Building
No. 10 Baifuquan Road, Changping District
Beijing 102200, People's Republic of China
+ 86-10-89788107
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Cogency Global Inc.
122 East 42nd Street, 18th Floor
New York, NY 10168
800-221-0102
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Kevin Sun, Esq.
BEVILACQUA PLLC
1050 Connecticut Avenue, NW, Suite 500
Washington, DC 20036
202-869-0888

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement and upon completion of the merger described in the accompanying proxy statement/prospectus.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ☐

Exchange Act Rule 14d-l(d) (Cross-Border Third-Party Tender Offer) ☐

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933.

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for comply with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of Securities Act. ☐

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered[(1)]	Proposed maximum offering price per unit	Proposed maximum aggregate offering price[(2)]	Amount of registration fee[(3)]
Common Shares, par value $0.021848 per share	440,890,986	N/A	$ 25,157.69	$ 2.74

(1) Represents the estimated maximum number of common shares of the Registrant expected to be issued in connection with the transactions contemplated by the agreement and plan of merger (the "merger agreement") by and among the Registrant, Newegg Inc. ("Newegg") and Lightning Delaware Sub, Inc., as described herein, calculated as the product of (a) the sum of (i) 849,159 shares of Newegg Class A common stock, par value $0.001 per share, issued and outstanding as of March 30, 2021, (ii) 24,870,027 shares of Newegg Series AA preferred stock, par value $0.001 per share, issued and outstanding as of March 30, 2021, (iii) 36,475,987 shares of Newegg Series A preferred stock, par value $0.001 per share, issued and outstanding as of March 30, 2021, (iv) 11,475,568 shares of Newegg Class A common stock subject to outstanding stock options and restricted stock awards outstanding as of March 30, 2021, and (v) 1,802,321 shares of Newegg Class A common stock available for issuance under Newegg's equity plans as of March 30, 2021, and (b) 5.8417, the exchange ratio specified in the merger agreement, as described herein. Pursuant to Rule 416(a) under the Securities Act of 1933, as amended (the "Securities Act"), there are also being registered an indeterminable number of additional securities as may be issued to prevent dilution resulting from stock splits, stock dividends or similar transactions prior to the completion of the merger transaction described herein.

(2) Estimated solely for purposes of calculation of the registration fee in accordance with Rule 457(f) of the Securities Act. Newegg is a private company and no market exists for its equity securities. Newegg has accumulated a capital deficit; therefore, pursuant to Rule 457(f)(2) under the Securities Act, the proposed maximum offering price is one-third of the aggregate par value of Newegg's capital stock being acquired in the proposed merger, which is calculated by taking one-third of the product of the par value of $0.001 and the maximum number of shares of Newegg capital stock that may be exchanged in the merger, or 75,473,062 shares of Newegg capital stock (computed as of March 30, 2021, and inclusive of all shares of Newegg capital stock issuable upon conversion of any securities convertible into or exercisable for shares of Newegg capital stock).

(3) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This proxy statement/prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY — SUBJECT TO COMPLETION — DATED MARCH 31, 2021

MERGER AND DISPOSITION PROPOSALS — YOUR VOTE IS VERY IMPORTANT

[ ], 2021

Dear Shareholder:

You are cordially invited to a special meeting of shareholders of Lianluo Smart Limited (which we refer to as the Company or we, us or our) to be held on [ ], 2021 at 10:00 a.m., local time, at our offices located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing, 102200, People's Republic of China. At the special meeting, you will be asked to vote on the important matters described in detail in the notice of special meeting of shareholders and proxy statement/prospectus accompanying this letter.

One of the matters that you will be asked to vote on at the special meeting is the adoption of an agreement and plan of merger, dated as of October 23, 2020, and as it may be amended from time to time (which we refer to as the merger agreement), by and among the Company, Newegg Inc., a Delaware corporation, or Newegg, and Lightning Delaware Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company, or Merger Sub, pursuant to which Merger Sub will be merged with and into Newegg, with Newegg continuing as the surviving corporation and a wholly owned subsidiary of the Company (we refer to this transaction as the merger).

If the merger is completed, each share of the capital stock of Newegg that was issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 5.8417 common shares of the Company (which we refer to as the exchange ratio), plus the right, if any, to receive cash in lieu of fractional shares of the Company (which we collectively refer to as the merger consideration); provided that the exchange ratio shall be appropriately adjusted to reflect the effect of any share split, split-up, reverse share split, share dividend or distribution of securities convertible into the Company's common shares or Newegg's capital stock or any reorganization, recapitalization, reclassification or other like change with respect to Company's common shares or Newegg's capital stock having a record date occurring on or after the date of the merger agreement and prior to the completion of the merger.

Although the exchange ratio for the merger consideration is fixed (subject to the adjustments described above), the market value of the merger consideration will fluctuate with the market price of our Class A common shares. Based on the closing price of $3.28 on October 23, 2020, the last trading day before the public announcement of the signing of the merger agreement, the implied aggregate value of the merger consideration was approximately $1.19 billion. Based on the closing price on [ ], 2021, the last practicable date before the date of the accompanying proxy statement/prospectus, the implied aggregate value of the merger consideration was approximately $[ ] billion. Our Class A common shares are listed on the NASDAQ Capital Market under the trading symbol "LLIT."

We estimate that we will issue approximately 363,325,542 common shares to Newegg stockholders upon completion of the merger, based on the number of shares of Newegg issued and outstanding as of March 30, 2021, the most recent practicable date for which such information was available. Immediately following the completion of merger, our shareholders immediately prior to the merger are expected to own approximately 1.32% of our outstanding common shares and former Newegg stockholders are expected to own approximately 98.68% of our outstanding common shares (based on shares outstanding as of March 30, 2021).

Another matter that you will be asked to vote on at the special meeting is adoption of an equity transfer agreement, dated as of October 23, 2020, and as it may be amended from time to time (which we refer to as the

disposition agreement), among Beijing Fenjin Times Technology Development Co., Ltd., or the Purchaser, Lianluo Connection Medical Wearable Device Technology (Beijing) Co., Ltd., or Lianluo Connection, and the Company, pursuant to which we will sell all of our equity interests in Lianluo Connection, our wholly owned subsidiary, to the Purchaser immediately following completion of the merger (we refer to this transaction as the disposition).

Following completion of the merger and the disposition, the business of Newegg, as described in the proxy statement/prospectus accompanying this letter, will be the business of the Company.

In addition to the foregoing, at the special meeting shareholders will also be asked to vote on proposals to:

- redesignate our authorized shares to eliminate the dual class structure;
- approve a share combination of our issued and outstanding common shares by a ratio of not less than one-for-two and not more than one-for-fifty at any time no later than June 30, 2021;
- increase the number of common shares that the Company is authorized to issue;
- change the name of the Company to "Newegg Commerce, Inc." upon the consummation of the transactions contemplated by the merger agreement; and
- amend and restate our current amended and restated memorandum and articles of association to effect the foregoing and to make certain other amendments described in the accompanying proxy statement/prospectus.

Shareholders will also be asked to approve a proposal to adjourn the special meeting to a later date if necessary to solicit additional proxies if there are not sufficient votes at the time of the special meeting, or any adjournment or postponement thereof, to approve the foregoing matters.

The record date for determining the shareholders entitled to receive notice of, and to vote at, the special meeting is March 26, 2021. Only shareholders of record at that time are entitled to notice of, and to vote at, the special meeting, or any adjournment or postponement of the special meeting.

Each of the special committee of our board of directors and our board of directors unanimously recommended that shareholders vote "FOR" each proposal set forth in the accompanying proxy statement/prospectus.

Your vote is important. Whether or not you expect to attend the special meeting, we urge you to vote your shares as promptly as possible by (1) accessing the Internet website specified on your proxy card; (2) calling the toll-free number specified on your proxy card; or (3) signing and returning the enclosed proxy card in the postage-paid envelope provided, so that your shares may be represented and voted at the special meeting. If your shares are held in the name of a bank, broker or other fiduciary, please follow the instructions on the voting instruction card furnished by the record holder.

The accompanying proxy statement/prospectus provides important information regarding the special meeting and a detailed description of the merger agreement, the disposition agreement, the merger, the disposition and the other proposals described above, as well as detailed business and financial information about Newegg. We urge you to read the accompanying proxy statement/prospectus (and any documents incorporated by reference into the accompanying proxy statement/prospectus) carefully. **Please pay particular attention to the section "Risk Factors" beginning on page 30 of the accompanying proxy statement/prospectus.** You can also obtain information about us from documents that we have previously filed with the Securities and Exchange Commission.

We hope to see you at the special meeting and look forward to the successful completion of the merger and the disposition.

Sincerely,

/s/ Bin Lin

Bin Lin

Chief Executive Officer

Lianluo Smart Limited

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under the accompanying proxy statement/prospectus or determined that the accompanying proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The accompanying proxy statement/prospectus is dated [ ], 2021 and is first being mailed to shareholders on or about [ ], 2021.

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Lianluo Smart Limited
Room 1003B, 10th Floor, BeiKong Technology Building
No. 10 Baifuquan Road, Changping District
Beijing 102200, People's Republic of China
+ 86-10-89788107

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON [ ], 2021

Notice is hereby given that Lianluo Smart Limited (which we refer to as the Company or we, us or our) will hold a special meeting of shareholders on [ ], 2021 at 10:00 a.m., local time, at our offices located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing, 102200, People's Republic of China. The special meeting will be held for the purpose of allowing shareholders to consider and vote upon proposals to:

1. adopt an agreement and plan of merger, dated as of October 23, 2020, and as it may be amended from time to time (which we refer to as the merger agreement), by and among the Company, Newegg Inc., a Delaware corporation, or Newegg, and Lightning Delaware Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company, or Merger Sub, pursuant to which Merger Sub will be merged with and into Newegg, with Newegg continuing as the surviving corporation and a wholly owned subsidiary of the Company (a copy of the merger agreement is attached as Annex A to the accompanying proxy statement/prospectus) (we refer to this proposal as the merger proposal);

2. adopt the equity transfer agreement, dated as of October 23, 2020, and as it may be amended from time to time (which we refer to as the disposition agreement), among Beijing Fenjin Times Technology Development Co., Ltd., or the Purchaser, Lianluo Connection Medical Wearable Device Technology (Beijing) Co., Ltd., or Lianluo Connection, and the Company, pursuant to which we will sell all of our equity interests in Lianluo Connection, our wholly owned subsidiary, to the Purchaser immediately following completion of the merger (a copy of the disposition agreement is attached as Annex E to the accompanying proxy statement/prospectus) (we refer to this proposal as the disposition proposal);

3. redesignate all of our issued and unissued Class A common shares of par value of $0.021848 each and Class B common shares of par value of $0.021848 each into common shares of par value of $0.021848 each on a one to one basis, thus eliminating the Company's dual class structure (we refer to this proposal as the redesignation proposal);

4. complete a share combination of our issued and outstanding common shares by a ratio of not less than one-for-two and not more than one-for-fifty no later than June 30, 2021, with the exact ratio to be set at a whole number within this range, as determined by our board of directors in its sole discretion (we refer to this proposal as the share combination proposal);

5. increase the number of common shares that the Company is authorized to issue to an unlimited number of common shares (we refer to this proposal as the share increase proposal);

6. change the name of the Company to "Newegg Commerce, Inc." (we refer to this proposal as the name change proposal);

7. amend and restate our current amended and restated memorandum and articles of association to effect the redesignation proposal, the share combination proposal, the share increase proposal and the name change proposal, as well as certain other amendments described in the accompanying proxy statement/prospectus (a copy of the amended and restated memorandum and articles of association is attached as Annex G to the accompanying proxy statement/prospectus) (we refer to this proposal as the charter amendment proposal); and

8. approve the adjournment of the special meeting to a later date if necessary to solicit additional proxies if there are not sufficient votes to approve the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal or the charter amendment proposal at the time of the special meeting, or any adjournment or postponement thereof (we refer to this proposal as the adjournment proposal).

Our board of directors has fixed the close of business on March 26, 2021 as the record date for the determination of the shareholders entitled to vote at the special meeting, or any adjournment or postponement thereof. Only shareholders of record at the record date are entitled to notice of, and to vote at, the special meeting, or any adjournment or postponement thereof.

A quorum, which is not less than 50% of the votes of our common shares issued and outstanding and entitled to vote as of the record date, must be present to hold the special meeting. A quorum is calculated based on the number of votes represented by the shareholders attending the meeting in person and by their proxy holders.

Brokers who hold common shares for a beneficial owner have the discretion to vote on routine proposals when they have not received voting instructions from the beneficial owner. If a broker indicates on the enclosed proxy card or its substitute that such broker does not have discretionary authority to vote on a particular matter (broker non-votes), those shares will be considered as present for purposes of determining the presence of a quorum but will not be treated as shares entitled to vote on that matter. Note that, if you are a beneficial owner and do not provide specific voting instructions to your broker, the broker that holds your shares will not be authorized to vote on any of the proposals because we expect all of the proposals included in this proxy statement/prospectus are deemed “non-routine” in accordance with applicable NYSE rules and interpretations. Accordingly, we encourage you to provide voting instructions to your broker, whether or not you plan to attend the special meeting.

Assuming that a quorum is present, the merger agreement requires the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of the votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo Interactive Information Technology Co., Ltd., or Hangzhou Lianluo, an entity controlled by Mr. Zhitao He, our former Chairman of Board of Directors and former Chief Executive Officer, in order to approve the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal and the charter amendment proposal. In addition, assuming that a quorum is present, approval of the redesignation proposal also requires the affirmative vote of a majority of the issued and outstanding Class B common shares entitled to vote and voting on that proposal at the special meeting. Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast at the special meeting.

Hangzhou Lianluo owns all of our outstanding Class B common shares and has agreed to vote those shares in favor of all proposals described in this notice. These Class B common shares constitute a majority of the votes eligible to be cast at the special meeting. Your vote is very important, because proposals 1 through 7 still require the approval of a majority of the votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo.

Each of the special committee of our board of directors and our board of directors unanimously recommended that shareholders vote “FOR” each proposal above.

By Order of the Board of Directors,

Bin Lin
Chief Executive Officer

Beijing, China

[ ], 2021

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YOUR VOTE IS IMPORTANT!

WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING, WE URGE YOU TO SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE (1) VIA THE INTERNET, (2) BY TELEPHONE, OR (3) BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT IN THE POSTAGE-PAID ENVELOPE PROVIDED. IF YOU ATTEND THE SPECIAL MEETING IN PERSON AND WISH TO VOTE YOUR SHARES AT THE SPECIAL MEETING, YOU MAY DO SO AT ANY TIME PRIOR TO THE CLOSING OF THE POLLS AT THE SPECIAL MEETING. You may revoke your proxy or change your vote for shares you hold directly in your name by (i) sending a signed notice stating that you revoke your proxy to us, that bears a date later than the date of the proxy you want to revoke and is received prior to the special meeting, (ii) submitting revised votes over the Internet or by telephone before 10:00 a.m. (Eastern Time) on [ ], 2021, or by mail that is received prior to the special meeting, or (iii) attending the special meeting in person and voting your shares or revoking your proxy. If your shares are held in the name of a bank, broker or other nominee holder of record, please follow the instructions on the voting instruction form furnished to you by such record holder.

We urge you to read the accompanying proxy statement/prospectus and its annexes carefully and in their entirety. If you have any questions concerning the special meeting, any of the proposals to be considered at the special meeting, or the accompanying proxy statement/prospectus, or if you need help voting your shares, please contact:

Lianluo Smart Limited
Room 1003B, 10th Floor, BeiKong Technology Building
No. 10 Baifuquan Road, Changping District
Beijing 102200
People's Republic of China
Attention: Corporate Secretary
Telephone: 86-10-89788107

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ANNEXES

Annex A — Agreement and Plan of Merger, dated as of October 23, 2020, among Lianluo Smart Limited, Newegg Inc. and Lightning Delaware Sub, Inc.

Annex B — Support Agreement, dated as of October 23, 2020, among Lianluo Smart Limited, Newegg Inc., Hangzhou Lianluo Interactive Information Technology Co., Ltd. and Hyperfinite Galaxy Holding Limited

Annex C — Support Agreement, dated as of October 23, 2020, among Lianluo Smart Limited, Newegg Inc. and Ping Chen

Annex D — Opinion of Financial Advisor for Merger

Annex E — Equity Transfer Agreement, dated as of October 23, 2020, among Beijing Fenjin Times Technology Development Co., Ltd., Lianluo Connection Medical Wearable Device Technology (Beijing) Co., Ltd. and Lianluo Smart Limited

Annex F — Opinion of Financial Advisor for Disposition
Annex G — Form of Amended and Restated Memorandum and Articles of Association

QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The following are some questions that you, as a shareholder of Lianluo Smart Limited (which we refer to as the Company or we, us or our), may have regarding the special meeting and the matters to be considered at the special meeting, as well as brief answers to those questions. You are urged to carefully read this proxy statement/prospectus and its annexes in their entirety because this section may not provide all of the information that is important to you with respect to the matters to be considered at the special meeting. Additional important information is contained in the annexes to this proxy statement/prospectus. See "Where You Can Find More Information."

Q: Why am I receiving this document and why am I being asked to vote on the merger agreement and the disposition agreement?

A: We have entered into a merger transaction with Newegg Inc., a Delaware corporation, or Newegg, pursuant to which Lightning Delaware Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company, or Merger Sub, will be merged with and into Newegg, with Newegg continuing as the surviving corporation and a wholly owned subsidiary of the Company (we refer to this transaction as the merger). In order to complete the merger, our shareholders must vote to adopt the agreement and plan of merger, dated as of October 23, 2020, among the Company, Newegg and Merger Sub. We refer to the agreement and plan of merger, as it may be amended, supplemented or modified from time to time, as the merger agreement.

We have also entered into an equity transfer agreement, dated as of October 23, 2020, with Beijing Fenjin Times Technology Development Co., Ltd., or the Purchaser, and Lianluo Connection Medical Wearable Device Technology (Beijing) Co., Ltd., or Lianluo Connection, pursuant to which we will sell all of our equity interests in Lianluo Connection, our wholly owned subsidiary, to the Purchaser immediately following completion of the merger (we refer to this transaction as the disposition). We refer to the equity transfer agreement, as it may be amended, supplemented or modified from time to time, as the disposition agreement.

We are holding a special meeting of shareholders (which we refer to as the special meeting) in order to, among other things, obtain shareholder approval to adopt the merger agreement and the disposition agreement. **The merger agreement requires the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of the votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo Interactive Information Technology Co., Ltd., or Hangzhou Lianluo, an entity controlled by Mr. Zhitao He, our former Chairman of Board of Directors and former Chief Executive Officer, in order to approve the merger proposal and the disposition proposal. It is important that shareholders vote their shares on these matters, regardless of the number of shares owned.**

This document is being delivered to you as both a proxy statement and a prospectus in connection with the merger and the disposition. It is the proxy statement by which our board of directors is soliciting proxies from shareholders to vote at the special meeting, or at any adjournment or postponement of the special meeting. In addition, this document is the prospectus of the Company pursuant to which it will issue common shares to the stockholders of Newegg as merger consideration in connection with the merger.

Q: What are shareholders being asked to vote on?

A: Shareholders are being asked to vote on the following proposals:

- to adopt the merger agreement (we refer to this proposal as the merger proposal);
- to adopt the disposition agreement (we refer to this proposal as the disposition proposal);
- to approve the redesignation of all issued and unissued Class A common shares of par value of $0.021848 each and Class B common shares of par value of $0.021848 each into common shares of par value of $0.021848 each on a one to one basis, thus eliminating the Company's dual class structure (we refer to this proposal as the redesignation proposal);
- to approve a share combination of our issued and outstanding common shares by a ratio of not less than one-for-two and not more than one-for-fifty (which we refer to as the share combination) at

any time no later than June 30, 2021, with the exact ratio to be set at a whole number within this range, as determined by our board of directors in its sole discretion (we refer to this proposal as the share combination proposal);

- to approve an increase of the number of common shares that the Company is authorized to issue to an unlimited number of common shares (which refer to as the share increase) following the share combination (we refer to this proposal as the share increase proposal);
- to approve a change of the name of the Company to "Newegg Commerce, Inc." (we refer to this proposal as the name change proposal);
- to approve an amendment and restatement of our current amended and restated memorandum and articles of association to effect the redesignation proposal, the share combination proposal, the share increase proposal and the name change proposal, as well as certain other amendments described in this proxy statement/prospectus (we refer to this proposal as the charter amendment proposal); and
- to approve the adjournment of the special meeting if necessary to solicit additional proxies if there are not sufficient votes to approve the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal or the charter amendment proposal at the time of the special meeting, or any adjournment or postponement thereof (we refer to this proposal as the adjournment proposal).

The approval the foregoing proposals (other than the adjournment proposal) is a condition to the obligations of the Company and Newegg to complete the merger.

Q: When and where is the special meeting?

A: The special meeting will be held on [ ], 2021 at 10:00 a.m., local time, at our offices located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing, 102200, People's Republic of China.

Q: Who is entitled to vote at the special meeting?

A: All holders of Class A common shares and Class B common shares who held shares at the record date for the special meeting (the close of business on March 26, 2021) are entitled to receive notice of, and to vote at, the special meeting. As of the close of business on the record date, there were 3,465,683 Class A common shares and 1,388,888 Class B common shares issued and outstanding. Each holder of Class A common shares is entitled to one vote per share and each holder of Class B common shares is entitled to ten votes per share.

Q: What constitutes a quorum for the special meeting?

A: The presence at the commencement of the special meeting, in person or by proxy, of not less than 50% of the votes of the common shares issued and outstanding and entitled to vote constitutes a quorum for the special meeting. Abstentions will be deemed present at the special meeting for the purpose of determining the presence of a quorum. Shares held in "street name" with respect to which the beneficial owner fails to give voting instructions to the broker, bank or other nominee holder of record will not be deemed present at the special meeting for the purpose of determining the presence of a quorum.

Q: What shareholder vote is required for the approval of each proposal at the special meeting?

A: The following are the vote requirements set forth in the merger agreement for the approval of the proposals at the special meeting:

- *Merger proposal*: Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required.
- *Disposition proposal*: Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required.
- *Redesignation proposal*: Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required. In addition, assuming that a quorum is present, the affirmative vote of a majority of the issued and outstanding Class B common shares entitled to vote and voting on this proposal at the special meeting is required.

- *Share combination proposal*: Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required.
- *Share increase proposal*: Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required.
- *Name change proposal*: Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required.
- *Charter amendment proposal*: Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required.
- *Adjournment proposal*: The affirmative vote of a majority of the votes cast at the special meeting is required.

Q: Have any shareholders agreed to vote for or against any of the proposals?

A: Yes. In conjunction with the merger agreement, Hangzhou Lianluo and its affiliate, Hyperfinite Galaxy Holding Limited, entered into a Support Agreement dated as of October 23, 2020 pursuant to which such shareholders agreed to vote in favor of the each of the proposals described in this proxy statement/prospectus. Hangzhou Lianluo is our controlling shareholder, and is controlled by Mr. Zhitao He, our former Chairman of Board of Directors and former Chief Executive Officer. Hyperfinite Galaxy Holding Limited is also controlled by Mr. He. Collectively, Hangzhou Lianluo and Hyperfinite Galaxy Holding Limited have voting control over 58,937 outstanding Class A common shares and 1,388,888 outstanding Class B common shares, which collectively comprise over 80.4% of the voting power of our outstanding common shares as of the record date.

Mr. Ping Chen, our former Chief Executive Officer and board member, also entered into a similar Support Agreement. Mr. Chen holds 201,692 outstanding Class A common shares, which represents approximately 5.9% of the outstanding voting power which is not controlled by Hangzhou Lianluo as of the record date. Mr. Chen also holds options exercisable for an additional 65,733 Class A common shares at exercise prices ranging from $11.60 to $42.48 per share.

Q: Does our board of directors recommend that shareholders approve the merger proposal?

A: Yes. Each of the special committee of our board of directors (which we refer to as the special committee) and our board of directors unanimously recommends that shareholders vote “FOR” the approval of the merger proposal at the special meeting.

Q: Does our board of directors recommend that shareholders approve the disposition proposal?

A: Yes. Each of the special committee and our board of directors unanimously recommends that shareholders vote “FOR” the approval of the disposition proposal at the special meeting.

Q: Does our board of directors recommend that shareholders approve the redesignation proposal?

A: Yes. Each of the special committee and our board of directors unanimously recommends that shareholders vote “FOR” the approval of the redesignation proposal at the special meeting.

Q: Does our board of directors recommend that shareholders approve the share combination proposal?

A: Yes. Each of the special committee and our board of directors unanimously recommends that shareholders vote “FOR” the approval of the share combination proposal at the special meeting.

Q: Does our board of directors recommend that shareholders approve the share increase proposal?

A: Yes. Each of the special committee and our board of directors unanimously recommends that shareholders vote “FOR” the approval of the share increase proposal at the special meeting.

Q: Does our board of directors recommend that shareholders approve the name change proposal?

A: Yes. Each of the special committee and our board of directors unanimously recommends that shareholders vote "FOR" the approval of the name change proposal at the special meeting.

Q: Does our board of directors recommend that shareholders approve the charter amendment proposal?

A: Yes. Each of the special committee and our board of directors unanimously recommends that shareholders vote "FOR" the approval of the charter amendment proposal at the special meeting.

Q: Does our board of directors recommend that shareholders approve the adjournment proposal?

A: Yes. Each of the special committee and our board of directors unanimously recommends that shareholders vote "FOR" the adjournment proposal.

Q: How do I vote my shares at the special meeting?

A: *Via the Internet or by Telephone*

If you hold shares directly in your name as a shareholder of record, you may vote via the Internet or by telephone in accordance with the instructions on your proxy card. In order to submit a proxy to vote via the Internet or by telephone, you will need the control number on your proxy card (which is unique to each shareholder to ensure all voting instructions are genuine and to prevent duplicate voting). Votes may be submitted via the Internet or by telephone 24 hours a day, seven days a week, and must be received by 10:00 a.m. (Eastern Time) on [ ], 2021.

If you hold shares in "street name," meaning through a broker, bank or other nominee holder of record, you may vote via the Internet only if Internet voting is made available by your broker, bank or other nominee holder of record. Please follow the voting instructions provided by your broker, bank or other nominee holder of record with these materials.

By Mail

If you hold shares directly in your name as a shareholder of record, you may submit a proxy card to vote your shares by mail. You will need to complete, sign and date your proxy card and return it using the postage-paid return envelope provided. Your proxy card must be received no later than the close of business on [ ], 2021.

If you hold shares in "street name," meaning through a broker, bank or other nominee holder of record, in order to provide voting instructions by mail, you will need to complete, sign and date the voting instruction form provided by your broker, bank or other nominee holder of record with these materials and return it in the postage-paid return envelope provided. Your broker, bank or other nominee holder of record must receive your voting instruction form in sufficient time to vote your shares.

In Person

If you hold shares directly in your name as a shareholder of record, you may vote in person at the special meeting. Shareholders of record also may be represented by another person at the special meeting by executing a proper proxy designating that person and having that proper proxy be presented to the judge of election with the applicable ballot at the special meeting.

If you hold shares in "street name," meaning through a broker, bank or other nominee holder of record, you must obtain a proxy, executed in your favor, from the bank or broker to be able to vote at the special meeting. To request a proxy executed in your favor, please contact your broker, bank or other nominee holder of record.

Please carefully consider the information contained in this proxy statement/prospectus. Whether or not you plan to attend the special meeting, we encourage you to vote via the Internet, by telephone or by mail so that your shares will be voted in accordance with your wishes even if you later decide to attend the special meeting.

We encourage you to register your vote via the Internet, by telephone or by mail. If you attend the special meeting, you may also vote in person, in which case any votes that you previously submitted — whether via the Internet, by telephone or by mail — will be revoked and superseded by the vote that you cast at the special meeting. To vote in person at the special meeting, beneficial owners who hold shares in "street name" through a broker, bank or other nominee holder of record will need to contact the broker, bank or other nominee holder of record to obtain a written legal proxy to bring to the meeting. Whether your proxy is submitted via the Internet, by telephone or by mail, if it is properly completed and submitted, and if you do not revoke it prior to or at the special meeting, your shares will be voted at the special meeting in the manner specified by you, except as otherwise set forth in this proxy statement/prospectus.

Q: If my shares are held in "street name," will my broker, bank or other nominee holder of record automatically vote my shares for me?

A: No. If your shares are held in an account at a broker, bank or other nominee holder of record (i.e., in "street name"), you must instruct the broker, bank or other nominee holder of record on how to vote your shares. Your broker, bank or other nominee holder of record will vote your shares only if you provide instructions on how to vote by filling out the voting instruction form sent to you by your broker, bank or other nominee holder of record with this proxy statement/prospectus. Brokers, banks and other nominee holders of record who hold shares in "street name" typically have the authority to vote in their discretion on "routine" proposals when they have not received instructions on how to vote from the beneficial owner. However, brokers, banks and other nominee holders of record typically are not allowed to exercise their voting discretion on matters that are "non-routine" without specific instructions on how to vote from the beneficial owner. Each of the proposals to be considered at the special meeting as described in this proxy statement/prospectus are considered non-routine. Therefore brokers, banks and other nominee holders of record do not have discretionary authority to vote on any of these proposals.

Broker non-votes are shares held by a broker, bank or other nominee holder of record that are present in person or represented by proxy at the special meeting, but with respect to which the broker, bank or other nominee holder of record is not instructed by the beneficial owner of such shares on how to vote on a particular proposal and the broker does not have discretionary voting power on such proposal. Because brokers, banks and other nominee holders of record do not have discretionary voting authority with respect to any of the proposals to be considered at the special meeting as described in this proxy statement/prospectus, if a beneficial owner of shares held in "street name" does not give voting instructions to the broker, bank or other nominee holder of record, then those shares will not be present in person or represented by proxy at the special meeting. As a result, there will not be any broker non-votes in connection with the proposals to be considered at the special meeting as described in this proxy statement/prospectus.

Q: How will my shares be represented at the special meeting?

A: If you correctly submit your proxy via the Internet, by telephone, or by mail, the persons named in your proxy card will vote your shares in the manner you requested. If you sign your proxy card and return it without indicating how you would like to vote your shares, your proxy will be voted as our board of directors unanimously recommends, which is "FOR" each of the proposals.

Q: Can I revoke my proxy or change my voting instructions?

A: Yes. You may revoke your proxy or change your vote in person at any time before the closing of the polls at the special meeting.

If you are a shareholder of record at the record date for the special meeting, you can revoke your proxy or change your vote by:

- sending a signed notice stating that you revoke your proxy to us, that bears a date later than the date of the proxy you want to revoke and is received prior to the special meeting;
- submitting a valid, later-dated proxy via the Internet or by telephone before 10:00 a.m. (Eastern Time) on [ ], 2021, or by mail that is received prior to the special meeting; or

- attending the special meeting (or, if the special meeting is adjourned or postponed, attending the adjourned or postponed meeting) and voting in person, which automatically will cancel any proxy previously given, or revoking your proxy in person, but your attendance alone will not revoke any proxy previously given.

If you hold your shares in "street name" through a broker, bank or other nominee holder of record, you must contact your brokerage firm, bank or other nominee holder of record to change your vote or obtain a written legal proxy to vote your shares if you wish to cast your vote in person at the special meeting.

Q: What happens if I sell my shares after the record date but before the special meeting?

A: The record date for the special meeting (the close of business on March 26, 2021) is earlier than the date of the special meeting. If you sell or otherwise transfer your shares after the record date but before the date of the special meeting, you will retain your right to vote at the special meeting.

Q: What do I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus, the related proxy card or the voting instruction form. This can occur if you hold your shares in more than one brokerage account, if you hold shares directly as a record holder and also in "street name," or otherwise through another nominee holder of record, and in certain other circumstances. If you receive more than one set of voting materials, please separately submit votes for each set of voting materials in order to ensure that all of your shares are voted.

Q: Are shareholders of the Company entitled to appraisal rights?

A: No, shareholders of the Company are not entitled to dissenters' rights of appraisal in connection with any of the proposals to be voted on at the special meeting.

Q: What are the reasons for the merger?

A: In evaluating the merger, the special committee, in consultation with the Company's management and outside legal counsel, considered numerous positive factors relating to the merger, including:

- challenges facing the Company's current medical device business, including a history of significant operating losses and negative operating cash flows;
- challenges facing the Company in maintaining its competitive position in the highly competitive medical device market in China;
- challenges facing the Company regarding compliance with NASDAQ Listing Rules, including the minimum bid price and stockholders' equity requirements;
- the belief that other strategic alternatives available to the Company, such as continuing to develop its business through internal growth, were less advisable than the proposed merger under current circumstances;
- the terms and conditions of the merger agreement and related transaction documents, including the ability of the Company to continue to solicit, negotiate and enter into alternative acquisition proposals as described under "The Merger Agreement — Go Shop," and to terminate the merger agreement in certain circumstances described under "The Merger Agreement — Termination of the Merger Agreement";
- the positive financial condition, operating results and business outlook of Newegg as of the date of the merger agreement; and
- the fact that the special committee received and reviewed a fairness opinion from Benchmark affirming that the merger consideration to be paid by the Company was fair to the Company's shareholders from a financial point of view.

The special committee also considered the risks and potentially negative factors relating to the proposed merger, including:

- the possibility that the consummation of the merger may be delayed or not occur at all, and the adverse impact of such event would have on the Company and its business;
- the significant costs involved in connection with completing the proposed merger, the substantial management time and effort required to complete the proposed merger and the related disruption to operations of the Company;
- the potential liabilities that the Company may inherit from Newegg as a result of the proposed merger that would not be covered by the indemnities in the merger agreement;
- the risk that the anticipated benefits of the proposed merger may not be realized; and
- other risks described under the section "Risk Factors" below.

The special committee believed that, overall, the potential benefits of the merger to the Company's shareholders outweighed the risks and uncertainties of the merger.

Q: What are the reasons for the disposition?

A: The Company, through its wholly owned subsidiaries, has been engaged in the medical device business. The Company develops and distributes medical devices, with a focus on sleep respiratory solutions to Obstructive Sleep Apnea Syndrome, or OSAS, since 2010. Starting from 2018, the Company has been providing examination services to hospitals and medical centers through its proprietary medical wearable devices, and doctors are able to refer to examination results provided by such devices in making diagnoses regarding OSAS.

The Company has incurred significant operating losses for the past five years. For the years ended December 31, 2015, 2016, 2017, 2018 and 2019, the Company incurred operating losses of approximately $6.9 million, $9.1 million, $5.1 million, $9.3 million and $3.8 million, respectively. As of December 31, 2019, the Company had an accumulated deficit of approximately $44.6 million and negative shareholders' equity of approximately $1.3 million. In addition, in 2019, the Company terminated the employment of over fifty employees and had only 28 employees as of December 31, 2019.

On September 11, 2019, we received a notification letter from the NASDAQ Listing Qualifications Staff of the NASDAQ Stock Market LLC, or NASDAQ, notifying us that the minimum bid price per share for our common shares had been below $1.00 for a period of 30 consecutive business days, and therefore, we no longer met the minimum bid price requirement set forth in NASDAQ Listing Rule 5550(a)(2). We were granted a compliance period of 180 days, or until March 9, 2020 to regain compliance.

On January 2, 2020, we received another notification letter from the NASDAQ Listing Qualifications Staff notifying us that we no longer complied with the minimum of $2.5 million in stockholders' equity for continued listing on the NASDAQ Capital Market under NASDAQ's Listing Rule 5550(b)(1) and that we also did not comply with either of the two alternative standards of Listing Rule 5550(b), the market value standard and the net income standard. We thereafter submitted a plan to regain compliance with NASDAQ's applicable listing standards. On March 10, 2020, in consideration of our three financings completed during the first quarter of 2020, from which we received gross proceeds of approximately $8.08 million, the NASDAQ Listing Qualifications Staff determined that we complied with the stockholders' equity requirement set forth in Listing Rule 5550(b)(1). On that date, we met all applicable requirements for initial listing on the NASDAQ Capital Market, other than the minimum bid price requirement. The NASDAQ Listing Qualifications Staff recognized our intention of curing the minimum bid price deficiency by effecting a reverse stock split, and granted a second compliance period of 180 days, or until September 8, 2020, to regain compliance. The second compliance period was thereafter extended to November 20, 2020 by NASDAQ per SR-NASDAQ-2020-021. On October 21, 2020, we effectuated a share combination of our common shares at a ratio of one-for-eight in order to increase the per share trading price of our Class A common shares to satisfy the $1.00 minimum bid price requirement. We regained the compliance with the minimum bid price rule on November 10, 2020. However, there is no assurance that we will be able to continue to maintain our compliance with the NASDAQ continued listing requirements. If we fail to do so, our Class A common shares may lose their status on NASDAQ Capital Market and they would likely be traded on the over-the-counter market.

Given the significant amount of liabilities incurred by our medical device business and substantial differences between this business and Newegg's business, we believe that a plausible way to return to profitability and maintain our NASDAQ listing status is to dispose of the medical device business in connection with our merger with Newegg.

Q: What will Newegg stockholders receive in the merger?

A: If the merger is completed, each share of the capital stock of Newegg that was issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 5.8417 common shares of the Company (which we refer to as the exchange ratio), plus the right, if any, to receive cash in lieu of fractional shares of the Company (which we collectively refer to as the merger consideration); provided that the exchange ratio shall be appropriately adjusted to reflect the effect of any share split, split-up, reverse share split, share dividend or distribution of securities convertible into the Company's common shares or Newegg's capital stock or any reorganization, recapitalization, reclassification or other like change with respect to Company's common shares or Newegg's capital stock having a record date occurring on or after the date of the merger agreement and prior to the completion of the merger.

We will issue 363,325,542 common shares to Newegg stockholders upon completion of the merger, based on the number of shares of Newegg issued and outstanding as of March 30, 2021, the most recent practicable date for which such information was available.

Q: Will I experience dilution of my ownership percentage in the Company as a result of the merger?

A: Yes. Based on the exchange ratio, and the number of our common shares and Newegg stock outstanding as of March 30, 2021, immediately following the completion of merger, our shareholders immediately prior to the merger are expected to own approximately 1.32% of our outstanding common shares and Newegg stockholders would own approximately 98.68% of our outstanding common shares, resulting in substantial dilution to our current shareholders. Based on the closing price of our Class A common shares on October 23, 2020, the last trading day before the public announcement of the signing of the merger agreement, the implied aggregate value of such 1.32% ownership interest in the combined company was approximately $15.9 million. Based on the closing price on [ ], 2021, the last practicable date before the date of this proxy statement/prospectus, the implied aggregate value of such 1.32% ownership interest was approximately $[ ] million. In addition, upon completion of the public offering of our common shares for $30 million, or such other amount necessary to meet NASDAQ's initial listing requirements, which is a condition to the completion of the merger, your ownership percentage in the Company will be further reduced.

Q: Who will control the Company after the merger?

A: Upon closing of the merger, Mr. Zhitao He and Mr. Fred Chang will own approximately 60.91% and 35.98%, respectively, of the voting power of our issued and outstanding common shares, and 96.90%, collectively, based on the number of our common shares and Newegg stock outstanding as of March 30, 2021. Moreover, Mr. Zhitao He and Mr. Fred Chang, both of whom will serve as our directors upon closing, will be able to exercise substantial influence over our business and operations. They may also have conflicts of interest with our other shareholders. Where those conflicts exist, our other shareholders will be dependent upon Mr. He, Mr. Chang, and other directors exercising, in a manner fair to all of our shareholders, their fiduciary duties. Also, Mr. He and Mr. Chang will have the ability to control the outcome of most corporate actions requiring shareholder approval, including the sale of all or substantially all of our assets and amendments to our memorandum and articles of association. Moreover, such concentration of voting power could have the effect of delaying, deterring, or preventing a change of control or other business combination, which may, in turn, have an adverse effect on the market price of our shares or prevent our shareholders from realizing a premium over the then-prevailing market price for their shares.

Substantially all of Mr. He's shares are pledged as collateral to Bank of China Limited Zhejiang Branch, or BOC, as collateral to support working capital loans and letters of credit provided by BOC to Hangzhou Lianluo. The total amount owed under these loans is RMB400 million in RMB denominated loans, plus $66.5 million in U.S. dollar loans, plus interest, fees and penalties on such amounts. In May 2020, BOC filed several lawsuits in the Hangzhou Intermediate People's Court in China alleging that Hangzhou Lianluo has failed to repay the loans when due and is in breach of the loan agreements. This litigation is ongoing.

BOC could sell, or force Mr. He to sell, some or all of his shares of Newegg and the Company at any time while the BOC loan remains delinquent. Mr. He could also choose to voluntarily sell some or all of his shares at any time to satisfy the BOC loan. Any such sale or attempted sale could result in a change of control of the Company. See additional disclosures relating to the shares held by Mr. He under "Risk Factors — A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness."

Q: What are the financial terms of the disposition?

A: Pursuant to the disposition agreement, the Purchaser will acquire 100% of the equity interests in Lianluo Connection for RMB0. In exchange for all of the equity interests in Lianluo Connection, the Purchaser agreed to contribute RMB87.784 million to Lianluo Connection's registered capital by September 23, 2023 in accordance with the articles of association of Lianluo Connection. In addition, as an inducement for the Purchaser entering into the disposition agreement, the Company agreed to convert indebtedness in the aggregate amount of $11,255,188 that Lianluo Connection owes to the Company into additional paid-in capital of Lianluo Connection immediately prior to the closing of the disposition.

Q: Will the Company's business change upon completion of the merger and the disposition?

A: Yes. Following completion of the merger and the disposition, the Company will no longer be engaged in the medical device business. Instead, the business of Newegg will become the Company's business. Newegg is a tech-focused e-commerce company with sales in North America, and ranked second after Best Buy as the global top electronics online marketplace according to Web Retailer's report, as measured by 32.4 million visits per month in 2019. Through newegg.com and other online platforms, Newegg operates both direct sales and marketplace models for IT computer components, consumer electronics, entertainment, smart home and gaming products and provides certain third party logistics services globally. See "Information About Newegg" for more information about our business following completion of the merger and the disposition.

Q: What will happen if the merger and disposition are not completed?

A: If the merger and the disposition are not approved by the shareholders or if the merger and the disposition are not completed for any other reason, the Company will remain a public company, and our Class A common shares will continue to be listed and traded on NASDAQ (assuming the Company meets all of NASDAQ's continued listing standards). In addition, our management expects that the business will be operated as it is currently being operated, and that our shareholders will continue to be subject to the same risks and opportunities to which they are currently subject.

Furthermore, if the merger and the disposition are not completed, and depending on the circumstances that would have caused the merger and the disposition not to be completed, the price of our Class A common shares may decline. If that were to occur, it is uncertain when, if ever, the price of our Class A common shares would return to the price at which it trades as of the date of this proxy statement/prospectus. Accordingly, if the merger and the disposition are not completed, there can be no assurance as to the effect of these risks and opportunities on the future value of your Class A common shares. If the merger and the disposition are not completed, the board will continue to evaluate and review the Company's business operations, properties, dividend policy and capitalization, among other things, make such changes as deemed appropriate and continue to seek to identify strategic alternatives to enhance shareholder value.

In addition, if the merger agreement is terminated under specified circumstances, we may be required to pay Newegg a termination fee of $450,000 or Newegg may be required to pay us a termination fee of $450,000, depending on the circumstances of the termination. See "The Merger Agreement — Termination Fees and Expenses" for a more detailed discussion of the termination fees.

Q: Is completion of the merger subject to any conditions?

A: Yes. The Company and Newegg are not required to complete the merger unless a number of conditions are satisfied (or, to the extent permitted by applicable law, waived). These conditions include the approval of the proposals (other than the adjournment proposal) described in this proxy statement/prospectus by our shareholders, and the satisfaction (or waiver, to the extent permitted by applicable law) of the other conditions

that must be satisfied (or, to the extent permitted by applicable law, waived) prior to completion of the merger. For a complete summary of the conditions that must be satisfied (or, to the extent permitted by applicable law, waived) prior to completion of the merger, see "The Merger Agreement — Conditions to Completion of the Merger."

Q: Is completion of the disposition subject to any conditions?

A: Yes. The parties are not required to complete the disposition unless a number of conditions are satisfied (or, to the extent permitted by applicable law, waived). These conditions include the closing of the merger, the shareholders' approval of the disposition, and the satisfaction (or waiver, to the extent permitted by applicable law) of the other conditions that must be satisfied (or, to the extent permitted by applicable law, waived) prior to completion of the disposition. For a complete summary of the conditions that must be satisfied (or, to the extent permitted by applicable law, waived) prior to completion of the disposition, see "The Disposition Agreement — Conditions to Completion of the Disposition."

Q: When do you expect to complete the merger and disposition?

A: As of the date of this proxy statement/prospectus, we expect to complete the merger and the disposition by May 31, 2021, subject to the satisfaction of the conditions described elsewhere in this proxy statement/prospectus. However, no assurance can be given as to when, or if, the merger and disposition will be completed.

Q: Will the Company continue to qualify as a foreign private issuer upon completion of the merger and the public offering?

A: Yes, we currently expect to maintain our foreign private issuer status after completion of the merger and the public offering. Our business will be administered through Newegg principally in the United States after the merger. Nevertheless, we expect that we will continue to be a foreign private issuer within the meaning of rule 3b-4(c) of the Securities Exchange Act of 1934, as amended, because we are organized under the laws of the British Virgin Islands and more than 50% of our outstanding voting securities will be held by residents outside of the United States.

Q: What do I need to do now?

A: Carefully read and consider the information contained in and incorporated by reference into this proxy statement/prospectus, including its annexes. Then, please vote your shares, which you may do by:

- completing, dating, signing and returning the enclosed proxy card;
- submitting your proxy via the Internet or by telephone by following the instructions included on your proxy card; or
- attending the special meeting and voting by ballot in person.

If you hold shares in "street name" through a broker, bank or other nominee holder of record, please instruct your broker, bank or other nominee holder of record to vote your shares by following the instructions that the broker, bank or other nominee holder of record provides to you with these materials.

Q: Who should I call with questions?

A: If you have any questions concerning the special meeting, any of the proposals to be considered at the special meeting, or the accompanying proxy statement/prospectus, or if you need help voting your shares, please contact:

Lianluo Smart Limited
Room 1003B, 10th Floor, BeiKong Technology Building
No. 10 Baifuquan Road, Changping District
Beijing 102200
People's Republic of China
Attention: Corporate Secretary
Telephone: 86-10-89788107

SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. You are urged to carefully read the entire proxy statement/prospectus and the other documents attached to or referred to in this proxy statement/prospectus in order to fully understand the merger agreement, the disposition agreement, the proposed merger, the proposed disposition and the other proposals to be considered at the special meeting. Each item in this summary refers to the page of this proxy statement/prospectus on which that subject is discussed in more detail.

The Companies (See Page 74)

Lianluo Smart Limited

The Company, through its wholly owned subsidiaries in the People's Republic of China (which we refer to as the PRC or China), has been engaged in the medical device business, currently focusing on the development, production and marketing of sleep respiratory analysis systems in China.

The Company has developed and distributed medical devices, with a focus on sleep respiratory solutions for the Obstructive Sleep Apnea Syndrome, or OSAS, since 2010. The Company provides users with medical grade detection and monitoring, long-distance treatment and integration solutions of professional rehabilitation. Since 2018, the Company has been providing examination services to hospitals and medical centers through its proprietary medical wearable devices, and doctors are able to refer to examination results provided by such devices in making diagnoses regarding OSAS.

The Company was incorporated pursuant to the laws of the British Virgin Islands, or BVI, on July 22, 2003 under the name "De-Haier Medical Systems Limited." It changed its name to "Lianluo Smart Limited" on November 21, 2016. As a holding company, the Company does not conduct any operations and instead relies on Lianluo Connection, and prior to August 2020, Beijing Dehaier Medical Technology Company Limited, or Beijing Dehaier, to operate in China.

The Company's Class A common shares are listed on the NASDAQ Capital Market under the symbol "LLIT." The Company's principal executive offices are located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, People's Republic of China, and its telephone number is +86-10-89788107. Information on the Company's website is not incorporated by reference into or otherwise part of this proxy statement/prospectus.

On October 21, 2020, we completed a share combination of our common shares at a ratio of one-for-eight, which decreased our outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and our outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares. This share combination also decreased our authorized shares to 6,250,000 common shares of par value of $0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares. Accordingly, except as otherwise indicated, all share and per share information contained in this proxy statement/prospectus has been restated to retroactively show the effect of this share combination.

See "Information about the Company" and "Management Discussion and Analysis of Financial Condition and Results of Operations for the Company" for important business and financial information regarding the Company.

Lightning Delaware Sub, Inc.

Merger Sub was formed in the State of Delaware on September 23, 2020 and is a wholly owned subsidiary of the Company. Merger Sub was formed solely for the purpose of completing the merger. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the merger agreement and the merger.

Merger Sub is a privately-held corporation and its securities do not trade on any marketplace. The principal executive offices of Merger Sub are located at c/o the Company, Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, People's Republic of China, and its telephone number is +86-10-89788107.

Newegg Inc.

Newegg is a tech-focused e-commerce company in North America, and ranked second after Best Buy as the global top electronics online marketplace according to Web Retailer's report, as measured by 32.4 million visits per month in 2019. Through newegg.com and other online platforms, Newegg operates a direct sales and marketplace models for IT computer components, consumer electronics, entertainment, smart home and gaming products and provides certain third party logistics services globally.

Newegg is a privately-held corporation and its securities do not trade on any marketplace. The principal executive offices of Newegg are located at 17560 Rowland Street, City of Industry, CA 91748, and its telephone number is 626-271-9700. Newegg maintains a website at *www.newegg.com*. Information on Newegg's website is not incorporated by reference into or otherwise part of this proxy statement/prospectus.

See "Information about Newegg" and "Management Discussion and Analysis of Financial Condition and Results of Operations for Newegg" for important business and financial information regarding Newegg.

The Merger (See Page 80)

The merger agreement provides for the merger, in which Merger Sub will be merged with and into Newegg, with Newegg surviving the merger as a wholly owned subsidiary of the Company.

Upon closing of the merger, Mr. Zhitao He and Mr. Fred Chang will own approximately 60.91% and 35.98%, respectively, of the voting power of our issued and outstanding common shares, and 96.90%, collectively, based on the number of our common shares and Newegg stock outstanding as of March 30, 2021. See additional disclosures relating to the shares held by Mr. He under "Risk Factors — A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness." Moreover, Mr. Zhitao He and Mr. Fred Chang, both of whom will serve as our directors upon closing, will be able to exercise substantial influence over our business and operations. They may also have conflicts of interest with our other shareholders. Where those conflicts exist, our other shareholders will be dependent upon Mr. He, Mr. Chang, and other directors exercising, in a manner fair to all of our shareholders, their fiduciary duties. Also, Mr. He and Mr. Chang will have the ability to control the outcome of most corporate actions requiring shareholder approval, including the sale of all or substantially all of our assets and amendments to our memorandum and articles of association. Moreover, such concentration of voting power could have the effect of delaying, deterring, or preventing a change of control or other business combination, which may, in turn, have an adverse effect on the market price of our shares or prevent our shareholders from realizing a premium over the then-prevailing market price for their shares.

The merger will be completed and become effective at such time as the certificate of merger for the merger is filed with the Secretary of State of the State of Delaware (or at such time as agreed to between the Company and Newegg and specified in such certificate of merger in accordance with applicable law). Unless another date and time are agreed to by the Company and Newegg, completion of the merger will occur no later than the second business day following the day on which the last of the conditions described in this proxy statement/prospectus is to be satisfied or waived (other than those conditions that by their nature are to be satisfied at the closing of the merger, but subject to the satisfaction or waiver of such conditions).

As of the date of this proxy statement/prospectus, we expect that the merger will be completed by May 31, 2021. However, completion of the merger is subject to the satisfaction or waiver of the conditions to completion of the merger, which are summarized below. There can be no assurances as to when, or if, the merger will occur. If the merger is not completed on or before June 30, 2021, either the Company or Newegg may terminate the merger agreement. The right to terminate the merger agreement if the merger is not completed on or prior to such date will not be available to either of the Company or Newegg if the failure of the merger to be consummated by such date is due to a material breach by such party of any representation, warranty, covenant or other agreement of such party set forth in the merger agreement. See "The Merger Agreement — Conditions to Completion of the Merger" and "The Merger Agreement — Termination of the Merger Agreement."

Upon the completion of the merger, the principal executive offices of the Company will be located at 17560 Rowland Street, City of Industry, CA 91748 and its telephone number will be 626-271-9700.

A copy of the merger agreement, as amended to the date of this proxy statement/prospectus, is attached as Annex A to this proxy statement/prospectus. **You should read the merger agreement carefully because it is the legal document that governs the merger.**

The Disposition (See Page 112)

Pursuant to the disposition agreement, the Purchaser will acquire 100% of the equity interests in Lianluo Connection for RMB0 immediately following completion of the merger. In exchange for all of the equity interests in Lianluo Connection, the Purchaser agreed to contribute RMB87.784 million to Lianluo Connection's registered capital by September 23, 2023 in accordance with the articles of association of Lianluo Connection. In addition, as an inducement for the Purchaser to enter into the disposition agreement, the Company agreed to convert the indebtedness in the aggregate amount of $11,255,188 that Lianluo Connection owes to the Company into additional paid-in capital of Lianluo Connection immediately prior to the closing of the disposition. The disposition will be completed and become effective immediately following completion of the merger.

A copy of the disposition agreement, as amended to the date of this proxy statement/prospectus, is attached as Annex E to this proxy statement/prospectus. **You should read the disposition agreement carefully because it is the legal document that governs the disposition.**

Special Meeting of Shareholders (See Page 75)

Meeting. The special meeting will be held on [ ], 2021 at 10:00 a.m., local time, at our offices located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing, 102200, People's Republic of China. At the special meeting, shareholders will be asked to consider and vote on the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal, the charter amendment proposal and the adjournment proposal. Under our amended and restated memorandum and articles of association, the business to be conducted at the special meeting will be limited to the proposals set forth in the notice to shareholders provided with this proxy statement/prospectus.

Record Date. Our board of directors has fixed the close of business on March 26, 2021 as the record date for determination of the shareholders entitled to vote at the special meeting, or any adjournment or postponement thereof. Only shareholders of record at the record date are entitled to receive notice of, and to vote at, the special meeting, or any adjournment or postponement thereof. As of the close of business on the record date, there were 3,465,683 Class A common shares and 1,388,888 Class B common shares outstanding and entitled to vote at the special meeting. Each Class A common share is entitled to one vote per share and each Class B common share is entitled to ten votes per share.

Quorum. The presence at the commencement of the special meeting, in person or by proxy, of not less than 50% of the votes of the common shares issued and outstanding and entitled to vote constitutes a quorum for the special meeting. Abstentions will be deemed present at the special meeting for the purpose of determining the presence of a quorum. Shares held in "street name" with respect to which the beneficial owner fails to give voting instructions to the broker, bank or other nominee holder of record will not be deemed present at the special meeting for the purpose of determining the presence of a quorum. Shares held in "street name" with respect to which the beneficial owner fails to give voting instructions to the broker, bank or other nominee holder of record on any of the proposals to be voted on at the special meeting, and shares with respect to which the beneficial owner otherwise fails to vote, will not be deemed present at the special meeting for the purpose of determining the presence of a quorum. Accordingly, we encourage you to provide voting instructions to your broker, whether or not you plan to attend the special meeting. **There must be a quorum to hold the special meeting. Failure of a quorum to be present at the special meeting will necessitate an adjournment of the meeting and will subject us to additional expense.**

Required Vote. Assuming that a quorum is present, the merger agreement requires the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of the votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo to approve the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal and the charter amendment proposal. In addition, assuming that a quorum is present, approval of the redesignation proposal also requires the affirmative vote of a majority of the issued and outstanding Class B common shares entitled to vote and voting on that proposal at the special meeting. The affirmative vote of a majority of the votes cast at the special meeting is required to approve the adjournment proposal.

Share Ownership of and Voting by Directors and Executive Officers. At the record date for the special meeting (the close of business on March 26, 2021), our current directors and executive officers and their affiliates did not beneficially own any common shares of the Company.

Support Agreements (See Page 110). In conjunction with the merger agreement, Hangzhou Lianluo and its affiliate, Hyperfinite Galaxy Holding Limited, entered into a Support Agreement dated as of October 23, 2020 pursuant to which such shareholders agreed to vote in favor of the each of the proposals described in this proxy statement/prospectus. Hangzhou Lianluo is our controlling shareholder, and is controlled by Mr. Zhitao He, our former Chairman of Board of Directors and former Chief Executive Officer. Hyperfinite Galaxy Holding Limited is also controlled by Mr. He. Collectively, Hangzhou Lianluo and Hyperfinite Galaxy Holding Limited have voting control over 58,937 outstanding Class A common shares and 1,388,888 outstanding Class B common shares, which collectively comprise over 80.4% of the voting power of our outstanding common shares as of the record date.

Mr. Ping Chen, our former Chief Executive Officer and board member, also entered into a similar Support Agreement. Mr. Chen holds 201,692 outstanding Class A common shares, which represents approximately 5.9% of the outstanding voting power which is not controlled by Hangzhou Lianluo, measured as of the record date. Mr. Chen also holds options exercisable for an additional 65,733 Class A common shares at exercise prices ranging from $11.60 to $42.48 per share.

What Newegg Stockholders Will Receive in the Merger (See Page xiii)

If the merger is completed, each share of the capital stock of Newegg that was issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 5.8417 common shares of the Company (which we refer to as the exchange ratio), plus the right, if any, to receive cash in lieu of fractional shares of the Company (which we collectively refer to as the merger consideration); provided that the exchange ratio shall be appropriately adjusted to reflect the effect of any share split, split-up, reverse share split, share dividend or distribution of securities convertible into the Company's common shares or Newegg's capital stock or any reorganization, recapitalization, reclassification or other like change with respect to Company's common shares or Newegg's capital stock having a record date occurring on or after the date of the merger agreement and prior to the completion of the merger.

Although the exchange ratio for the merger consideration is fixed (subject to the adjustments described above), the market value of the merger consideration will fluctuate with the market price of our Class A common shares. Based on the closing price on October 23, 2020, the last trading day before the public announcement of the signing of the merger agreement, the implied aggregate value of the merger consideration was approximately $1.19 billion. Based on the closing price on [ ], 2021, the last practicable date before the date of the accompanying proxy statement/prospectus, the implied aggregate value of the merger consideration was up to approximately $[ ] billion.

Treatment of Newegg Equity Awards (See Page 98)

The terms of the equity-based compensation issued by Newegg prior to the merger will be assumed by the Company. The shares of common stock that are issued or may be issued under Newegg's Incentive Award Plan and Significant Shareholder Incentive Plan will be exchanged for our common shares, adjusted for the exchange ratio, but otherwise on the same terms and conditions.

Recommendations of the Board and its Reasons for the Merger and the Disposition (See Pages 86 and 112)

Each of the special committee and our board of directors unanimously recommended that shareholders vote "FOR" the merger proposal and "FOR" the disposition proposal. For the factors considered by the special committee and the board of directors in reaching this decision, see "Proposal I: The Merger — Reasons for the Merger" and "Proposal II: The Disposition — Reasons and Background for the Proposed Disposition."

Ownership of Common Shares After the Merger (See Page 92)

We will issue 363,325,542 common shares to Newegg stockholders upon completion of the merger, based on the number of shares of Newegg issued and outstanding as of March 30, 2021, the most recent practicable date for which such information was available. Based on the number of our common shares and Newegg stock outstanding as of such date, immediately following the completion of merger, our shareholders immediately prior to the merger are expected to own approximately 1.32% of our outstanding common shares and Newegg stockholders are expected to own approximately 98.68% of our outstanding common shares.

Opinions of Financial Advisor (See Pages 87 and 113)

The Company engaged The Benchmark Company, LLC, or Benchmark, to render opinions as to whether the merger consideration to be paid and the disposition consideration to be received by the Company are fair to the Company's shareholders from a financial point of view. Benchmark rendered its written opinions to the special committee on October 23, 2020 that merger consideration to be paid and the disposition consideration to be received by the Company were fair to the Company's shareholders from a financial point of view.

The full text of Benchmark's written opinions, dated October 23, 2020, which describes the assumptions made and limitations upon the review undertaken by Benchmark in preparing its opinions for the merger and the disposition are attached hereto as Annexes D and F, respectively, and are incorporated by reference herein. You should read the opinions carefully in their entirety.

Interests of Directors and Executive Officers in the Merger and the Disposition (See Pages 93 and 118)

In considering the recommendations of the special committee and the board to vote for the merger proposal, you should be aware that certain of the current directors, executive officers and major shareholders of the Company and Newegg have interests in the merger that may be different from, or in addition to, the interests of our unaffiliated shareholders generally and may create potential conflicts of interest. These interests are described in more detail below. The special committee was aware of each of these interests in reviewing, considering and negotiating the terms of the proposed merger and in recommending that the board and the shareholders approve the proposed merger. The board was also aware of these interests in approving the merger agreement and the transactions thereby and in recommending the approval of the merger agreement to our shareholders.

Mr. Zhitao He, our former Chairman and Chief Executive Officer, who also controlled approximately 80.4% of our total outstanding voting power on the record date through Hangzhou Lianluo and its affiliate, Hyperfinite Galaxy Holding Limited, also serves on the board of Newegg and, through Digital Grid (Hong Kong) Technology Co., Limited, or Digital Grid, beneficially owns a majority of the equity interests in Newegg. Hangzhou Lianluo has indicated that one of the reasons it would like to complete the merger is that it believes it is the best way for Newegg to become publicly listed, which will provide it and other Newegg stockholders better liquidity for their Newegg investment. Ms. Yingmei Yang, our Interim Chief Financial Officer and one of our directors, also serves on the board of Newegg.

The merger agreement provides that all of Newegg's shareholders, including Digital Grid, will receive our common shares. Following the merger, Mr. Zhitao He will beneficially own approximately 224,269,418 common shares, representing approximately 60.91% of our outstanding total voting power based on the number of our common shares and Newegg stock outstanding as of March 30, 2021. Substantially all of Mr. He's shares are pledged as collateral to BOC as collateral to support working capital loans and letters of credit provided by BOC to Hangzhou Lianluo. The total amount owed under these loans is RMB400 million in RMB denominated loans, plus $66.5 million in U.S. dollar loans, plus interest, fees and penalties on such amounts. In May 2020, BOC filed several lawsuits in the Hangzhou Intermediate People's Court in China alleging that Hangzhou Lianluo has failed

to repay the loans when due and is in breach of the loan agreements. This litigation is ongoing. BOC could sell, or force Mr. He to sell, some or all of his shares of Newegg and the Company at any time while the BOC loan remains delinquent. Mr. He could also choose to voluntarily sell some or all of his shares at any time to satisfy the BOC loan. See additional disclosures relating to the shares held by Mr. He under "Risk Factors — A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness."

In addition, because the completion of the merger is contingent upon the disposition our medical device business, Mr. Zhitao He and Ms. Yingmei Yang may also have interests in the disposition that may be different from, or in addition to, the interests of our unaffiliated shareholders.

Dissenters' Rights Available to Shareholders (See Pages 96 and 118)

Under BVI law, our shareholders will not be entitled to appraisal or dissenters' rights in connection with the merger or the disposition.

Completion of the Merger is Subject to Certain Conditions (See Page 97)

The obligation of each of the Company, Newegg and Merger Sub to complete the merger is subject to the fulfillment (or waiver, to the extent permissible under applicable law) of the following conditions:

- the shareholders of the Company shall have approved the merger, the disposition and the other proposals set forth herein (other than the adjournment proposal), which shall in all cases include approval of a majority of votes cast which are not beneficially owned by Hangzhou Lianluo;
- all consents or filings required to be obtained from or made with any governmental authority or third parties in order to consummate the transactions contemplated by the merger agreement shall have been obtained or made;
- no governmental authority shall have enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) or order that is then in effect and which has the effect of making the transactions or agreements contemplated by the merger agreement or the disposition agreement illegal or which otherwise prevents or prohibits consummation of the transactions contemplated by the merger agreement;
- there shall not be any pending action brought by a third-party non-affiliate to enjoin or otherwise restrict the consummation of the merger or the disposition;
- the persons identified by Newegg shall have been elected or appointed to the Company's board of directors;
- all of the conditions to the obligations of each party to consummate the disposition described in the disposition agreement shall have been satisfied;
- the amendment to that certain stockholder agreement, dated March 30, 2017, between Newegg and certain stockholders of Newegg that was entered into concurrently with the merger agreement shall be in full force and effect and shall be assigned from Newegg to the Company at the closing of the merger;
- the registration statement of which this proxy statement/prospectus forms a part shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order;
- the registration statement on Form F-1 relating to a public offering of common shares of the Company for $30 million, or such other amount necessary to meet NASDAQ's initial listing requirements, shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order; and
- the foregoing offering and the disposition are capable of being consummated on the closing date.

In addition, the obligation of Newegg to complete the merger is subject to the satisfaction (or waiver, to the extent permitted by applicable law) of the following conditions:

- all of the representations and warranties of the Company and the Merger Sub set forth in the merger agreement and in any certificate delivered by the Company and the Merger Sub pursuant thereto shall be true and correct on and as of the date of the agreement and on and as of the completion date of the merger as if made on the completion date, except for (i) those representations and warranties that address matters only as of a particular date (which representations and warranties shall have been accurate as of such date), and (ii) any failures to be true and correct that (without giving effect to any qualifications or limitations as to materiality or material adverse effect), individually or in the aggregate, have not had and would not reasonably be expected to have a material adverse effect on, or with respect to, the Company and its subsidiaries or materially and adversely affects the Company and the Merger Sub's ability to consummate the transactions contemplated by the merger agreement;
- the Company and the Merger Sub shall have performed in all material respects all of such party's obligations and complied in all material respects with all of such party's agreements and covenants under the merger agreement to be performed or complied with by it on or prior to the completion of the merger;
- no material adverse effect shall have occurred with respect to the Company, Merger Sub and any subsidiary since the date of the merger agreement;
- the Company shall have entered into employment agreements, in form and substance reasonably satisfactory to Newegg, with the persons identified by Newegg;
- Newegg shall have received a duly executed legal opinion addressed to Newegg from the Company's legal counsel in form and substance reasonably satisfactory to Newegg;
- Newegg shall have received from the Company copy of the amended and restated memorandum and articles of association of the Company approved by shareholders at the special meeting;
- the Company and Merger Sub shall have delivered to Newegg customary officer's certificates, secretary's certificates and good standing certificates;
- if required, the transactions contemplated by the merger agreement shall have been approved by the investors pursuant to the securities purchase agreements that the investors and the Company entered into on February 12, February 21 and February 27, 2020; and
- the Company shall have been approved by NASDAQ for listing following the merger.

In addition, the obligation of each of the Company and Merger Sub to complete the merger is subject to the satisfaction (or waiver, to the extent permitted by applicable law) of the following conditions:

- all of the representations and warranties of Newegg (including its subsidiaries) set forth in the merger agreement and in any certificate delivered by Newegg pursuant thereto shall be true and correct on and as of the date of the merger agreement and on and as of the completion date of the merger as if made on the completion date, except for (i) those representations and warranties that address matters only as of a particular date (which representations and warranties shall have been accurate as of such date), and (ii) any failures to be true and correct that (without giving effect to any qualifications or limitations as to materiality or material adverse effect), individually or in the aggregate, have not had and would not reasonably be expected to have a material adverse effect on, or with respect to, Newegg and any subsidiary or materially and adversely affect Newegg's ability to consummate the transactions contemplated by the merger agreement;
- Newegg shall have performed in all material respects all of Newegg's obligations and complied in all material respects with all of Newegg's agreements and covenants under the merger agreement to be performed or complied with by it on or prior to the completion of the merger;

- the lock-up agreements entered into on the date of the merger agreement by among Newegg, the Company and any Newegg stockholders who would hold more than 5% of the Company common shares immediately after the closing of the merger shall be in full force and effect;
- No material adverse effect shall have occurred and be continuing with respect to Newegg and its subsidiaries, taken as whole, since the date of the merger agreement;
- Newegg shall have delivered to the Company and Merger Sub customary officer's certificates, secretary's certificates, good standing certificates and a certified copy of its certificate of incorporation; and
- the Company and Merger Sub shall have received a duly executed legal opinion addressed to the Company and Merger Sub from Newegg's legal counsel in form and substance reasonably satisfactory to the Company and Merger Sub.

While we currently expect that the merger will be completed by May 31, 2021, there can be no assurances as to when, or if, the merger will occur.

Completion of the Disposition is Subject to Certain Conditions (See Page 119)

The obligation of each of the Purchaser, the Company and Lianluo Connection to complete the disposition is subject to the fulfillment (or waiver, to the extent permissible under applicable law) of the following conditions:

- obtaining any requisite regulatory approvals;
- no law or order prohibiting or preventing consummation of the disposition;
- no litigation to enjoin or otherwise restrict consummation of the disposition;
- the Company shareholder's approval of the disposition;
- the consummation of the merger; and
- the conversion of indebtedness in the aggregate amount of $11,255,188 owed by Lianluo Connection to the Company into additional paid-in capital of Lianluo Connection.

Regulatory Approvals (See Page 93)

The consummation of the merger is not subject to any regulatory or governmental approvals or filings, other than (i) the filing of a certificate of merger with the Secretary of State of the State of Delaware and (ii) the declaration by the Securities and Exchange Commission, or the SEC, of the effectiveness of the registration statement of which this proxy statement/prospectus forms a part, and any required notice or other filings under applicable state securities laws.

The consummation of the disposition is not subject to any regulatory approvals.

Listing on NASDAQ (See Page 94)

The approval for listing of our common shares on the NASDAQ Capital Market, including the shares issued in the merger, subject only to official notice of issuance, is a condition to the obligations of Newegg to complete the merger. We have applied for such listing under the symbol "NEGG."

Completion and Effectiveness of the Merger and the Disposition (See Page 97)

The merger will be completed and become effective at such time as the certificate of merger for the merger is filed with the Secretary of State of the State of Delaware (or at such time as agreed to between the Company and Newegg and specified in such certificate of merger in accordance with applicable law). Unless the merger agreement is terminated or another date and time are agreed to by the Company and Newegg, completion of the merger will occur no later than the second business day following the day on which the last of the conditions is satisfied or waived (other than those conditions that by their nature are to be satisfied at the closing of the merger, but subject to the satisfaction or waiver of such conditions).

The disposition will be completed immediately following completion of the merger.

As of the date of this proxy statement/prospectus, we expect that the merger and the disposition will be completed by May 31, 2021. However, completion of the merger and the disposition are subject to the satisfaction or waiver of the conditions to completion of the merger and the disposition. There can be no assurances as to when, or if, the merger and the disposition will occur. If the merger is not completed on or before June 30, 2021, either the Company or Newegg may terminate the merger agreement; provided that the right to terminate the merger agreement if the merger is not completed on or prior to such date will not be available to either of the Company or Newegg if the failure of the merger to be consummated by such date is due to a material breach by such party of any representation, warranty, covenant or other agreement of such party set forth in the merger agreement.

Go Shop (See Page 105)

During the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, each of the Company, the Merger Sub and Newegg may and may cause its representatives to directly or indirectly, (i) solicit, assist, initiate or facilitate the making, submission or announcement of, or intentionally encourage, any acquisition proposal, (ii) furnish any non-public information regarding such party or its affiliates or their respective businesses, operations, assets, liabilities, financial condition, prospects or employees to any person or group in connection with or in response to an acquisition proposal, (iii) engage or participate in discussions or negotiations with any person or group with respect to, or that could be expected to lead to, an acquisition proposal, (iv) approve, endorse or recommend, or publicly propose to approve, endorse or recommend, any acquisition proposal, (v) negotiate or enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any acquisition proposal, or (vi) release any third person from, or waive any provision of, any confidentiality agreement to which such party is a party.

Each of the Company and Newegg agreed to notify the other as promptly as practicable (and in any event within 48 hours) orally and in writing of the receipt by such party or any of its representatives of (i) any bona fide inquiries, proposals or offers, requests for information or requests for discussions or negotiations regarding or constituting any acquisition proposal or any bona fide inquiries, proposals or offers, requests for information or requests for discussions or negotiations that could be expected to result in an acquisition proposal, and (ii) any request for non-public information relating to such party or its affiliates (or any subsidiary, respectively), specifying in each case, the material terms and conditions thereof (including a copy thereof if in writing or a written summary thereof if oral) and the identity of the party making such inquiry, proposal, offer or request for information. Each of the Company, the Merger Sub and Newegg agreed to keep the other parties promptly informed of the status of any such inquiries, proposals, offers or requests for information.

For purposes of the merger agreement, an “acquisition proposal” means any inquiry, proposal or offer, or any indication of interest in making an offer or proposal, from any person or group at any time relating to an alternative transaction (other than the transactions contemplated by the merger agreement) concerning the sale of (i) all or any material part of the business or assets of any subsidiaries of Newegg or the Company and its subsidiaries, or (ii) any of the shares or other equity interests or profits of any subsidiaries of Newegg or the Company and its subsidiaries, in any case, whether such transaction takes the form of a sale of shares or other equity, assets, merger, consolidation, issuance of debt securities, management contract, joint venture or partnership, or otherwise.

Termination of the Merger Agreement (See Page 107)

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after our shareholders have approved the merger, in any of the following ways:

- by mutual written consent of the Company and Newegg;
- by either the Company or Newegg (i) if the merger shall not have occurred on or prior to June 30, 2021; provided, that the right to terminate shall not be available to any party whose material breach of a representation, warranty or covenant in the merger agreement has been a principal cause of the failure of the merger to be consummated on or before such date; (ii) if any governmental authority of competent jurisdiction shall have issued an order or taken any other

action permanently restraining, enjoining or otherwise prohibiting the merger, and, in each case, such order or action shall have become final and non-appealable; provided, that the right to terminate shall not be available to any party whose material

breach of a representation, warranty or covenant in the merger agreement has been the principal cause of such action, or (iii) if the shareholder proposals described in this proxy statement/prospectus are not approved at the special meeting by a majority of votes cast which are not beneficially owned by Hangzhou Lianluo;

- by Newegg (provided it is not then in material breach of any of its obligations under the merger agreement) (i) if there is any breach of any representation, warranty, covenant or agreement on the part of the Company or Merger Sub set forth in the merger agreement, or if any representation or warranty of the Company or Merger Sub shall have become untrue, in either case such that the applicable conditions set forth in the merger agreement would not be satisfied; provided, however, if such breach is curable by the Company or Merger Sub, Newegg may not terminate for so long as the Company or Merger Sub continue to exercise their best efforts to cure such breach, unless such breach is not cured within thirty (30) days after notice of such breach is provided by Newegg to the Company, (ii) if for any reason the Company fails to call and hold the special meeting within sixty (60) days following the filing of the registration statement of which this proxy statement/prospectus forms a part, unless such failure is as a result of the Company responding in good faith to comments on such registration statement or the registration statement on Form F-1 related to the public offering of the Company's common shares for $30 million, or such other amount necessary to meet NASDAQ's initial listing requirements, received from the SEC or comments from NASDAQ, or (iii) if the Company's board (or any subgroup or committee thereof) withdraws, modifies or changes its recommendation of the merger agreement or the merger in a manner adverse to Newegg or shall have resolved to do any of the foregoing, or approves or recommends, or proposes to approve or recommend, an acquisition proposal;
- by the Company (provided neither it nor its subsidiary is then in material breach of any of their obligations under the merger agreement) (i) if there is any breach of any representation, warranty, covenant or agreement on the part of Newegg as set forth in the merger agreement or if any representation or warranty of Newegg shall have become untrue, in either case such that the applicable conditions set forth in the merger agreement would not be satisfied; provided, however, if such breach is curable by Newegg, the Company may not terminate the merger agreement for so long as Newegg continues to exercise its best efforts to cure such breach, unless such breach is not cured within thirty (30) days after notice of such breach is provided by the Company to Newegg, or (ii) if the Newegg board (or any subgroup or committee thereof) (A) withdraws, modifies or changes its recommendation of the merger agreement or the merger in a manner adverse to the Company or shall have resolved to do any of the foregoing, or (B) approves or recommends, or proposes to approve or recommend, an acquisition proposal;
- by Newegg if it receives a bona fide written offer prior to the approval of the merger by our shareholders at the special meeting, and Newegg's special committee determines in good faith (based upon a written opinion of an independent financial advisor) that such offer constitutes a superior offer to the stockholders of Newegg to the terms set forth in the merger agreement, and the Newegg special committee determines in good faith (based upon advice of counsel) that, in light of such superior offer, the withdrawal or modification of the Newegg board's approval is required in order for the Newegg board to comply with its fiduciary obligations to Newegg's stockholders under the applicable law; or
- by the Company if it receives a bona fide written offer prior to the approval of the merger by our shareholders at the special meeting, and the Company's special committee determines in good faith (based upon a written opinion of an independent financial advisor) that such offer constitutes a superior offer to the shareholders of the Company to the terms set forth in the merger agreement, and the Company's special committee determines in good faith (based upon advice of counsel) that, in light of such superior offer, the withdrawal or modification of our board's approval is required in order for our board to comply with its fiduciary obligations to the Company's shareholders under the applicable law.

If the merger agreement is validly terminated, the merger agreement will terminate (except that the confidentiality agreement between Newegg and the Company, and the provisions described in Section 5.12 (Public Announcements), Section 5.13 (Confidential Information), Section 7.2 (Effect of Termination), Article VII (Termination), Article VIII (Indemnification) and Article IX (General Provisions) of the merger agreement, which provisions shall survive such termination), and there will be no other liability on the part of either party to the other except as described under "— Termination Fees and Expenses;" provided, that no party will be relieved from liability for fraud or a willful breach of a representation or warranty contained in the merger agreement or the breach of any covenant contained in the merger agreement, in which case the aggrieved party will be entitled to all rights and remedies available at law or in equity.

Termination Fees and Expenses (See Page 109)

If the merger agreement is terminated (i) because the shareholder proposals described in this proxy statement/prospectus are not approved at the special meeting by a majority of votes cast which are not beneficially owned by Hangzhou Lianluo, or (ii) upon any of the events described in the third or sixth bullet under "— Termination of the Merger Agreement" above, then the Company is required to immediately pay to Newegg in cash or by wire transfer of immediately available funds or by disbursement from the escrow account, an amount equal to $450,000.

If the merger agreement is terminated upon any event described in the fourth or fifth bullet under "— Termination of the Merger Agreement" above, then Newegg is required to immediately pay to the Company in cash or by wire transfer of immediately available funds in an amount equal to $450,000. During the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, Newegg agreed to keep $450,000 of cash available for the payment of the foregoing termination fee.

Termination of the Disposition Agreement (See Page 120)

The disposition agreement may be terminated prior to the closing date as follows:

- by mutual written consent of the Purchaser and the Company;
- by written notice by either the Purchaser or the Company if a governmental authority of competent jurisdiction shall have issued an order or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the disposition agreement and such order or other action has become final and non-appealable;
- by written notice by the Company if the required shareholder approval is not obtained; or
- by written notice by the Company if the merger is not closed.

Specific Performance (See Page 109)

Under the merger agreement, each of the Company and Newegg is entitled to seek an injunction or injunctions to prevent breaches of the merger agreement and to seek to specifically enforce the terms and provisions of the merger agreement.

Material U.S. Federal Income Tax Consequences of the Merger (See Page 94)

The Company and Newegg have structured the merger with the intent that it will qualify as a tax-free "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the Code, specifically as a "reverse subsidiary merger" under Section 368(a)(2)(E) of the Code. However, the qualification of the merger as a tax-free reorganization depends on compliance with numerous technical requirements, and there is a risk that the merger may not satisfy certain of these requirements. There cannot be any assurance that the merger will so qualify as a "reorganization". See "Risk Factors — Risks Related to the Merger — There can be no assurances that Newegg stockholders will not be required to recognize gain for U.S. federal income tax purposes upon the exchange of Newegg stock for common shares of the Company stock in the merger." The Company and Newegg have not

sought, and will not seek, any ruling from the Internal Revenue Service, or the IRS, regarding any matter affecting the merger or any of the United States federal income tax consequences discussed herein; and have not sought, and will not seek, any tax opinion from their respective legal counsel regarding the qualification of the merger as a tax-free "reorganization" within the meaning of Section 368(a) of the Code and generally as a tax-free transaction. Thus, there can be no assurance that the IRS will ultimately conclude that the merger does meet all of the requirements for qualification as a "reorganization" within the meaning of Section 368(a) of the Code, and there can be no assurance that any of the other statements made herein would not be challenged by the IRS and, if so challenged, would be sustained upon review in a court. A successful challenge by the IRS could result in taxable income to Newegg and, as described below, its stockholders.

Assuming the merger qualifies for the intended tax treatment, U.S. holders will not recognize any gain or loss upon the receipt of our common shares in the merger. However, if the merger does not qualify as a tax free reorganization as intended, then a U.S. holder will recognize capital gain or loss in an amount equal to the difference, if any, between (i) the sum of the fair market value of our common shares and the fair market value of other merger consideration received in the merger and (ii) the U.S. holder's adjusted tax basis in the Newegg stock exchanged in the merger.

The foregoing is qualified by reference to, and each Newegg stockholder is urged to read, the sections "Proposal I: The Merger — Material U.S. Federal Income Tax Consequences of the Merger" and "Risk Factors — Risks Related to the Merger — There can be no assurances that Newegg stockholders will not be required to recognize gain for U.S. federal income tax purposes upon the exchange of Newegg stock for common shares of the Company stock in the merger," and to consult its tax advisor to determine the particular U.S. federal, state or local or non-U.S. income or other tax consequences to it of the merger.

Anticipated Accounting Treatment (See Page 96)

The merger will be accounted for as a reverse merger in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. Under this method of accounting, the Company will be treated as the "acquired" company for financial reporting purposes. This determination was primarily based on Newegg comprising the ongoing operations of the combined company, Newegg's senior management comprising the senior management of the combined company and Newegg's stockholders having a majority of the voting power of the combined company. For accounting purposes, Newegg will be deemed to be the accounting acquirer in the transaction and, consequently, the transaction will be treated as a recapitalization of Newegg (i.e., a capital transaction involving the issuance of shares by the Company for the stock of Newegg). Accordingly, the consolidated assets, liabilities and results of operations of Newegg will become the historical financial statements of the combined company, and the Company's assets, liabilities and results of operations will be consolidated with Newegg beginning on the acquisition date.

Transaction Expenses (See Page 96)

The Company estimates that its total merger transaction expenses will be approximately $1.20 million, which includes financial advisor fees of approximately $0.27 million, legal fees in the amount of approximately $0.60 million, accounting fees in the amount of approximately $0.14 million, transfer agent fees in the amount of approximately $0.01 million, printing and mailing fees in the amount of approximately $0.05 million, filing fees in the amount of approximately $0.10 million and other expenses in the amount of approximately $0.03 million. None of these expenses are contingent on approval and consummation of the merger unless stated otherwise.

Newegg estimates that its total merger transaction expenses will be approximately $2.24 million, which includes legal fees in the amount of approximately $1.15 million and accounting fees in the amount of approximately $1.09 million. None of these expenses are contingent on approval and consummation of the merger unless stated otherwise.

Risk Factors (See Page 30)

You should carefully read this proxy statement/prospectus and especially consider the factors discussed in "Risk Factors" in connection with your consideration of the merger and disposition before deciding whether to vote for approval of the merger proposal and the disposition proposal. Below please find a summary of the principal risks we face, organized under relevant headings. These risks are discussed more fully in "Risk Factors."

Risks Related to the Merger and Disposition

Risks and uncertainties related to the merger and disposition include, but are not limited to, the following:

- The merger and disposition are subject to a number of conditions.
- Certain of our director, executive officer and major shareholders have interests in the merger and disposition that are different from, and may potentially conflict with, our interests and the interests of our unaffiliated shareholders.
- Failure to complete the merger and disposition could negatively impact our business, financial condition, results of operations or share price.
- Following the merger, our business may suffer as a result of the lack of public company operating experience of new management.
- The transition to becoming the subsidiary of a public company will require changes in the way that Newegg operates its business and incur additional expenses pertaining to SEC reporting obligations and SEC compliance matters, and our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.
- Newegg is not a publicly traded company, making it difficult to determine the fair market value of Newegg.
- Our future results following the merger and disposition may differ materially from the unaudited pro forma financial information included in this proxy statement/prospectus.
- NASDAQ may not list or continue to list our common shares on its exchange, which could prevent consummation of the merger or limit investors' ability to make transactions in our shares. Consequently, we may be subject to additional trading restrictions.
- A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness.

Risks Related to the Business of the Company

The Company is subject to risks and uncertainties related to its business, including, but not limited to, the following:

- Our business is seasonal and revenues and operating results could fall below investor expectations during certain periods, which could cause the trading price of our common shares to decline.
- We sell our products primarily to distributors, and our technical services are provided to hospitals and check-up centers; our ability to add distributors, hospitals and check-up centers will impact our revenue growth. Failure to maintain or expand our distribution network and network of hospitals and check-up centers would materially and adversely affect our business.
- We generate a significant portion of our revenues from a small number of products, and a reduction in demand for any of these products could materially and adversely affect our financial condition and results of operations.

Risks Relating to Doing Business in China

We face risks and uncertainties related to doing business in China in general, including, but not limited to, the following:

- Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

- Currently, there are no specific laws or regulations applicable to wearable medical products in China, which are instead subject to general laws applicable to medical products. If there are applicable government regulations in the future, it may create risks and challenges with respect to our compliance efforts and our business strategies.
- Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

Risks Related to the Business of Newegg

Newegg is subject to risks and uncertainties related to its business, including, but not limited to, the following:

- Newegg faces risks related to system interruption, including failures caused or experienced by third-party service providers, and lack of redundancy and timely upgrades.
- Newegg's business faces intense domestic and international competition.
- A decline in demand for IT and CE products could adversely affect Newegg's operating results.
- The loss of key employees or the failure to attract qualified personnel could have a material adverse effect on Newegg's ability to run its business.
- If Newegg is unable to provide a satisfactory customer experience, its reputation would be harmed and it could lose customers.
- Newegg depends on its vendors to source sufficient quantities of merchandise on favorable terms. If Newegg fails to maintain strong vendor relationships or if its vendors are otherwise unable to supply products that meet its standards in a timely manner, its net sales and net income could suffer.
- Newegg's international sales and operations require access to international markets and are subject to applicable laws relating to trade, export and import controls and economic sanctions, the violation of which could adversely affect its operations.
- Newegg has incurred net loss in the past and may continue to experience losses in the future.
- The successful operation of Newegg's business depends upon the performance, reliability and security of the internet infrastructure in the countries where it operates.
- Because many of the products that Newegg sells are manufactured abroad, Newegg may face delays, increased cost or quality control deficiencies in the importation of these products, which could reduce its net sales and profitability.
- Assertions, claims and allegations, even if not true, that Newegg has infringed or violated intellectual property rights could harm Newegg's business and reputation. Also, Newegg may be subject to product liability claims, which could be costly and time-consuming to defend.
- Newegg may incur additional costs due to tax assessments resulting from ongoing and future audits by tax authorities.
- Significant developments stemming from recent U.S. government actions and proposals concerning tariffs and other economic proposals could have a material adverse effect on Newegg.
- Newegg and certain of its subsidiaries are parties to a revolving credit agreement, which contain a number of covenants that may restrict Newegg's current and future operations and could adversely affect Newegg's ability to execute business needs.

Risks Related to Ownership of our Common Shares

In addition to the risks described above, we are subject to general risks and uncertainties related to our common shares, including, but not limited to, the following:

- If we fail to maintain compliance with NASDAQ Listing Rules, we may be delisted from the NASDAQ Capital Market, which would result in a limited public market for trading our shares and make obtaining future debt or equity financing more difficult for us.
- The trading price of the common shares is likely to be volatile and could fluctuate widely due to multiple factors, some of which are beyond our control.
- We are a "controlled company" within the meaning of the NASDAQ rules and, as a result, qualify for exemptions from certain corporate governance requirements. You will not have the same protections afforded to shareholders of companies that are subject to such requirements.
- As a company incorporated in the BVI, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NASDAQ corporate governance listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the NASDAQ's corporate governance listing standards.
- We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

SELECTED CONSOLIDATED FINANCIAL DATA OF THE COMPANY

The following tables present the selected consolidated financial information for the Company. The selected consolidated statements of income (loss) data for the three years ended December 31, 2020, 2019 and 2018 and the consolidated balance sheet data as of December 31, 2020 and 2019 have been derived from our audited consolidated financial statements presented elsewhere in this proxy statement/prospectus. The selected consolidated statements of income (loss) data for the years ended December 31, 2017 and 2016 and the selected consolidated balance sheets data as of December 31, 2018, 2017 and 2016 have been derived from our audited consolidated financial statements for the years ended December 31, 2017 and 2016, which are not included in this proxy statement/prospectus. Our historical results do not indicate results expected for any future periods.

The selected consolidated financial data below should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and related notes and the section of this proxy statement/prospectus captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company." Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

	For the Years Ended December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
Revenues	$ 358,536	$ 383,458	$ 559,386	$ 882,011	$ 13,062,373
Costs of revenue	(646,653)	(743,744)	(757,901)	(1,655,970)	(17,179,060)
Gross loss	(288,117)	(360,286)	(198,515)	(773,959)	(4,116,687)
Service income	—	—	—	56,030	14,587
Service expenses	—	—	—	(1,289)	(21,130)
Selling expenses	(91,820)	(835,270)	(2,082,829)	(1,170,378)	(927,243)
General and administrative expenses	(2,482,201)	(2,593,808)	(3,675,465)	(3,192,030)	(4,183,775)
(Provision for) recovery from doubtful accounts and inventories	(113,000)	(13,011)	(22,229)	23,608	150,280
Impairment loss for intangible assets	—	—	(3,281,779)	—	—
Operating loss	(2,975,138)	(3,802,375)	(9,260,817)	(5,058,018)	(9,083,968)
Loss before provision for income tax and non-controlling interest	(3,241,697)	(4,450,994)	(8,910,002)	(5,136,434)	(9,704,761)
Income tax benefit	—	—	—	—	95,026
Net loss from continuing operations	(3,241,697)	(4,450,994)	(8,910,002)	(5,136,434)	(9,609,735)
Discontinued operations:					
Loss from operations of discontinued operations, net of taxes	—	—	—	—	(168,574)
Loss from disposal of discontinued operations, net of taxes	—	—	—	—	(82,579)
Net loss	(3,241,697)	(4,450,994)	(8,910,002)	(5,136,434)	(9,860,888)
Less: net loss attributable to non-controlling interest	—	—	—	—	(129,020)
Net loss attributable to Lianluo Smart Limited	$ (3,241,697)	$ (4,450,994)	$ (8,910,002)	$ (5,136,434)	$ (9,731,868)
Other comprehensive (loss) income:					
Foreign currency translation gain (loss)	150,340	(166,892)	(515,477)	380,077	(567,162)
Comprehensive loss	(3,091,357)	(4,617,886)	(9,425,479)	(4,756,357)	(10,428,050)
-less comprehensive loss attributable to non-controlling interest	—	—	—	—	(230,838)
Comprehensive loss attributable to Lianluo Smart Limited	$ (3,091,357)	$ (4,617,886)	$ (9,425,479)	$ (4,756,357)	$ (10,197,212)

Weighted average number of common shares used in computation					
-Basic and Diluted	3,389,069	2,225,821	2,202,176	2,164,071	1,302,846
Net loss per share of common stock					
-Basic and Diluted	$ (0.96)	$ (2.00)	$ (4.05)	$ (2.37)	$ (7.47)

	December 31,				
	2020	2019	2018	2017	2016
Balance Sheet Data:					
Cash and cash equivalents	$ 1,816,177	$ 22,834	$ 477,309	$ 6,809,485	$ 10,792,823
Working capital (deficiency)	3,255,404	(1,555,999)	1,260,558	7,152,147	10,221,074
Total current assets	5,972,526	1,677,113	2,713,362	9,833,029	11,336,148
Total assets	6,048,179	2,333,953	5,698,670	15,563,108	16,552,137
Total current liabilities	2,717,122	3,233,112	1,452,804	2,680,882	1,115,074
Total Lianluo Smart Limited shareholders' equity (deficit)	2,812,391	(1,288,789)	3,116,620	11,153,115	13,937,701
Common shares	78,644	48,630	48,630	47,281	47,281
Total equity (deficit)	2,812,391	(1,288,789)	3,116,620	11,153,115	13,937,701

SELECTED CONSOLIDATED FINANCIAL DATA OF NEWEGG

The following tables present the selected consolidated financial information for Newegg. The selected consolidated statements of operations data for the three years ended December 31, 2020, 2019 and 2018 and the consolidated balance sheet data as of December 31, 2020 and 2019 have been derived from Newegg's audited consolidated financial statements presented elsewhere in this proxy statement/prospectus. Newegg's historical results do not indicate results expected for any future periods.

The selected consolidated financial data below should be read in conjunction with, and are qualified in their entirety by reference to, Newegg's consolidated financial statements and related notes and the section of this proxy statement/prospectus captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations of Newegg." Newegg's audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

	For the Years Ended December 31,		
Statements of Operations Data:	**2020**	**2019**	**2018**
Net sales	$ 2,114,872	$ 1,533,928	$ 2,022,437
Cost of sales	1,841,243	1,369,054	1,816,834
Gross profit	273,629	164,874	205,603
Other operating income/(expense)	—	28,314	(1,555)
Selling, general, and administrative expenses	250,239	229,192	247,174
Income (loss) from operations	23,390	(36,004)	(43,126)
Interest income	1,124	586	1,484
Interest expense	(664)	(2,945)	(1,595)
Other income, net	5,320	4,184	1,599
Gain from sale of and equity income from equity method investments	3,197	21,777	9,617
Income (loss) before provision for income taxes	32,367	(12,402)	(32,021)
Provision for income taxes	1,941	4,589	1,582
Net income (loss)	$ 30,426	$ (16,991)	$ (33,603)
Less: Undistributed net income allocable to Series A and Series AA convertible Preferred Stocks	(30,012)	—	—
Less: Dividend or deemed dividend paid to Series A convertible Preferred Stock	—	—	(19,960)
Net income (loss) attributable to common stock	$ 414	$ (16,991)	$ (53,562)
Basic earnings (loss) per share	$ 0.49	$ (20.01)	$ (80.68)
Diluted earnings (loss) per share	$ 0.09	$ (20.01)	$ (80.68)
Weighted average shares used in computation of earnings per share:			
Basic	849	849	664
Diluted	4,562	849	664

Balance Sheet Data:	As of December 31, 2020	2019
	(In thousands)	
Cash and cash equivalents	$ 156,635	$ 79,750
Total current assets	428,611	267,593
Total assets	557,468	381,768
Total current liabilities	388,091	256,117
Total liabilities	429,971	289,724
Total temporary equity	187,801	187,801
Total deficit	(60,304)	(95,757)
Total liabilities, temporary equity and equity	$ 557,468	$ 381,768

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The unaudited pro forma condensed combined financial information presented below sets forth the financial position and results of operations of the Company after giving effect to the merger and the disposition.

The following unaudited pro forma condensed combined financial statements give effect to the merger and the disposition and related transactions and were prepared in accordance with the regulations of the SEC.

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of what the combined company's financial position actually would have been had the merger and disposition transactions been completed on the dates indicated or what the combined company's results of operations actually would have been had the merger and disposition transactions been completed as of the beginning of the periods indicated. In addition, the pro forma financial statements do not purport to project the future financial position or operating results of the combined company. The pro forma financial statements include adjustments for events that are (1) directly attributable to the aforementioned transactions, (2) factually supportable, and (3) with respect to the statements of income (loss), expected to have a continuing impact on the combined results.

It should be noted that there have been no material transactions between the Company and Newegg prior to and during the periods presented in the unaudited pro forma condensed combined financial statements. In addition, these statements do not reflect any cost or growth synergies that the combined company may achieve as a result of the merger, or the costs to combine the operations of the Company and Newegg.

The pro forma financial information has been derived from and should be read in conjunction with the following:

(a) The consolidated financial statements and related notes of the Company for the year ended December 31, 2020 (which are included elsewhere in this proxy statement/prospectus); and

(b) The consolidated financial statements and related notes of Newegg for the year ended December 31, 2020 (which are included elsewhere in this proxy statement/prospectus).

Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2020
(In thousands, except par value)

	Newegg	Company	Combined	Pro Forma Adjustments	Notes	Pro Forma Combined
Assets						
Current assets:						
Cash and cash equivalents	$ 156,635	$ 1,816	$ 158,451	$ (10)	Note 3(a)	$ 158,441
Restricted cash	1,111	3,500	4,611	—		4,611
Marketable equity securities	—	274	274	—		274
Accounts receivable, net	66,465	5	66,470	(5)	Note 3(a)	66,465
Inventories	182,056	89	182,145	(89)	Note 3(a)	182,056
Income taxes receivable	2,510	246	2,756	(246)	Note 3(a)	2,510
Prepaid expenses and other current assets	19,834	42	19,876	(24)	Note 3(a)	19,852
Total current assets	428,611	5,972	434,583	(374)		434,209
Property and equipment, net	46,466	76	46,542	(76)	Note 3(a)	46,466
Noncurrent deferred tax assets	669	—	669	—		669
Equity investment	9,655	—	9,655	—		9,655
Investment at cost	15,000	—	15,000	—		15,000
Right of use assets	46,557	—	46,557	—		46,557
Other noncurrent assets	10,510	—	10,510	—		10,510
Total assets	$ 557,468	$ 6,048	$ 563,516	$ (450)		$ 563,066
Liabilities, Temporary Equity and Equity						
Current liabilities:						
Accounts payable	$ 241,502	$ 19	$ 241,521	$ (19)	Note 3(a)	$ 241,502
Accrued liabilities	83,939	914	84,853	(650)	Note 3(a)	84,203
Deferred revenue	47,398	—	47,398	—		47,398
Line of credit	5,276	—	5,276	—		5,276
Short-term borrowings and interest payable	—	1,784	1,784	(1,784)	Note 3(a)	—
Current portion of long-term debt	281	—	281	—		281
Lease liabilities – current	9,695	—	9,695	—		9,695
Total current liabilities	388,091	2,717	390,808	(2,453)		388,355
Long-term debt, less current portion	2,088	—	2,088	—		2,088
Income taxes payable	696	—	696	—		696
Lease liabilities – noncurrent	39,043	—	39,043	—		39,043
Warrants liabilities	—	519	519	—		519
Other liabilities	53	—	53	—		53
Total liabilities	429,971	3,236	433,207	(2,453)		430,754
Commitments and contingencies						
Temporary Equity:						
Series AA convertible Preferred Stock, $.001 par value; 25,890 shares authorized, 24,870 shares	187,146	—	187,146	(187,146)	Note 3(b)	—

issued and outstanding as of December 31, 2020 on an actual basis; 0 shares authorized, issued and outstanding as adjusted	

	Newegg	Company	Combined	Pro Forma Adjustments	Notes	Pro Forma Combined
Series A convertible Preferred Stock, $.001 par value; 59,000 shares authorized, 36,476 shares issued and outstanding as of December 31, 2020 on an actual basis; 0 shares authorized, issued and outstanding as adjusted	655	—	655	(655)	Note 3(b)	—
Total temporary equity	187,801	—	187,801	(187,801)		—
Equity (deficit):						
Class A Common Shares, $0.021848 par value; 4,736 shares authorized, 2,211 shares issued and outstanding as of December 31, 2020 on an actual basis; unlimited shares authorized, 366,925 shares issued and outstanding as adjusted	1	48	49	7,968	Note 3(b)(d)	8,017
Class B Common Shares, $0.021848 par value; 1,514 shares authorized; 1,389 shares issued and outstanding as of December 31, 2020 on an actual basis, 0 shares issued and outstanding as adjusted	—	30	30	(30)	Note 3(b)	—
Additional paid-in capital	2,366	47,996	50,362	136,604	Note 3(b)	186,966
Notes receivable	(15,186)	—	(15,186)	—		(15,186)
Accumulated other comprehensive income (loss)	3,057	2,587	5,644	(2,587)	Note 3(c)	3,057
Accumulated deficit	(50,542)	(47,849)	(98,391)	47,849	Note 3(c)	(50,542)
Total equity (deficit)	(60,304)	2,812	(57,492)	189,804		132,312
Total liabilities, temporary equity and equity	$ 557,468	$ 6,048	$ 563,516	$ (450)		$ 563,066

See accompanying notes to unaudited pro forma condensed combined financial statements

Unaudited Pro Forma Condensed Combined Statements of Operations
For the Year Ended December 31, 2020
(In thousands, except per share data)

	Newegg	Company	Combined	Pro Forma Adjustments	Notes	Pro Forma Combined
Net sales	$ 2,114,872	$ 359	$ 2,115,231	$ (359)	Note 3(a)	$ 2,114,872
Cost of sales	1,841,243	647	1,841,890	(647)	Note 3(a)	1,841,243
Gross profit	273,629	(288)	273,341	288		273,629
Selling, general, and administrative expenses	250,239	2,687	252,926	(1,037)	Note 3(a)	251,889
Income (Loss) from operations	23,390	(2,975)	20,415	1,325		21,740
Interest income	1,124	1	1,125	(1)	Note 3(a)	1,124
Interest expense	(664)		(664)		Note 3(a)	(664)
Other income (expense), net	5,320	(23)	5,297	22	Note 3(a)	5,319
Unrealized loss on securities	—	130	130	—		130
Change in fair value of warrants liabilities	—	(129)	(129)	—		(129)
Gain from sale of and equity income from equity method investments	3,197	—	3,197	—		3,197
Loss on disposal of a subsidiary	—	(245)	(245)	—		(245)
Income (loss) before provision for income taxes	32,367	(3,241)	29,126	1,346		30,472
Provision for income taxes	1,941	—	1,941	—		1,941
Net income (loss)	$ 30,426	$ (3,241)	$ 27,185	$ 1,346		$ 28,531
Basic earnings (loss) per share	$ 0.49	$ (0.96)	$ (0.47)			$ 0.08
Diluted earnings (loss) per share	$ 0.09	$ (0.96)	$ (0.87)			$ 0.08
Weighted average shares used in computation of earnings per share:						
Basic	849	3,389	4,238	362,477	Note 4	366,715
Diluted	4,562	3,389	7,951	362,477	Note 4	370,427

See accompanying notes to unaudited pro forma condensed combined financial statements

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

Note 1 — Description of Transactions

On October 23, 2020, the Company, Merger Sub, and Newegg entered into the merger agreement. If the transactions contemplated by the merger agreement are completed, Merger Sub will merge into Newegg and Newegg will be the surviving entity. The Company will become the 100% owner of the surviving entity. As the consideration for the merger, the Company will issue to all the stockholders of Newegg an aggregate of approximately 363,325,542 common shares. Each issued and outstanding share of Newegg will be exchanged for 5.8417 common shares.

On October 23, 2020, the Company entered into the disposition agreement with the Purchaser and Lianluo Connection. If the transactions contemplated by the disposition agreement are completed, the Company will sell all of its equity interests in Lianluo Connection, a wholly owned subsidiary, to the Purchaser immediately following completion of the merger for a purchase price of RMB 0.

Immediately after consummation of the merger and disposition, the Company will own 100% of Newegg. Based on the number of the Company common shares and Newegg stock outstanding as of March 30, 2021, the Newegg stockholders will own approximately 98.68% of the outstanding common shares of the Company and existing Company shareholders will own approximately 1.32% of the outstanding common shares of the Company.

Note 2 — Basis of Presentation

The merger will be accounted for as a reverse merger in accordance with U.S. GAAP. Under this method of accounting, the Company will be treated as the "acquired" company for financial reporting purposes. This determination was primarily based on Newegg comprising the ongoing operations of the combined company, Newegg's senior management comprising the senior management of the combined company and Newegg's stockholders having a majority of the voting power of the combined company. For accounting purposes, Newegg will be deemed to be the accounting acquirer in the transaction and, consequently, the transaction will be treated as a recapitalization of Newegg (i.e., a capital transaction involving the issuance of shares by the Company for the stock of Newegg). Accordingly, the consolidated assets, liabilities and results of operations of Newegg will become the historical financial statements of the combined company, and the Company's assets, liabilities and results of operations will be consolidated with Newegg beginning on the acquisition date.

The unaudited pro forma combined balance sheet as of December 31, 2020 was derived from Newegg's consolidated balance sheet and the Company's consolidated balance sheet as of December 31, 2020. The unaudited pro forma combined balance sheet as of December 31, 2020 assumes that the merger and disposition were completed on December 31, 2020.

The unaudited pro forma combined statement of operations information for the year ended December 31, 2020 was derived from Newegg's consolidated statement of operations and the Company's consolidated statements of operations for the years ended December 31, 2020. The unaudited pro forma combined statement of operations information for the year ended December 31, 2020 assumes that the merger and disposition were completed on January 1, 2020.

Note 3 — Adjustments

The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

(a) Reflects the disposition of Lianluo Connection.

(b) Reflects the elimination of Newegg's preferred stock and the Company's Class B common shares upon consummation of the merger.

(c) Reflects the elimination of accumulated deficit upon consummation of the merger and the disposition of Lianluo Connection.

(d) Reflects the issuance of 363,325,542 common shares estimated to be issued in connection with the merger.

Note 4 — Earnings per Share

The unaudited pro forma combined basic and diluted earnings per share calculations are based on the Company's historical weighted average number of shares outstanding at December 31, 2020, adjusted by 363,325,542 shares estimated to be issued in connection with the Merger.

Note 5 — Share Combination

On October 21, 2020, the Company completed a share combination of its common shares at a ratio of one-for-eight, which decreased the Company's outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and the Company's outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares.

This share combination also decreased the Company's authorized shares to 6,250,000 common shares of par value of US$0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares.

All outstanding options, warrants and other rights to purchase the Company's common shares are adjusted proportionately as a result of the share combination. The number of shares authorized for issuance under the Company's option plans are also proportionately reduced to reflect the share combination.

All share and per share information contained in these unaudited pro forma condensed combined financial statements has been restated to retroactively show the effect of this share combination.

EQUIVALENT AND COMPARATIVE PER SHARE INFORMATION

The following table sets forth certain historical and pro forma per share financial information for our common shares. The pro forma per share information gives effect to the merger as if the merger had occurred on January 1, 2020 and on December 31, 2020 in the case of book value. The information in the table below has been derived from and should be read in conjunction with the historical consolidated financial statements of the Company and Newegg included elsewhere in this proxy statement/prospectus.

The pro forma earnings per share was calculated using the methodology described under the heading "Unaudited Pro Forma Condensed Combined Financial Information" included in this proxy statement/prospectus above, and is subject to all the assumptions, adjustments and limitations described thereunder. The pro forma information set forth below, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the possible impact on the combined company that may result as a consequence of the arrangement and, accordingly, does not attempt to predict or suggest future results.

	Company Historical	Newegg Historical	Pro Forma
(Loss) Earnings per share for the year ended December 31, 2020			
Basic	$ (0.96)	$ 0.49	$ 0.08
Diluted	$ (0.96)	$ 0.09	$ 0.08
Book value per share as of December 31, 2020[(1)]	$ 0.78	$ (71.03)	$ 0.36

(1) Calculated as total shareholders' equity (deficit) divided by total common shares outstanding.

COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Market Information

The Company's Class A common shares are listed for trading on the NASDAQ Capital Market under the symbol "LLIT." Newegg is a privately-held corporation and its securities do not trade on any marketplace.

On [ ], 2021, the last practicable trading day prior to the date of this proxy statement/prospectus, there were [ ] Class A common shares of the Company outstanding and [ ] shares of Newegg's capital stock outstanding. As of such date, the Company had [ ] holders of record of its Class A common shares and Newegg had [ ] holders of record of its capital stock.

Recent Closing Prices and Comparative Market Price Information

The following table sets forth the closing sale price per share of the Company's Class A common shares as reported on the NASDAQ Capital Market on October 23, 2020, the last trading day before the public announcement of the merger agreement, and on [ ], 2021, the last practicable trading day prior to the date of this proxy statement/prospectus for which this information was available. The table also shows the implied value of the merger consideration for each share of Newegg capital stock as of the same two dates. This implied value was calculated by multiplying the closing sale price of a Class A common share of the Company on the relevant date by the exchange ratio.

	Class A Common Shares	Implied value of merger consideration per Newegg share
October 23, 2020	$ 3.28	$ 19.16
[ ], 2021	$ [ ]	$ [ ]

The market prices of the Company's Class A common shares have fluctuated since the date of the announcement of the merger agreement and may continue to fluctuate from the date of this proxy statement/prospectus to the date of the special meeting and the date the merger is completed and thereafter. No assurance can be given concerning the market prices of our Class A common shares before or after completion of the merger. The market price of our Class A common shares (and therefore the value of the merger consideration) when received by Newegg stockholders after the merger is completed could be greater than, less than or the same as shown in the table above.

Dividend Policy

To date, the Company has not paid any cash dividends on its shares. As a BVI company, the Company may only declare and pay dividends if its directors are satisfied, on reasonable grounds, that immediately after the distribution (i) the value of the Company's assets will exceed its liabilities and (ii) the Company will be able to pay its debts as they fall due. We currently anticipate that we will retain any available funds to finance the growth and operation of our business and we do not anticipate paying any cash dividends in the foreseeable future. Additionally, our cash held in foreign countries may be subject to certain control limitations or repatriation requirements, limiting our ability to use this cash to pay dividends.

For the year ended December 31, 2016, Newegg paid a cash dividend of $0.1154 per Newegg share, which included a noncumulative dividend of $0.0016 per Newegg share, totaling $4.95 million to holders of Newegg's Series A convertible preferred stock. Additionally, Newegg paid a cash dividend of $0.6038 per Newegg share, which included a noncumulative dividend of $0.49 per Newegg share, totaling $787 to the holder of Newegg's Series B-1 redeemable convertible preferred stock at that time. Except for the foregoing, Newegg has never declared or paid cash dividends on its capital stock. Newegg intends to retain all available funds and any future earnings to fund the development and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus includes certain statements that may constitute "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, related to the Company, Newegg and the merger. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws. These forward-looking statements involve uncertainties that could significantly affect the financial or operating results of the Company, Newegg or the combined company. These forward-looking statements may be identified by terms such as "anticipate," "believe," "foresee," "expect," "intend," "plan," "may," "will," "could" and "should" and the negative of these terms or other similar expressions. Forward-looking statements in this document include, among other things, statements about the potential benefits of the proposed merger and disposition, including future financial and operating results, plans, objectives, expectations and intentions and the anticipated timing of closing of the merger and disposition. In addition, all statements that address operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to creating value for shareholders, benefits of the proposed transactions to customers, vendors, employees, shareholders and other constituents of the combined company, integrating the two companies, cost savings and the expected timetable for completing the proposed transactions, are forward-looking statements.

These forward-looking statements involve substantial risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Risks and uncertainties include, among other things, risks related to the satisfaction of the conditions to closing proposed transactions (including the failure to obtain necessary shareholder approvals) in the anticipated timeframe or at all; risks related to the ability to realize the anticipated benefits of proposed transactions, including the possibility that the expected benefits from the proposed transactions will not be realized or will not be realized within the expected time period; the risk that the businesses will not be integrated successfully; disruption from proposed transactions making it more difficult to maintain business, contractual and operational relationships; the unfavorable outcome of any legal proceedings that have been or may be instituted against the Company or Newegg; failure to protect proprietary or personally identifiable data against unauthorized access or unintended release; the ability to retain key personnel; negative effects of the announcement or the consummation of the proposed transactions on the market price of our common shares, and on our operating results; significant transaction costs, fees, expenses and charges; unknown liabilities; the risk of litigation and/or regulatory actions related to the proposed transactions; other business effects, including the effects of industry, market, economic, political or regulatory conditions; future exchange and interest rates; changes in tax and other laws, regulations, rates and policies; future business combinations or disposals; and competitive developments.

In addition to the risks described under "Risk Factors," the following factors, among others, could cause actual future results and other future events to differ materially from those currently estimated by management, including, but not limited to:

- the timing to complete the merger and the disposition;
- the risk that a condition to completion of the merger or disposition may not be satisfied;
- our ability to achieve the synergies and value creation projected to be realized following the completion of the merger and disposition;
- our ability to promptly and effectively integrate Newegg's businesses;
- the diversion of management time on transaction-related issues;
- risks related to any legal proceedings that may be instituted against the Company, Newegg and others relating to the merger or disposition;
- the risk that the merger does not qualify for the intended tax treatment;

- the effect of the announcement of the merger and disposition on the ability of the Company and Newegg to retain key employees, and to maintain business relationships with customers, vendors and others; and
- changes in future cash requirements, capital requirements, results of operations, financial condition and/or cash flows.

You should not put undue reliance on forward-looking statements. No assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do occur, what impact they will have on the results of operations, financial condition or cash flows of the Company or Newegg. Actual results may differ materially from those discussed in this proxy statement/prospectus. All forward-looking statements speak only as of the date of this proxy statement/prospectus and we assume no duty to update or revise forward-looking statements, whether as a result of new information, future events, uncertainties or otherwise, as of any future date.

RISK FACTORS

In addition to the other information contained in this proxy statement/prospectus, including the matters addressed in "Cautionary Statement Regarding Forward-Looking Statements," you should carefully consider the following risk factors in determining whether to vote for the proposals described in this proxy statement/prospectus. You should also read and consider the risk factors associated with each of the businesses of the Company and Newegg because these risk factors may affect the operations and financial results of the combined company.

Risks Related to the Merger and Disposition

The merger and disposition are subject to a number of conditions.

The merger agreement contains a number of conditions that must be fulfilled (or waived by the parties) to complete the merger. These conditions include, among other customary conditions, (i) the approval of the merger proposal and all other proposals included in this proxy statement/prospectus by the Company's shareholders, (ii) receipt of all consents from all governmental authorities or third parties, (iii) the absence of any order by any governmental authority which has the effect of making the transactions or agreements contemplated by the merger agreement or the disposition agreement illegal or which otherwise prevents or prohibits consummation of the transactions contemplated by the merger agreement, (iv) the absence of any pending any claim, action, suit, proceeding, arbitration, mediation or investigation brought by a third-party non-affiliate to enjoin or otherwise restrict the consummation of the merger or the disposition, (v) the registration statement of which this proxy statement/prospectus forms a part shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order, (vi) the registration statement on Form F-1 relating to a public offering of common shares of the Company shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order; (vii) the approval for listing on NASDAQ, subject to official notice of issuance, of the common shares to be issued in the merger, (viii) subject to certain materiality exceptions, the accuracy of certain representations and warranties of each of the parties contained in the merger agreement and the compliance by each party with the covenants contained in the merger agreement, (ix) the absence of a material adverse effect with respect to each of the parties thereto, and (x) a public offering of our common shares for $30 million, or such other amount necessary to meet NASDAQ's initial listing requirements; shall have simultaneously closed along with the merger, with the disposition closing immediately after the merger.

The disposition agreement contains the following closing conditions, (i) obtaining any requisite regulatory approvals for the disposition, (ii) no law or order prohibiting or preventing consummation of the disposition; (iii) no litigation to enjoin or otherwise restrict consummation of the disposition; (iv) our shareholder's approval of the disposition; (v) the consummation of the merger with Newegg; and (vi) the conversion of debt that Lianluo Connection owes to the Company into additional paid-in capital of Lianluo Connection.

The required satisfaction (or waiver) of the foregoing conditions could delay the completion of the merger and the disposition for a significant period of time or prevent it from occurring. Any delay in completing the merger or the disposition could cause the Company not to realize some or all of the benefits that the parties expect the Company to achieve. Further, there can be no assurance that the conditions to the closing of the merger or the disposition will be satisfied or waived or that the merger will be completed.

Our shareholders may not realize a benefit from the merger commensurate with the ownership dilution they will experience in connection with the merger. In addition, our shareholders' ownership interests in the Company may be further diluted as a result of the public offering.

If we are unable to realize the full strategic and financial benefits anticipated from the merger, our shareholders will have experienced substantial dilution of their ownership interests in the Company without receiving any commensurate benefit, or only receiving part of the commensurate benefit to the extent we are able to realize only part of the strategic and financial benefits anticipated from the merger.

In addition, as a condition to the closing of the merger, the Company must consummate a public offering of our common shares for $30 million, or such other amount necessary to meet NASDAQ's initial listing requirements simultaneously along with the merger. There can be no assurance as to what the per share offering price will be in the public offering. As a result of the completion of the public offering, our existing shareholders' ownership interests in the Company will be further diluted.

Certain of our director, executive officer and major shareholders have interests in the merger and disposition that are different from, and may potentially conflict with, our interests and the interests of our unaffiliated shareholders.

Certain of our director, executive officer and major shareholders have interests in the merger and disposition that may be different from, or in addition to, the interests of our unaffiliated shareholders and that may create potential conflicts of interest.

Mr. Zhitao He, who controls approximately 80.4% of our total voting power as of the record date through Hangzhou Lianluo and its affiliate, Hyperfinite Galaxy Holding Limited, also serves on the board of Newegg and beneficially owns approximately 61.3% of all issued and outstanding shares of Newegg. See additional disclosures relating to the shares held by Mr. He under "Risk Factors – A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness." Ms. Yingmei Yang, our Interim Chief Financial Officer and a director, also serves on the board of Newegg. In addition, because the completion of the merger is contingent upon the disposition our medical device business, Mr. Zhitao He and Ms. Yingmei Yang may also have interests in the disposition that may be different from, or in addition to, the interests of our unaffiliated shareholders. Hangzhou Lianluo has indicated that one of the reasons it would like to complete the merger is that it believes it is the best way for Newegg to become publicly listed, which will provide it and other Newegg stockholders better liquidity for their Newegg investment. The beneficial ownership of our major shareholders and directorship of our officer in Newegg may create additional conflicts of interest in respect of the merger and disposition. See "Proposal I: The Merger — Interests of Directors, Executive Officers and Major Shareholders in the Merger."

Failure to complete the merger and disposition could negatively impact our business, financial condition, results of operations or share price.

Completion of the merger and disposition is conditioned upon the satisfaction of certain closing conditions, including those discussed above, and other closing conditions customary for a transaction of this size and type. The required conditions to closing may not be satisfied in a timely manner, if at all. If the merger and disposition are not consummated for these or any other reasons, we may be subject to a number of adverse effects, including:

- we may be required under certain circumstances to pay Newegg a termination fee of $450,000;
- the price of our common shares may decline to the extent that the current market price reflects a market assumption that the merger and disposition will be completed;
- our operations may continue to incur loss;
- we may have difficulty maintaining compliance with NASDAQ continued listing rules, and as a result, be delisted from the NASDAQ Capital Market; and
- costs related to the merger and disposition, such as legal, accounting, financial advisory and printing fees, must be paid even if the merger and disposition are not completed.

Furthermore, if the merger is not completed, there can be no assurance that we will be able to find another target business on terms as favorable as those of the merger agreement.

Following the merger, our business may suffer as a result of the lack of public company operating experience of new management.

Prior to the completion of the merger, Newegg has been a privately-held company. Newegg's management will become members of our management after the merger but have limited experience managing a publicly-traded company and complying with reporting and other obligations under securities law. The new management may not successfully manage Newegg's transition into a public company which will be subject to significant regulatory oversight, reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new responsibilities may require significant attention from management and could divert their attention and resources from the management of our business, which could negatively affect the new management's ability to achieve the anticipated benefits of the merger.

The transition to becoming the subsidiary of a public company will require changes in the way that Newegg operates its business and incur additional expenses pertaining to SEC reporting obligations and SEC compliance matters, and our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Private companies often have less regulated methods of operation than public companies. This results in less transparency and presents greater risks of noncompliance with rules and regulations. In anticipation of the proposed merger, Newegg's management has begun to implement a variety of measures to ensure that the company follows the rules applicable to public companies in the United States. To the extent these new procedures and policies could not change historical behaviors that might be inconsistent with the rules regulating U.S. public company, Newegg could be at risk of violation or poor reporting as a public company following this transaction. In the event Newegg's directors or executive officers inadvertently fail to identify, review or disclose a new relationship or arrangement causing us to fail to properly disclose any related party transaction or in the event that we fail to comply with SEC reporting and internal controls and procedures, we may be subject to securities laws violations that may result in additional compliance costs or costs associated with SEC judgments or fines, both of which will increase our costs and negatively affect our potential profitability and our ability to conduct our business. The public reporting requirements and controls are new for the management of the Company post-merger, and may require us to obtain outside assistance from legal, accounting or other professionals that will increase our costs of doing business.

Newegg is not a publicly traded company, making it difficult to determine the fair market value of Newegg.

The outstanding capital stock of Newegg is privately held and is not traded on any public market, which makes it difficult to determine the fair market value of Newegg. There can be no assurance that the merger consideration to be issued to Newegg stockholders will not exceed the actual value of Newegg.

We may fail to uncover all liabilities of Newegg's business through the due diligence process prior to the merger, exposing us to potentially large, unanticipated costs.

Prior to completing the merger, we have and expect to continue to perform, certain due diligence reviews of Newegg's business. In view of timing and other considerations relevant to our successfully achieving the closing of the merger, our due diligence reviews will necessarily be limited in nature and may not adequately uncover all of the contingent or undisclosed liabilities we may incur as a consequence of the merger. Any such liabilities could cause us potentially experience significant losses, which could materially adversely affect our business, results of operations and financial condition.

We have incurred and expect to continue to incur substantial transaction-related costs in connection with the merger and disposition.

We have incurred, and expect to continue to incur, a number of non-recurring transaction-related costs associated with completing the merger and disposition. These fees and costs have been, and will continue to be, substantial. Non-recurring transaction costs include, but are not limited to, fees paid to legal, financial and accounting advisors, filing fees and printing costs. Additional unanticipated costs may be incurred, which may be higher than expected and could have a material adverse effect on the new business's financial condition and operating results.

The market price of our common shares may decline as a result of the merger.

We could encounter larger than anticipated transaction-related costs, may fail to realize some or all of the benefits anticipated from the merger or be subject to other factors that may adversely affect preliminary estimates of the results of the merger. Any of these factors could delay the expected accretive effect of the merger and contribute to a decrease in the price of our common shares. In addition, we are unable to predict the potential effects of the issuance of common shares as the merger consideration on the trading activity and market price of our common shares.

Our future results following the merger and disposition may differ materially from the unaudited pro forma financial information included in this proxy statement/prospectus.

The unaudited pro forma financial information contained in this proxy statement/prospectus is presented for purposes of presenting our historical consolidated financial statements with the historical financial statements of

Newegg, as adjusted to give effect to the merger and disposition, and is not necessarily indicative of the financial condition or results of operations of the business following the merger and disposition. The assumptions used

in preparing the pro forma financial information may not prove to be accurate, and other factors may affect our financial condition and results of operations following the merger and disposition. Any change in our financial condition or results of operations may cause significant variations in the price of our common shares. See "Unaudited Pro Forma Condensed Combined Financial Information" for more information.

NASDAQ may not list or continue to list our common shares on its exchange, which could prevent consummation of the merger or limit investors' ability to make transactions in our shares. Consequently, we may be subject to additional trading restrictions.

It is a condition to closing the merger that our common shares continue to list on NASDAQ. The post-merger entity will be required to meet the initial listing standards of NASDAQ. We may not be able to meet those initial listing requirements. Even if our securities are so listed, we may be unable to maintain the listing of our securities in the future. If we fail to meet the initial listing requirements, neither we nor Newegg would be required to consummate the merger. In the event that we and Newegg elected to waive this condition, we and our shareholders could face significant material adverse consequences, including:

- limited availability of market quotations for our securities;
- limited amount of news coverage for the Company; and
- decreased ability to issue additional securities or obtain additional financing in the future.

Newegg may not realize anticipated growth opportunities.

Newegg expects that it will realize growth opportunities and other financial and operating benefits as a result of the merger; however, it cannot predict with certainty if or when these growth opportunities and benefits will occur, or the extent to which they actually will be achieved. For example, the benefits from the merger may be offset by costs incurred as a result of being a public company. See "Risks Relating to the Business of Newegg" below for more discussion of the risks relating to Newegg following the merger.

Upon consummation of the merger, Mr. Zhitao He and Mr. Fred Chang will beneficially own approximately 60.91% and 35.98%, respectively, of the voting power of our issued and outstanding common shares, and 96.90%, collectively, of the voting power of our issued and outstanding common shares. They will exert significant influence on our business and operations and may have a conflict of interest with our other shareholders.

Upon the consummation of merger, Mr. Zhitao He and Mr. Fred Chang will own approximately 60.91% and 35.98%, respectively, of the voting power of our issued and outstanding common shares, and 96.90%, collectively, based on the number of our common shares and Newegg stock outstanding as of March 30, 2021. See additional disclosures relating to the shares held by Mr. He under "Risk Factors – A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness." Additionally, Mr. Zhitao He and Mr. Fred Chang, both of whom will serve as our directors upon closing, will be able to exercise substantial influence over our business and operations. They may also have a conflict of interests with our other shareholders. Where those conflicts exist, our other shareholders will be dependent upon Mr. He, Mr. Chang, and other directors exercising, in a manner fair to all of our shareholders, their fiduciary duties. Also, Mr. He and Mr. Chang will have the ability to control the outcome of most corporate actions requiring shareholder approval, including the sale of all or substantially all of our assets and amendments to our Memorandum and Articles of Association. Moreover, such concentration of voting power could have the effect of delaying, deterring, or preventing a change of control or other business combination, which may, in turn, have an adverse effect on the market price of our shares or prevent our shareholders from realizing a premium over the then-prevailing market price for their shares.

A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness.

Digital Grid is the record owner of 38,143,279 shares of Newegg stock that will be converted into 222,821,591 of our common shares upon completion of the merger. This will represent approximately 60.5% of our outstanding shares, based on our and Newegg's capitalization on March 30, 2021. All of these shares have been pledged

by Digital Grid to BOC, as collateral to support working capital loans and letters of credit provided by BOC to Hangzhou Lianluo. The loans have been guaranteed jointly and severally by Mr. Zhitao He (the controlling shareholder of Hangzhou Lianluo) and Beijing Digital Grid Technology Co., Ltd. (a subsidiary of Hangzhou Lianluo and the parent company of Digital Grid). The total amount owed under these loans is RMB400 million in RMB denominated loans, plus $66.5 million in U.S. dollar loans, plus interest, fees and penalties on such amounts. In May 2020, BOC filed several lawsuits against Hangzhou Lianluo, Digital Grid, Beijing Digital Grid Technology Co., Ltd. and Mr. He in the Hangzhou Intermediate People's Court in China alleging that Hangzhou Lianluo has failed to repay the loans when due and is in breach of the loan agreements. This litigation is ongoing.

BOC could sell, or force Digital Grid to sell, some or all of its shares of Newegg and the Company at any time while the BOC loan remains delinquent. Digital Grid could also choose to voluntarily sell some or all of its shares at any time to satisfy the BOC loan. Any such sale or attempted sale could:

- Occur at a discount to our public trading price and over a short time period;
- Result in a change of control of the Company to the buyer of such shares; or
- Result in litigation over the ownership and title to those shares.

Each of these risks could cause our share price to fall significantly and is described further below.

Digital Grid's Newegg stock certificates are physically in the possession of BOC. As a result, BOC could sell those shares at any time. Any such sale could be done quickly and without regard for maximizing the sale price, other than to enable BOC to recover the amount of indebtedness owed to it by Hangzhou Lianluo. In such a case, the sale price would likely be significantly less than the public trading price of our shares, which would likely cause our share price to fall significantly.

In addition, any transfer of those shares to a non-affiliate of Digital Grid would be subject to our amended and restated shareholders agreement. The shareholders agreement gives a right of first refusal in favor of Newegg (or, after the merger, the Company), and a right of second refusal in favor of the current Newegg stockholders (which primarily includes Mr. Fred Chang), to purchase all shares being transferred.

Because Digital Grid will control approximately 60.5% of our outstanding shares, we expect that it will be the controlling shareholder of our Company after completion of the merger. However, any sale of Digital Grid's shares by BOC or otherwise could result in a change of control of the Company. For example, if Newegg repurchased 17,669,000 Newegg shares (or 103,216,997 of our shares) from Digital Grid under the right of first refusal, then Mr. Fred Chang would become our controlling shareholder. As another example, if Mr. Chang purchased 8,834,481 Newegg shares (or 51,608,385 of our shares) from Digital Grid under the right of second refusal, then Mr. Chang would become our controlling shareholder. Even if the right of first refusal and second refusal are not exercised, Digital Grid could still sell a controlling interest in the Company, and the buyer would thereafter control the Company. Any such change in control could result in instability to our Company which could cause our share price to fall.

In addition, the shareholders agreement may not be recognized or enforceable in China's courts, because the agreement is governed by the laws of Delaware currently and the laws of the British Virgin Islands after the merger, and China courts generally do not recognize court decisions from those jurisdictions. As a result, BOC or Digital Grid could try to sell some or all of Digital Grid's shares without complying with those agreements. Any such sale could result in significant litigation and uncertainty over the ownership of those shares, which could cause our share price to fall.

Certain provisions of an Amended and Restated Shareholders Agreement may delay or prevent us from raising funding in the future and may have an adverse impact on us and the liquidity and market price of our common shares.

Prior to the merger, Newegg's stockholders have entered into that a certain stockholders agreement, dated March 30, 2017. In connection with the merger, we will assume that agreement and enter into an amended and restated shareholders agreement with Digital Grid, Hangzhou Lianluo, entities affiliated with Mr. Fred Chang and certain other stockholders of Newegg (which we collectively refer to as the principal shareholders).

Under the amended and restated shareholders agreement, the principal shareholders will have pre-emptive rights to acquire additional shares when the Company issues or sells additional securities in the future, except for the "excluded issuance" as defined in the amended and restated shareholders agreement or common shares offered pursuant to a registration statement filed with the SEC.

In addition, the Company and the principal shareholders will have rights of first refusal, subject to compliance with applicable laws and NASDAQ's rules, over transfers of our common shares by the principal shareholders. If any principal shareholder receives a bona fide offer from any person other than its affiliate to acquire any of the principal shareholders' common shares, then the Company will have a right of first refusal, but not the obligation, to elect to purchase all (and not less than all) of such shares, at the same price, and on the same terms and conditions offered by the purchaser. In the event the Company does not decide to purchase all such shares, then each of the principal shareholders other than the selling principal shareholder shall have a right of first refusal to elect to purchase all (and not less than all) of its pro rata share (as defined in the amended and restated shareholders agreement) of such shares on the same terms and conditions offered by the purchaser. In the event that such shares are in exchange for non-cash consideration, then such right of first refusal shall be exercisable based on the fair market value determined in good faith by the board of such non-cash consideration.

Such right of first refusal and pre-emptive rights may delay or prevent us from raising funding in the future and may have an adverse impact on the liquidity and market price of our common shares.

The amended and restated memorandum and articles of association to be adopted at the special meeting provide certain rights to certain shareholders, which will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that minority holders of common shares may view as beneficial.

Upon completion of the merger, our board of directors will consist of up to seven directors. Initially, four of the directors shall be appointed by Digital Grid, which, together with its affiliates, will control approximately 60.91% of our total voting power upon completion of the merger, and three of the directors shall be appointed by Mr. Fred Chang, acting on behalf of current Newegg stockholders other than Digital Grid, who collectively will own approximately 38.16% of our total voting power upon completion of the merger. See additional disclosures relating to the shares held by Mr. He under "Risk Factors – A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness." The number of directors that Digital Grid and Mr. Chang are entitled to appoint will decrease proportionately with the decrease of the respective voting power of Digital Grid and the other stockholders of Newegg. Any director positions which neither Digital Grid nor Mr. Chang is entitled to appoint shall be appointed by the remaining directors, or by any other means allowed under our amended and restated memorandum and articles of association.

Upon completion of the merger, you will have no right to appoint or elect any director to our board. The amended and restated memorandum and articles of association to be adopted at the special meeting will limit your ability to appoint or elect persons for service on our board of directors and may discourage proxy contests for the election of directors and purchases of substantial blocks of shares by making it more difficult for a potential acquirer to gain control of our board of directors. See "Proposal VII: Charter Amendment — Purpose and Effect of Charter Amendment" for more information.

There can be no assurances that Newegg stockholders will not be required to recognize gain for U.S. federal income tax purposes upon the exchange of Newegg stock for common shares of the Company stock in the merger.

The Company and Newegg have structured the merger with the intent that it will qualify as a tax-free "reorganization" within the meaning of Section 368(a) of the Code, specifically as a non-taxable "reverse subsidiary merger" under Section 368(a)(2)(E) of the Code. However, the qualification of the merger as a tax-free reorganization depends on compliance with numerous technical requirements. The Company and Newegg have not sought and will not seek any ruling from the IRS regarding any matter affecting the merger or any of the United States federal income tax consequences discussed herein, and have not sought and will not seek any tax opinion from their respective legal counsel regarding the qualification of the merger as a tax-free "reorganization" within the meaning of Section 368(a) of the Code. Thus, there can be no assurance that the IRS will ultimately conclude that the merger does meet all of the requirements for qualification as a "reorganization" within the meaning

of Section 368(a) of the Code and otherwise as a tax-free transaction, and there can be no assurance that any of the other statements made herein would not be challenged by the IRS and, if so challenged, would be sustained upon review in a court. A successful challenge by the IRS could result in taxable income to Newegg and its stockholders.

Risks Related to the Business of the Company

Risks Relating to Our Business

The outbreak of coronavirus may have a material adverse effect on our business and the trading price of our common shares.

Our business has been adversely affected by the outbreak of coronavirus, or COVID-19. The World Health Organization labelled the COVID-19 outbreak a pandemic on March 11, 2020, after the disease spread globally. Given the high public health risks associated with the disease, governments around the world have imposed various degrees of travel and gathering restrictions and other quarantine measures. Businesses in China have scaled back or suspended operations since the outbreak in December 2019. The COVID-19 outbreak is currently having an indeterminable adverse impact on the global economy.

All of our operating subsidiaries are located in China. Substantially all of our employees and all of our customers and suppliers are located in China. From January to February 2020, our service revenue plunged, as the number of patient users decreased sharply; and our revenue from the sale of products also dropped, because our distributors and sales personnel were trapped at home and our contract manufacturers shut down production during this period. Constrained by the epidemic, management and employees have been working from home to mitigate the impacts of operation disruptions caused by COVID-19. As of the date of this proxy statement/prospectus, we have resumed operations but at below normal levels. Medical check-up centers and hospitals in China that we have business relationships with have partially resumed operations since March 2020, including the medical check-up centers in Wuhan that focus on physical examinations. In addition, while our supply chains currently are not affected, it is unknown whether or how they may be affected if the pandemic persists for an extended period. Although the COVID-19 pandemic has a relatively limited adverse impact on our operating results for the fiscal year of 2020 as compared with the fiscal year of 2019, it may materially adversely impact our future results of operations, depending on COVID-19's further developments and actions taken to contain it.

In addition, fears of the economic impacts of COVID-19 have sparked share prices to fluctuate significantly recently. The volatility of share prices and across-the-market selloff may depress our share price, and moreover, adversely affect our ability to obtain equity or debt financings from the financial market.

Given the uncertainty of the outbreak, the spread of COVID-19 may be prolonged and worsened, and we may be forced to further scale back or even suspend our operations. As COVID-19 spreads outside China, the global economy is suffering a noticeable slowdown. If this outbreak persists, commercial activities throughout the world could be curtailed with decreased consumer spending, business operation disruptions, interrupted supply chain, difficulties in travel, and reduced workforces. The duration and intensity of disruptions resulting from COVID-19 outbreak is uncertain. It is unclear as to when the outbreak will be contained, and we also cannot predict if the impact will be short-lived or long-lasting. The extent to which outbreak impacts our financial results will depend on its future developments. If the outbreak of COVID-19 is not effectively controlled in a short period of time, our business operation and financial condition may be materially and adversely affected as a result of any slowdown in economic growth, operation disruptions or other factors that we cannot predict.

Our business is seasonal and revenues and operating results could fall below investor expectations during certain periods, which could cause the trading price of our common shares to decline.

Our revenues and operating results have fluctuated in the past and may continue to fluctuate significantly depending upon numerous factors. In particular, we generally experience an increase in revenues in the period from March through May, and September through December. The increase in the fourth quarter is associated with hospital purchasing designed to extinguish governmental budgets prior to the fiscal year end. We believe that our first quarter performance will generally decline as a result of the lack of business conducted during the Chinese Lunar New Year holiday. To the extent our financial performance fluctuates significantly, investors may lose confidence in our business and the price of our common shares could decrease.

We may fail to effectively develop and commercialize new products and services, which could materially and adversely affect our business, financial condition, results of operations and prospects.

The sleep respiratory market is developing rapidly, and related technology trends are constantly evolving. This results in the frequent introduction of new products and services, short product life cycles and significant price competition. Consequently, our future success depends on our ability to anticipate technology development trends and identify, develop and commercialize in a timely and cost-effective manner the new and advanced products that our customers demand. Moreover, it may take an extended period of time for our new products to gain market acceptance, if at all. Furthermore, as the life cycle for a product matures, the average selling price generally decreases. In the future, we may be unable to offset the effect of declining average sales prices through increased sales volume and controlling product costs. Lastly, during a product's life cycle, problems may arise regarding regulatory, intellectual property, product liability or other issues that may affect the product's continued commercial viability.

New sleep respiratory disorder related technology and relevant regulation could materially affect provision of our OSAS service to hospitals and medical centers. Development of our OSAS service business depends on our ability to decrease OSAS service-related device production cost and the relationship with hospital and medical center. It may take an extended period of time for us to decrease the cost of our new devices and to market our new devices. We may be unable to provide service to sufficient hospitals and medical centers, which could adversely affect our financial condition and results of operations and prospects.

We sell our products primarily to distributors, and our technical services are provided to hospitals and check-up centers; our ability to add distributors, hospitals and check-up centers will impact our revenue growth. Failure to maintain or expand our distribution network and network of hospitals and check-up centers would materially and adversely affect our business.

We depend on sales to distributors for a significant majority of our product revenues. Our distributors purchase all products ordered regardless of whether the products are ultimately sold. Products are not purchased by distributors on consignment, and distributors have no right to return unsold products. As our existing distributor agreements expire, we may be unable to renew such agreements on favorable terms or at all, and we do not own, employ or control these independent distributors. Furthermore, we actively manage our distribution network and regularly review the performance of each distributor. We may terminate agreements with distributors, without penalty, if we are not satisfied with their performance for any reason. We periodically terminate relationships with underperforming exclusive distributors. Our distributors may also terminate their relationship with us without penalty. When an exclusive distributor in a particular geographic area fails to meet our expectations, then we are economically incentivized to replace that distributor with a new distributor so that area can be served as well as possible. We occasionally terminate a relationship with a non-exclusive distributor and are more likely to simply appoint another one; however, we have found that in some instances we are better served to replace an underperforming non-exclusive distributor with an exclusive distributor. Additionally, we have found that even in cases where there may not be an economic incentive to terminate a non-exclusive distributor, having the ability to replace a distributor often motivates distributors to increase their efforts to meet our expectations. This policy may make us less attractive to some distributors. In addition, we compete for distributors with other medical device companies who may enter into long-term distribution agreements, effectively preventing many distributors from selling our products. As a result, a significant amount of time and resources must be devoted to maintaining and growing our distribution network.

In the OSAS sector, starting from fiscal 2018 we provide technical services in relation to detection and analysis of OSAS. We focused on the promotion of sleep respiratory solutions and service in public hospitals. Our wearable sleep diagnostic products and cloud-based services are also available in the medical centers of private preventive healthcare companies in China. We sign service agreements with public hospitals usually for a period of 1 to 3 years, and check-up centers usually for a period of one year or less, with the aim of provision of wearable sleep diagnostic products and cloud-based services and we charge a fixed technical service fee on a per user basis when our OSAS diagnostic services are provided to the user at medical centers and public hospitals. Our service revenue is dependent on the number of OSAS tests performed by each hospital/check-up center. The provision of these OSAS diagnosis services is still in its early stage and we may be required to invest more marketing efforts in order to build up and consolidate our partnership with hospitals and physical examination centers in China. We may terminate relationships with underperforming hospital/check-up center. The hospital/check-up may also terminate their relationship with us without penalty, and they may not renew their service agreement with us upon expiration.

Although we do not own or control our distributors, the actions of these distributors may affect our business operations or our reputation in the marketplace.

Our distributors are independent from us, and as such, our ability to effectively manage their activities is limited. Distributors could take any number of actions that could have material adverse effects on our business. If we fail to adequately manage our distribution network or if distributors do not comply with our distribution agreements, our corporate image could be tarnished among end users, disrupting our sales. Furthermore, we could be liable for actions taken by our distributors, including any violations of applicable law in connection with the marketing or sale of our products, including China's anti-corruption laws. The PRC government has increased its anti-bribery efforts in the healthcare sector in recent years to reduce improper payments received by hospital administrators and doctors in connection with the purchase of pharmaceutical products and medical devices. Our distributors may violate these laws or otherwise engage in illegal practices with respect to their sales or marketing of our products. If our distributors violate these laws, we could be required to pay damages or fines, which could materially and adversely affect our financial condition and results of operations. In addition, our brand and reputation, our sales activities or the price of our shares could be adversely affected if we become the target of any negative publicity as a result of actions taken by our distributors.

We are highly dependent on our key personnel such as key executives.

We are highly dependent on the continued service of our key executives, including our Chief Executive Officer, Mr. Bin Lin, and other key personnel. We have entered into standard three-year employment contracts, or where required by law, open-term employment contracts, with all of our officers and managers and other key personnel, and three-year employment contracts, or where required by law, open-term employment contracts with our other employees. These contracts prohibit our employees from engaging in any conduct or activity that would be competitive with our business during the term of their employment. Loss of any of our key personnel could severely disrupt our business. We may not be able to find suitable or qualified replacements and will likely incur additional expenses in order to recruit and train any new personnel.

If we fail to accurately project demand for our products, we may encounter problems of inadequate supply or oversupply, which would materially and adversely affect our financial condition and results of operations, as well as damage our reputation and brand.

Our distributors typically order our products on a purchase order basis. We project demand for our products based on rolling projections from our distributors, our understanding of anticipated hospital procurement spending, and distributor inventory levels. The varying sales and purchasing cycles of our distributors and other customers, however, makes it difficult for us to forecast future demand accurately.

If we overestimate demand, we may purchase more unassembled parts or components for our branded products than we require. If we underestimate demand, our third-party suppliers may have inadequate supply of parts or product component inventories, which would delay shipments of our branded products, and could result in lost sales. In particular, we are seeking to reduce our procurement and inventory costs by matching our inventory closely with our projected product needs and by, from time to time, deferring our purchase of components in anticipation of supplier price reductions. As we seek to balance reduced inventory costs, we may fail to accurately forecast demand and coordinate our procurement to meet demand on a timely basis. Our inability to accurately predict our demand and to timely meet our demand could materially and adversely affect our financial conditions and results of operations as well as damage our reputation and corporate brand.

We generate a significant portion of our revenues from a small number of products, and a reduction in demand for any of these products could materially and adversely affect our financial condition and results of operations.

We derive a substantial percentage of our revenues from a small number of products. We expect that a small number of our key products will continue to account for a significant portion of our net revenues for the foreseeable future. As a result, continued market acceptance and popularity of these products is critical to our success, and a reduction in demand due to, among other factors, the introduction of competing products by our competitors, the entry of new competitors, or end-users' dissatisfaction with the quality of these products could materially and adversely affect our financial condition and results of operations.

If we fail to protect our intellectual property rights, it could harm our business and competitive position.

We rely on a combination of patent, copyright, trademark and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights. The process of seeking patent protection can be lengthy and expensive and our existing and future patents may be insufficient to provide us with meaningful protection or commercial advantage. Our patents may also be challenged, invalidated or circumvented.

We also rely on trade secret rights to protect our business through non-disclosure provisions in employment agreements with employees. If our employees breach their non-disclosure obligations, we may not have adequate remedies in China, and our trade secrets may become known to our competitors.

Intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other western countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could harm our business and competitive position.

We may be exposed to intellectual property infringement and other claims by third parties which, if successful, could disrupt our business and have a material adverse effect on our financial condition and results of operations.

Our success depends, in large part, on our ability to use and develop our technology and know-how without infringing third party intellectual property rights. If we sell our branded products internationally, and as litigation becomes more common in China, we face a higher risk of being the subject of claims for intellectual property infringement, invalidity or indemnification relating to other parties' proprietary rights. Our current or potential competitors, many of which have substantial resources and have made substantial investments in competing technologies, may have or may obtain patents that will prevent, limit or interfere with our ability to make, use or sell our branded products in either China or other countries, including the United States and other countries in Asia. The validity and scope of claims relating to medical device technology patents involve complex scientific, legal and factual questions and analysis and, as a result, may be highly uncertain. In addition, the defense of intellectual property suits, including patent infringement suits, and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Furthermore, an adverse determination in any such litigation or proceedings to which we may become a party could cause us to:

- pay damage awards;
- seek licenses from third parties;
- pay ongoing royalties;
- redesign our branded products; or
- be restricted by injunctions.

Each of the foregoing could effectively prevent us from pursuing some or all of our business and result in our customers or potential customers deferring or limiting their purchase or use of our branded products, which could have a material adverse effect on our financial condition and results of operations.

We are subject to product liability exposure and currently do not have insurance coverage for product-related liabilities. Any product liability claims or potential safety-related regulatory actions could damage our reputation and materially and adversely affect our business, financial condition and results of operations.

The medical devices we assemble and sell can expose us to potential product liability claims if the use of these products causes or is alleged to have caused personal injuries or other adverse effects. Any product liability claim or regulatory action could be costly and time-consuming to defend. If successful, product liability claims may require us to pay substantial damages. We do not maintain product liability insurance to cover potential product liability arising from the use of our branded products because product liability insurance available in China offers only limited coverage compared to coverage offered in many other countries. A product liability claim or potential

safety-related regulatory action, with or without merit, could result in significant negative publicity and could materially and adversely affect the marketability of our branded products and our reputation, as well as our business, financial condition and results of operations.

Moreover, a material design, manufacturing or quality failure or defect in our branded products, other safety issues or heightened regulatory scrutiny could each warrant a product recall by us and result in increased product liability claims. Also, if these products are deemed by the authorities in China where we currently sell our branded products to fail to conform to product quality and safety requirements, we could be subject to regulatory action. In China, violation of PRC product quality and safety requirements may subject us to confiscation of related earnings, penalties, an order to cease sales of the violating product, or to cease operations pending rectification. Furthermore, if the violation is determined to be serious, our business license to assemble or sell violating and other products could be suspended or revoked.

We may need additional capital in the future, and we may be unable to obtain such capital in a timely manner or on acceptable terms, if at all.

In order for us to grow, remain competitive, develop new products, and expand our distribution network, we may require additional capital in the future. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by medical device manufacturers and other related companies; and
- economic, political and other conditions in China and elsewhere.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. Furthermore, the terms and amount of any additional capital raised through issuances of equity securities may result in significant shareholder dilution.

If our security measures are breached or fail, and unauthorized access to a client's data is obtained, our services may be perceived as not being secure, clients may curtail or stop using our services, and we may incur significant liabilities.

Our products and services involve the web-based storage and transmission of clients' proprietary information and protected health information of patients. Because of the sensitivity of this information, security features of our software are very important. From time to time we may detect vulnerabilities in our systems, which, even if they do not result in a security breach, may reduce customer confidence and require substantial resources to address. If our security measures are breached or fail as a result of third-party action, employee error, malfeasance, insufficiency, defective design, or otherwise, someone may be able to obtain unauthorized access to client or patient data. As a result, our reputation could be damaged, our business may suffer, and we could face damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for remediation and efforts to prevent future occurrences. We rely upon our clients as users of our system for key activities to promote security of the system and the data within it, such as administration of client-side access credentialing and control of client-side display of data. On occasion, our clients have failed to perform these activities. Failure of clients to perform these activities may result in claims against us that this reliance was misplaced, which could expose us to significant expense and harm to our reputation. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and clients. In addition, our clients may authorize or enable third parties to access their client data or the data of their patients on our systems. Because we do not control such access, we cannot ensure the complete propriety of that access or integrity or security of such data in our systems.

If our services fail to provide accurate and timely information, or if our content or any other element of any of our services is associated with faulty clinical decisions or treatment, we could have liability to clients, clinicians, or patients, which could adversely affect our results of operations.

Our products, software, content, and services are used to assist clinical decision-making and provide information about treatment plans. If our products, software, content, or services fail to provide accurate and

timely information

or are associated with faulty clinical decisions or treatment, then clients, clinicians, or their patients could assert claims against us that could result in substantial costs to us, harm our reputation in the industry, and cause demand for our services to decline.

The assertion of such claims and ensuing litigation, regardless of its outcome, could result in substantial cost to us, divert management's attention from operations, damage our reputation, and decrease market acceptance of our products and services. We attempt to limit by contract our liability for damages and to require that our clients assume responsibility for medical care and approve key system rules, protocols, and data. Despite these precautions, the allocations of responsibility and limitations of liability set forth in our contracts may not be enforceable, be binding upon patients, or otherwise protect us from liability for damages.

Our proprietary software may contain errors or failures that are not detected until after the software is introduced or updates and new versions are released. It is challenging for us to test our software for all potential problems because it is difficult to simulate the wide variety of computing environments or treatment methodologies that our clients may deploy or rely upon. From time to time we have discovered defects or errors in our software, and such defects or errors can be expected to appear in the future. Defects and errors that are not timely detected and remedied could expose us to risk of liability to clients, clinicians, and patients and cause delays in introduction of new services, result in increased costs and diversion of development resources, require design modifications, or decrease market acceptance or client satisfaction with our services.

We rely on Internet infrastructure, bandwidth providers, other third parties, and our own systems for providing services to our users, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with users, adversely affecting our brand and our business.

Our ability to deliver our Internet and telecommunications-based services is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security for providing reliable Internet access and services. Our services are designed to operate without interruption in accordance with our service level commitments. However, we have experienced and expect that we will experience interruptions and delays in services and availability from time to time. We rely on internal systems as well as third-party vendors, including data center, bandwidth, and telecommunications equipment providers, to provide our services. We do not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could negatively impact our relationship with users. Any disruption in the network access, telecommunications, or co- location services provided by these third-party providers or any failure of or by these third-party providers or our own systems to handle current or higher volume of use could significantly harm our business. We exercise limited control over these third-party vendors, which increases our vulnerability to problems with services they provide.

Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services or our own systems could negatively impact our relationships with users and adversely affect our business and could expose us to third-party liabilities. The reliability and performance of the Internet may be harmed by increased usage or by denial-of-service attacks. The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the availability of the Internet to us for delivery of our Internet-based services.

If we are unable to keep up with the rapid technological changes of the internet industry, our business may suffer.

The internet industry is experiencing rapid technological changes. The future success of our cloud-based services will depend on our ability to anticipate, adapt and support new technologies and industry standards. If we fail to anticipate and adapt to these and other technological changes, our market share, profitability and share price could suffer.

Our internal control over financial reporting is not effective and has material weaknesses.

We are subject to the reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in their respective

annual reports. This proxy statement/prospectus does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting because we are currently a non-accelerated filer and therefore not required to obtain such report.

Our management has concluded that under the rules of Section 404, our internal control over financial reporting was not effective as of December 31, 2020. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented, or detected and corrected on a timely basis. The material weakness we identified is insufficient qualified accounting personnel with appropriate understanding of U.S. GAAP and SEC reporting requirements commensurate with our financial reporting requirements. Also, as a small company, we do not have sufficient internal control personnel to set up adequate review functions at each reporting level.

We are in the process of implementing measures to resolve the material weakness and improve our internal and disclosure controls. However, we may not be able to successfully implement the remedial measures. The implementation of our remedial initiatives may not fully address the material weakness in our internal control over financial reporting. In addition, the process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and economic and regulatory environments and to expend significant resources to maintain a financial reporting system that is adequate in satisfying our reporting obligations.

As a result, our business and financial condition, results of operations and prospects, as well as the trading price of our common shares may be materially and adversely affected. Ineffective internal control over financial reporting could also expose us to increased risk of fraud or misuse of corporate assets, which in turn, could subject us to potential delisting from the NASDAQ Capital Market on which our common shares are listed, regulatory investigations or civil or criminal sanctions.

Our directors, officers and we may be involved in investigations or other forms of regulatory or governmental inquiry which may cause reputational harm to the Company, result in additional expenses, and distract our management from our day-to-day operations.

From time to time, our directors, officers and we may be involved in investigations or other forms of regulatory or governmental inquiry covering a range of possible issues including but not limited to securities laws compliance. These inquiries or investigations could lead to administrative, civil or criminal proceedings involving us and could result in fines, penalties, restitution, other types of sanctions, or the need for us to undertake remedial actions, or to alter our business, financial or accounting practices. Our practice is to cooperate fully with regulatory and governmental inquiries and investigations.

For example, on August 6, 2020, Hangzhou Lianluo and Mr. Zhitao He received an investigation notice from China Securities Regulatory Commission, or CSRC, for alleged violation of laws and regulations regarding information disclosures of Hangzhou Lianluo. Hangzhou Lianluo is a PRC company with shares listed on Shenzhen Stock Exchange. Mr. He is the Chairman and Chief Executive Officer of Hangzhou Lianluo. Hangzhou Lianluo is also the largest shareholder of the Company and Newegg, and Mr. He was the former Chairman and the former Chief Executive Officer of the Company and will be appointed as the chairman of the board of the Company upon completion of the merger. Hangzhou Lianluo announced this investigation on August 7, 2020 and stated that it will fully cooperate with CSRC in the investigation. As the investigation is still at a relatively early stage, the Company is currently unable to assess the likely outcomes of such proceedings. On October 19, 2020, Hangzhou Lianluo announced that it has received a notice of administrative punishment from Zhejiang Regulatory Bureau of CSRC, which provides, among other things, that (i) Hangzhou Lianluo is receiving a warning and required to correct its unlawful acts and pay a fine of RMB 300,000, and (ii) Mr. Zhitao He is receiving a warning and required to pay a fine of RMB 400,000. The unfavorable ultimate outcome regarding this investigation could cause reputational harm to us.

Legal proceedings, inquiries and regulatory investigations are often unpredictable, and it is possible that the ultimate resolution of any such matters, if unfavorable, may be material to the results of operations in any future period, depending, in part, upon the size of the loss or liability imposed and the operating results for the period, and could have a material adverse effect on our business. In addition, regardless of the ultimate outcome of any such legal

proceeding, inquiry or investigation, any such matter could cause us to incur additional expenses, which could be significant, and possibly material, to our results of operations in any future period. Any of these factors may result in large and sudden changes in the volume and price at which our common shares will trade.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

Risks Relating to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources.

While the PRC economy has grown more rapidly in the past 30 years than the world economy as a whole, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. Stimulus measures designed to boost the Chinese economy may contribute to higher inflation, which could adversely affect our results of operations and financial condition. In addition, since 2012, growth of the Chinese economy has slowed down. We cannot assure you that Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on our business and results of operations.

We do not have business interruption, litigation or natural disaster insurance.

The insurance industry in China is still at an early stage of development. In particular, PRC insurance companies offer limited insurance products. As a result, we do not have any business liability or disruption insurance coverage for our operations in China. Any business interruption, litigation or natural disaster may result in our business incurring substantial costs and the diversion of resources.

Currently, there are no specific laws or regulations applicable to wearable medical products in China, which are instead subject to general laws applicable to medical products. If there are applicable government regulations in the future, it may create risks and challenges with respect to our compliance efforts and our business strategies.

The health care industry is highly regulated and is subject to changing political, legislative, regulatory, and other influences. Existing and new laws and regulations affecting the health care industry could create unexpected liabilities for us, cause us to incur additional costs, and restrict our operations. Many health care laws are complex, and their application to specific services and relationships may not be clear. In particular, many existing health care laws and regulations, when enacted, did not anticipate the wearable medical products and services that we provide, and these laws and regulations may be applied to our business in ways that we do not anticipate. Our failure to accurately anticipate the application of these laws and regulations, or our other failure to comply, could create liability for us, result in adverse publicity, and negatively affect our business.

Restrictions on currency exchange may limit our ability to receive and use our income effectively.

Lianluo Connection, our directly wholly-owned PRC subsidiary, is a foreign invested enterprise, or FIE, under PRC laws, and substantially all of our sales are settled in RMB. Any future restrictions on currency exchanges

may limit our ability to use revenue generated in RMB to fund any future business activities outside of China or to make

dividend or other payments in U.S. dollars. Although the conversion of RMB into foreign currency for current account transactions, such as interest payments, profit distributions, and trade or service related transactions, can be made without prior governmental approval, significant restrictions still remain, including primarily the restriction that FIEs may only buy, sell, or remit foreign currencies after providing valid commercial documents to certain banks in China authorized to conduct foreign exchange business. In addition, conversion of RMB for capital account items, including direct investment and loans, are subject to governmental approval in China, and requires companies to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the RMB.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiary, Lianluo Connection in the PRC. Lianluo Connection is generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to FIEs. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations, and rules are not always uniform, and enforcement of these laws, regulations, and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Furthermore, all of our executive officers and directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to effect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

You may have difficulty enforcing judgments against us.

Most of our assets are located outside of the United States and all of our current operations are conducted in the PRC. In addition, all of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce U.S. courts' judgments entered pursuant to the civil liability provisions of the U.S. federal securities laws against us, or our officers and directors most of whom are not residents of the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. The recognition and enforcement of foreign judgments are provided for in the PRC Civil Procedures Law. Courts in China may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other arrangements with the United States or the BVI that provide for the reciprocal recognition and enforcement of judgments. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment, if they decide that the judgment violates basic principles of PRC law, sovereignty, national security, or public interest. It is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States against us or our officers and directors.

The PRC government exerts substantial influence over the manner in which business activities are conducted.

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulations and state ownership. Our ability to operate in China may be harmed by changes in Chinese laws and regulations, including those relating to taxation, product liability, healthcare, labor, property, privacy and other matters. We believe that our operations in China comply with, in material aspects, with all applicable legal and regulatory requirements. However, the central or local governments of China may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common shares will be indirectly affected by the foreign exchange rate between the U.S. dollar and RMB. Appreciation or depreciation in the value of RMB relative to the U.S. dollar would affect our financial

results reported in U.S. dollar without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars, as well as earnings from any U.S. dollar-denominated investments we make in the future.

Since July 2005, the RMB has no longer been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to the exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited. We may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Restrictions under PRC law on our PRC subsidiary's ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our business.

Substantially all of our revenues are earned by our PRC subsidiary. However, PRC regulations restrict the ability of our PRC subsidiary to make dividends and other payments to its offshore parent companies. PRC legal restrictions permit payments of dividends by our PRC subsidiary only out of its accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary is also required under PRC laws and regulations to allocate at least 10% of its annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said reserve fund reach 50% of the company's registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances, or cash dividends. Any limitations on the ability of our PRC subsidiary to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary or limit our PRC subsidiary's ability to increase its registered capital or distribute profits.

The State Administration of Foreign Exchange, or 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 the 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 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 subsidiaries. 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. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

According to SAFE Circular 37, our shareholders or beneficial owners, who are PRC residents, are subject to SAFE Circular 37 or other foreign exchange administrative regulations in respect of their investment in the

Company.

We have notified substantial beneficial owners of our common shares who we know are PRC residents of their filing obligations. Nevertheless, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. The failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of the Company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiary to fines and legal sanctions. Such failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiary and limit our PRC subsidiary's ability to distribute dividends to us. These risks may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, it is uncertain how SAFE Circular 37, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant PRC government authorities, and we cannot predict how these regulations will affect our business operations or future strategy. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiary and limit our PRC subsidiary's ability to distribute dividends to us. These risks could in the future have a material adverse effect on our business, financial condition and results of operations.

We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations which first became effective on September 8, 2006.

On August 9, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission, promulgated the Regulation on mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective on September 8, 2006, and was subsequently amended in 2009. This regulation, among other regulations and rules, governs the approval process of a PRC company's participation in an acquisition of assets or equity interests. Depending on the structure of the transaction, the regulation requires the PRC parties to make a series of applications and supplemental applications to the government agencies for approval of acquisition of assets or equity interests of another entity. In some instances, the application process may require a presentation of economic data concerning the transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess viability of the transaction. Government approvals will have expiration dates, by which a transaction must be completed and reported to the government agencies. Compliance with the regulation is likely to be more time consuming and expensive than it was in the past, and provides the government more controls over business combination of two enterprises.

The regulation also prohibits a transaction with an acquisition price obviously lower than the appraised value of the PRC business or assets and in certain transaction structures, and requires consideration be paid within a defined period, generally not in excess of a year. The regulation also limits our ability to negotiate various terms of the acquisition, including the initial consideration, contingent consideration, holdback provisions, indemnification provisions, and provisions related to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on financial terms that satisfy our investors and protect our shareholders' economic interests.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of our future financings to make loans to our PRC subsidiary, or to make additional capital contributions to our PRC subsidiary.

We, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to our PRC subsidiary, which is treated as foreign-invested enterprises under PRC laws, through loans or capital contributions. However, loans by us to our PRC subsidiary to finance its activities cannot exceed statutory limits and must be

registered with the local counterpart of SAFE and capital contributions to our PRC subsidiary are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, and registration with other governmental authorities in China.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprise, or Circular 19, effective on June 1, 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses. According to Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of bank loans that have been transferred to a third party. Although Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to grant loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our future financings, to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or future capital contributions to our PRC subsidiary. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiary when needed. If we fail to complete such registrations or obtain such approvals, our ability to use foreign currency, including the proceeds we received from our future financings, and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any failure to comply with PRC regulations regarding employee share incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

We have established a series of share incentive programs under which we issued share options to our PRC employees. In 2014, we created the 2014 Share Incentive Plan, which provides that the maximum number of shares authorized for issuance under this plan shall not exceed ten percent of the number of issued and outstanding shares of company stock as of December 31 of the immediately preceding fiscal year, and an additional number of shares may be added automatically annually to the shares issuable under the Plan on and after January 1 of each year, from January 1, 2015 through January 1, 2024. The 2014 Share Incentive Plan shall terminate on the tenth anniversary of its effective date on July 28, 2014 when the plan was approved by the shareholders of the Company. Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In the meantime, directors, executive officers and other employees who are PRC citizens or who are non-PRC residents residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, and who have been granted restricted shares, options or restricted share units, may follow the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, to apply for the foreign exchange registration. According to those regulations, employees, directors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to limited

exceptions, are required to register with SAFE through a domestic qualified agent, which may be a PRC subsidiary of the overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit their ability to make payment under the relevant equity incentive plans or receive dividends or sales proceeds related thereto in foreign currencies, or our ability to contribute additional capital into our subsidiaries in China and limit our PRC subsidiary's ability to distribute dividends to us. We also face regulatory uncertainties under PRC law that could restrict our ability to adopt additional equity incentive plans for our directors, officers and employees who are PRC citizens or who are non-PRC residents residing in the PRC for a continuous period of not less than one year, subject to limited exceptions.

In addition, the State Administration of Taxation has issued circulars concerning employee share options, restricted shares restricted share units. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares or restricted share units vest, will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees related to their share options, restricted shares or restricted share units. Although we currently withhold income tax from our PRC employees in connection with their exercise of options and the vesting of their restricted shares and restricted share units, if the employees fail to pay, or the PRC subsidiary fails to withhold, their income taxes according to relevant laws, rules and regulations, the PRC subsidiary may face sanctions imposed by the tax authorities.

The Security Review Rules may make it more difficult for us to make future acquisitions or dispositions of our business operations or assets in China.

The Security Review Rules, effective as of September 1, 2011, provides that when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the national security review by Ministry of Commerce, the principle of substance-over-form should be applied and foreign investors are prohibited from circumventing the national security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. If the business of any target company that we plan to acquire falls within the scope subject to national security review, we may not be able to successfully acquire such company by equity or asset acquisition, capital increase or even through any contractual arrangement.

Under the Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.

On March 16, 2007, the National People's Congress of China passed a new Enterprise Income Tax Law, or the EIT Law. On November 28, 2007, the State Council of China passed its implementing rules, which took effect on January 1, 2008. Under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

On April 22, 2009, the State Administration of Taxation issued the Notice Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises, also referred to as SAT Circular 82 (which has been revised by the Decision of the State Administration of Taxation on Issuing the Lists of Invalid and Abolished Tax Departmental Rules and Taxation Normative Documents on December 29, 2017 and by the Decision of the State Council on Cancellation and Delegation of a Batch of Administrative Examination and Approval Items on November 8, 2013). The notice further interprets the application of the EIT Law and its implementation rules to Chinese enterprise or group controlled offshore entities. Pursuant to the notice, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a "non-domestically incorporated resident enterprise" if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate chops, board and shareholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management habitually reside in China. In addition, the State Administration of Taxation issued the Announcement of the State Administration of Taxation on Issues concerning the Determination of Resident Enterprises Based on

the Standards of De Facto Management Bodies in January 2014 to provide more guidance on the implementation of Circular 82. This bulletin further provides that, among other things, an entity that is classified as a "resident enterprise" in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors are registered. From the year in which the entity is determined to be a "resident enterprise," any dividend, profit and other equity investment gain shall be taxed in accordance with the enterprise income tax law and its implementing rules. A resident enterprise would be subject to an enterprise income tax rate of 25% on its worldwide income and must pay a withholding tax at a rate of 10%, when paying dividends to its non-PRC shareholders. However, it remains unclear as to whether the Notice is applicable to an offshore enterprise controlled by Chinese natural persons. It is unclear how tax authorities will determine tax residency based on the facts of each case.

We may be deemed to be a resident enterprise by Chinese tax authorities. If the PRC tax authorities determine that we are a "resident enterprise" for the PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations, which would materially reduce our net income. Second, a 10% withholding tax may be imposed on dividends we pay to our shareholders that are non-resident enterprises and with respect to gains derived by said shareholders from transferring our shares. Finally, if we are deemed a PRC resident enterprise, dividends paid to our non-PRC individual shareholders and any gain realized on the transfer of our shares by such shareholders may be subject to PRC tax at a rate of 20%, if such income is deemed to be from PRC sources.

If we were treated as a "resident enterprise" by the PRC tax authorities, we would be subject to taxation in both the U.S. and China, and we may not be able to claim our PRC tax as a credit to reduce our U.S. tax.

We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.

In October 2017, the State Administration of Taxation issued the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source, or Bulletin 37, which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the State Administration of Taxation on December 10, 2009, and partially replaced and supplemented rules under the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Bulletin 7, issued by the State Administration of Taxation on February 3, 2015. Pursuant to Bulletin 7, an "indirect transfer" of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, "PRC taxable assets" include assets attributed to an establishment in China, immoveable properties located in China, and equity investments in PRC resident enterprises and any gains from the transfer of such asset by a direct holder, who is a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a "reasonable commercial purpose" of the transaction arrangement, factors to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In the case of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and may consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to immoveable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding agent shall declare and pay the withheld tax to the competent tax authority in the place where such

withholding agent is located within 7 days from the date of occurrence of the withholding obligation, while the transferor is required to declare and pay such tax to the competent tax authority within the statutory time limit according to Bulletin 7. Late payment of applicable tax will subject the transferor to default interest charges. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There is uncertainty as to the application of Bulletin 37 or previous rules under Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. We may be subject to filing obligations or taxes if the Company is transferor in such transactions, and may be subject to withholding obligations if the Company is transferee in such transactions, under Bulletin 37 and Bulletin 7. For transfer of shares in the Company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist in the filing under Bulletin 37 and Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 37 and Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that the Company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption laws, and any determination that we violated these laws could have a material adverse effect on our business.

We are subject to the Foreign Corrupt Practice Act, or the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute, for the purpose of obtaining or retaining business. We have operations, agreements with third parties such as distributors, and make almost all of our sales in China. The PRC also strictly prohibits bribery of government officials. Our activities in China create the risk of unauthorized payments or offers of payments by our employees, consultants, sales agents, or distributors to government officials or political parties, even though they may not always be subject to our control. It is our policy to implement safeguards to discourage these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and our employees, consultants, sales agents, or distributors may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the U.S. government may seek to hold the Company liable for FCPA violations committed by companies in which we invest or that we acquire.

Since substantially all of our operations are located in China, information about our operations is not readily available from independent third-party sources.

Since Lianluo Connection is based in China, our shareholders outside China may have greater difficulty in obtaining information about them on a timely basis than local shareholders of a U.S.-based company. Lianluo Connection's operations will continue to be conducted in China and shareholders may have difficulty in obtaining information about them from sources other than Lianluo Connection itself. Information available from newspapers, trade journals, or local, regional or national regulatory agencies may not be readily available to shareholders and, where available, will likely be available only in Chinese. Shareholders may have to be dependent upon management for reports of our PRC subsidiary's progress, development, activities and expenditure of proceeds.

Our current auditors, like other independent registered public accounting firms operating in China and to the extent their audit clients have operations in China, are not permitted to be inspected by the U.S. Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection. In addition, as a result of the enactment of the Holding Foreign Companies Accountable Act, we could be delisted if we were unable to cure the situation to meet the PCAOB inspection requirement in time. Besides, we could be adversely affected if proposed legislation is adopted regarding improved access to audit and other information and audit inspections of accounting firms, including registered public accounting firms operating in the PRC such as our auditor, or if Nasdaq's proposals requiring additional criteria to companies operating in "restrictive markets" become effective.

BDO China Shu Lun Pan Certified Public Accountants LLP, or BDO China, is the independent registered public accounting firm that issued the audit report included in this proxy statement/prospectus in connection with our consolidated financial statements as of, and for the years ended, December 31, 2020 and 2019. As auditors of

companies that are traded publicly in the U.S., our public accounting firms are registered with the U.S. Public Company Accounting Oversight Board (United States), or the PCAOB. They are required by U.S. laws to be regularly inspected by the PCAOB to assess their compliance with the U.S. laws and professional standards.

However, our operations are solely located in the PRC, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities. Our independent registered public accounting firm, like others operating in China (and Hong Kong, to the extent their audit clients have operations in China), is currently not subject to inspection conducted by the PCAOB. Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct full inspections of auditors operating in China makes it more difficult to evaluate our auditors' audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

In December 2012, the SEC instituted proceedings under Rule 102(e)(1)(iii) of the SEC's Rules of Practice against five PRC-based accounting firms, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' work papers related to their audits of certain PRC-based companies that are publicly traded in the United States. Rule 102(e)(1)(iii) grants to the SEC the authority to deny to any person, temporarily or permanently, the ability to practice before the SEC who is found by the SEC, after notice and opportunity for a hearing, to have willfully violated, or willfully aided and abetted the violation of, any such laws or rules and regulations. On January 22, 2014, an initial administrative law decision was issued, sanctioning four of these accounting firms and suspending them from practicing before the SEC for a period of six months. The sanction will not take effect until there is an order of effectiveness issued by the SEC. In February 2014, four of these PRC-based accounting firms filed a petition for review of the initial decision. In February 2015, each of these four accounting firms agreed to a censure and to pay fine to the SEC to settle the dispute with the SEC. The settlement stays the current proceeding for four years, during which time the firms are required to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If a firm does not follow the procedures, the SEC would impose penalties such as suspensions, or commence a new, expedited administrative proceeding against the non-compliant firm or it could restart the administrative proceeding against all four firms. The four-year mark occurred on February 6, 2019.

On April 21, 2020, the SEC and the PCAOB issued a joint statement highlighting the significant disclosure, financial reporting and other risks associated with emerging market investments, including the PCAOB's continued inability to inspect audit work papers of auditors in the PRC. This statement is the latest in a series of recent proposed actions:

- In December 2018 the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by U.S. regulators in their oversight of financial statement audits of U.S.-listed reporting companies with significant operations in the PRC.
- In June 2019 a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress that, if passed, would have required the SEC to maintain a list of foreign reporting companies for which the PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges Act, or EQUITABLE Act, would have prescribed increased disclosure requirements for these reporting companies and, beginning in 2025, provided for the delisting from U.S. stock exchanges of reporting companies included on the SEC's list for three consecutive years.
- In May 2020 the U.S. Senate approved a bill entitled the "Holding Foreign Companies Accountable Act," which, if also approved by the U.S. House of Representatives, would allow the SEC to delist the stocks of foreign companies listed on US exchanges that are audited by firms not allowed to be inspected by the PCAOB.
- In May 2020 Nasdaq requested approval by the SEC of proposals that would impact companies with businesses principally administered in jurisdictions defined as "restrictive markets," which likely would encompass the PRC. These proposals contemplate, among other things, the application of more stringent listing criteria if a listed company's auditor does not demonstrate a PCAOB inspection record (as is the case with our auditor), employee expertise and training, or geographic or other resources sufficient to perform the company's audit satisfactorily. Examples of more stringent criteria that Nasdaq could

apply include requiring: (a) higher levels of equity, assets, earnings or liquidity than are otherwise needed; (b) that any public offering to be underwritten on a firm commitment basis (involving more due diligence by the underwriter; and (c) the imposition of lock-up restrictions on directors and officers to allow market mechanisms to determine an appropriate price for shares before the insiders could sell. Alternatively, Nasdaq could deny continued listing to a company. It remains unclear what further actions the SEC, the PCAOB or Nasdaq will take to address these issues and what impact those actions will have on US companies that have significant operations in the PRC and have securities listed on a U.S. stock exchange. Any such actions could materially affect our operations and stock price, including by resulting in our being de-listed from Nasdaq or being required to engage a new audit firm, which would require significant expense and management time.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, on December 18, 2020, the Holding Foreign Companies Accountable Act was signed into law. This act amends the Sarbanes-Oxley Act of 2002 to direct the SEC to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded "over-the-counter" if the auditor of the registrant's financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. As a result, we could be delisted if we are unable to cure the situation to meet the PCAOB inspection requirement in time.

If we become directly subject to the scrutiny, criticism, and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to address and resolve the matter, which could harm our business operations, stock price, and reputation. It could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably.

In the past few years, U.S. publicly traded companies that have substantially all of their operations in China like us have been the subject of intense scrutiny, criticism, and negative publicity by investors, financial commentators, and regulatory agencies, such as the SEC. Much of the scrutiny, criticism, and negative publicity has centered around financial and accounting irregularities and mistakes, lack of effective internal controls over financial accounting, inadequate corporate governance policies or lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism, and negative publicity, the publicly traded stocks of many U.S. listed Chinese companies have sharply decreased in value and, in some cases, have become virtually worthless. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions, and are conducting internal and external investigations into the allegations. It is not clear the effect of this sector-wide scrutiny, criticism, and negative publicity will have on the Company, our business, and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations defending the Company. This situation would be costly, time consuming, and distract our management from growing the Company.

The disclosures in our reports and other filings with the SEC and our other public pronouncements are not subject to the scrutiny of any regulatory bodies in the PRC. Accordingly, our public disclosure should be reviewed in light of the fact that no governmental agency that is located in China where substantially all of our operations and business are located has conducted any due diligence on our operations, or reviewed or passed upon the accuracy and completeness of any of our disclosures.

Since we are regulated by the SEC, our reports and other filings with the SEC are subject to SEC's review in accordance with the rules and regulations promulgated by the SEC under the Securities Act and the Exchange Act. Unlike publicly traded companies whose operations are located primarily in the United States, substantially all of our operations are presently located in China. Since substantially all of our operations and business take place in China, it may be more difficult for the SEC staff to overcome the geographic and cultural obstacles, when they review our disclosures. Such obstacles are not present for similar companies whose operations and business take place entirely or primarily in the United States. Furthermore, our SEC reports and other disclosures and public announcements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosures in our SEC reports and other filings are not subject to the review of the CSRC, a PRC regulator that is tasked with oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings, and other public announcements with the understanding that no local regulator has done any due diligence on the Company and that none of our SEC reports, other filings, or any of our other public announcements has been reviewed or otherwise been scrutinized by any local regulator.

Risks Related to the Business of Newegg

The impact of COVID-19 may adversely affect Newegg's business and financial results.

The spread of COVID-19, which was declared a pandemic by the World Health Organization in March 2020, has caused different countries and cities to mandate curfews, including "shelter-in-place" and closures of most non-essential businesses as well as other measures to mitigate the spread of the virus.

Newegg's online business and warehouse operations have remained active to serve its customers during the COVID-19 outbreak, and to-date Newegg has seen increased demand for its products and services during the outbreak. By contrast, some of Newegg's brick-and-mortar competitors have been forced to close down at least some of their retail locations temporarily, while some competitors have de-emphasized certain lines of business, such as computers and electronics, which represent Newegg's core business. Both of these industry trends have contributed to increased sales and market share for Newegg. However, the course of the outbreak remains uncertain, and a prolonged global economic slowdown and increased unemployment could have a material adverse impact on economic conditions, which in turn could lead to a reduced demand for Newegg's products and services.

As a consequence of the COVID-19 outbreak, Newegg has experienced occasional supply constraints, primarily in the form of delays in shipment of inventory. Newegg has also experienced some increases in the cost of certain products, as well as a decrease in promotions by some manufacturers. While Newegg considers such events to be relatively minor and temporary, continued supply chain disruptions could lead to delayed receipt of, or shortages in, inventory and higher costs, and negatively impact sales in fiscal year 2020 and beyond.

COVID-19 impacted the supply chain of Newegg's brand partners and Marketplace sellers, and its ability to timely fulfill orders and deliver such orders to its customers, particularly as a result of mandatory shutdowns in different countries and cities to mitigate the spread of the virus.

Although Newegg cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on Newegg's results of future operations. The potential negative impact of COVID-19 on its operations remains uncertain and potentially wide-spread, including:

- Newegg's ability to successfully forecast sales and execute its long-term growth strategy during these uncertain times;
- the build-up of excess inventory as a result of lower consumer demand;
- supply chain disruptions experienced by brand partners and Marketplace sellers, resulting from closed factories, reduced workforces, scarcity of raw materials, and scrutiny or embargoing of goods produced in infected areas, along with increased freight costs for Newegg;
- Newegg's ability to access capital sources and maintain compliance with its credit facilities, as well as the ability of its key customers, suppliers, and vendors to do the same in regard to their own obligations;
- Newegg's ability to collect outstanding receivables from its customers;
- Newegg's ability to attend and participate in industry and trade shows; and
- diversion of management and employee attention and resources from key business activities and risk management outside of COVID-19 response efforts, including cybersecurity and maintenance of internal controls, with resulting potential loss of employee productivity.

The COVID-19 pandemic remains highly volatile and continues to evolve on a daily basis and therefore, there can be no assurance that these potential negative impacts will not materialize, and these and other impacts of COVID-19 may adversely affect Newegg's future business, financial condition, cash flow, liquidity and results of operations.

Newegg faces risks related to system interruption, including failures caused or experienced by third-party service providers, and lack of redundancy and timely upgrades.

Newegg's success depends on its ability to successfully receive and fulfill orders and to promptly deliver such orders to its customers. It could lose existing customers or fail to attract new customers, potentially resulting in a decline in net sales, if its online platforms are inaccessible or if its transaction processing systems, order fulfillment processes or network infrastructure are not operational or performing to its customers' satisfaction.

Any internet network interruptions, latency or problems with its online platforms' availability could prevent customers from accessing, browsing and placing orders on its online platforms, and impact its ability to fulfill orders or bill customers, which may cause customer dissatisfaction and damage its reputation and brand. Newegg has experienced brief computer system interruptions in the past, and it believes that others will occur from time to time in the future. Its systems and operations potentially are vulnerable to damage or interruption from a number of sources, including the following:

- natural disaster or other catastrophic event such as earthquake, fire, power loss or interruption, telecommunications failure, hurricane, volcanic eruption, flood or terrorist attack. For example, its headquarters and the majority of its infrastructure, including some of its servers, are located in Southern California, a seismically active region. In addition, California has in the past experienced power outages as a result of limited electric power supply;
- diseases or pandemics (including COVID-19) that have affected and may continue to affect the supply chain of its brand partners and Marketplace sellers, and its logistics in the future due to inconsistent and unanticipated order patterns, other diseases or pandemics or unforeseen natural disasters;
- computer malware, physical or electronic break-ins and similar disruptions;
- security breaches and hacking attacks;
- failure by third-party vendors, including data center and bandwidth providers, to provide steady and high-speed access to its online platforms and systems, any disruption in its network access or co-location services, which are the services that house some of its servers and provide internet access to them, provided by these third-party providers or any failure of these third-party vendors to handle existing or higher volumes of use could significantly harm its business, or any financial or other difficulties these vendors face could also adversely affect its business; and
- incidents of fraud.

Newegg has not yet created sufficient redundancy for its information technology systems and data, and it does not presently maintain backup copies of all of its data. Newegg has a limited disaster recovery plan in effect and may not have sufficient insurance for losses that may occur from natural disasters, catastrophic events or the resulting business interruption. Newegg is generally self-insured outside the United States. Any substantial damage to, or disruption of, its technology infrastructure could cause interruptions or delays, loss of data, or reduced system availability, which could have a material adverse effect on its business, financial condition and results of operations.

Newegg may be unable to accurately project the rate or timing of traffic flow, including any traffic increases, or successfully and cost-effectively upgrade its systems and infrastructure in a timely manner to accommodate higher traffic levels on its online platforms. If the volume of traffic on its online platforms or the number of purchases made by its customers increases substantially, it may experience unanticipated system disruptions, slower response times, reduced levels of customer service and impaired quality and delays in reporting accurate financial information. For example, it experiences surges in online traffic and orders associated with promotional activities and holiday seasons, especially during the Christmas season, which can put additional demands on its technology platform at specific times.

Additionally, Newegg must continue to upgrade and improve its technology and infrastructure to support its business growth, and failure to do so could impede its growth. However, Newegg cannot assure you that it will be successful in executing these system upgrades and improvement strategies. Any such upgrades to its systems and infrastructure could require substantial investments. In particular, its systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at

all. If its existing or future technology and infrastructure do not function properly, it could cause system disruptions and slow response times, affecting data transmission, which in turn could materially and adversely affect its business, financial condition and results of operations.

Newegg relies on third-party payment processors to process deposits and withdrawals made by users of its marketplace, and if Newegg cannot manage its relationships with such third parties and other payment-related risks, its business, financial condition and results of operations could be adversely affected.

Newegg relies on a limited number of third-party payment solutions to process deposits and withdrawals made by users of its marketplace. If any third-party payment solution terminates its relationship with Newegg or refuses to renew its agreement with Newegg on commercially reasonable terms, Newegg would need to find an alternate payment solution, and may not be able to secure similar terms or replace such payment solution in an acceptable time frame. Further, the software and services provided by Newegg's third-party payment solutions may not meet its expectations, contain errors or vulnerabilities, be compromised or experience outages. Any of these risks could cause Newegg to lose its ability to accept online payments or other payment transactions or make timely payments to users of its marketplace, any of which could make Newegg's marketplace less trustworthy and convenient and adversely affect its ability to attract and retain its users.

Nearly all of Newegg's users' payments are made by credit card, debit card or through other third-party payment services, which subjects Newegg to certain regulations and to the risk of fraud. Newegg may in the future offer new payment options to users that may be subject to additional regulations and risks. Newegg is also subject to a number of other laws and regulations relating to the payments Newegg accepts from its users, including with respect to money laundering, money transfers, privacy and information security. If it fails to comply with applicable rules and regulations, Newegg may be subject to civil or criminal penalties, fines and/or higher transaction fees and may lose its ability to accept online payments or other payment card transactions, which could make its marketplace less convenient and attractive to the users. If any of these events were to occur, Newegg's business, financial condition and results of operations could be adversely affected.

Additionally, card organizations, including Visa, require Newegg to comply with payment card network operating rules, which are set and interpreted by the payment card networks. The payment card networks could adopt new operating rules or interpret or reinterpret existing rules in ways that might prohibit Newegg from providing certain offerings to some users, be costly to implement or difficult to follow. Newegg has agreed to reimburse its payment processors for fines, penalties or assessments they are assessed by card organizations, if Newegg or the users on its Marketplace violate these rules. Any of the foregoing risks could adversely affect its business, financial condition and results of operations.

Newegg's business faces intense domestic and international competition.

The e-commerce market is intensely competitive with limited barriers to entry. Newegg's current and potential competitors include retailers, manufacturers and distributors that offer a wide range of similar product categories and companies that provide direct-to-consumer platform services, fulfillment and logistics services and other e-commerce related services. It is expected that the competition in this market will intensify in the future as companies develop new business models and enhanced technologies, new competitors enter the market, competitors forge new business combinations or alliances, and established companies in other market segments expand to become competitive with the business of Newegg.

Many of Newegg's current and potential online and brick-and-mortar competitors have larger bases of customers and Marketplace sellers, better brand recognition and greater financial, marketing, technical, management and other resources than it does. In addition, some of its competitors have used and may continue to use aggressive pricing or promotional strategies, may have stronger supplier relationships with more favorable terms and inventory allocation and may devote substantially greater resources to their online platforms and system development than it does. Increased competition may result in reduced operating margins, reduced profitability, loss of market share and diminished brand recognition for Newegg.

Newegg competes with online retailers such as Amazon and traditional retailers like Best Buy and Walmart, who sell through brick-and mortar stores and their online websites. In addition, Newegg also faces competition in the international markets it participates in or may enter in the future. Certain other competitors in countries where it operates are subsidiaries of e-commerce competitors in the United States with established local operations and

brands and with greater experience and resources than Newegg has. In other countries that Newegg may enter, there may be incumbent online and multi-channel online or brick-and-mortar competitors presently selling IT and CE products. These incumbents may have advantages that could impede Newegg's expansion and growth in these markets.

Newegg could also experience significant competitive pressure if any of its manufacturers or distributors were to initiate or expand their own online retail operations. Because Newegg's manufacturers and distributors have access to merchandise at a lower cost than Newegg, they could sell products at lower prices and maintain a higher gross margin on their product sales than Newegg can, and they may have the ability to directly connect with buyers at relatively low cost. This could result in Newegg's current and potential buyers deciding to purchase directly from these manufacturers and distributors instead of from Newegg. Increased competition from any manufacturer or distributor capable of maintaining high sales volumes and acquiring products at lower prices than Newegg could significantly reduce Newegg's market share and adversely impact Newegg's operating results.

There is no assurance that Newegg will be able to compete successfully against current and future competitors. Competitive pressures may materially and adversely affect Newegg's business, financial condition and results of operations.

A decline in demand for IT and CE products could adversely affect Newegg's operating results.

Newegg and its Marketplace sellers primarily sell IT and CE products that are often discretionary purchases rather than necessities for consumers. Consequently, Newegg's results of operations tend to be sensitive to changes in macroeconomic conditions and their impact on consumer spending. Factors including customer confidence, employment levels, conditions in the residential real estate and mortgage markets, access to credit, interest rates, tax rates, customer debt levels and fuel and energy costs could reduce customer spending or change customer purchasing habits in ways that materially and adversely affect demand for the products that Newegg and its Marketplace sellers offer.

There could be declines in the sales of the products offered by Newegg and its Marketplace sellers due to several factors, including:

- decreased demand for IT or CE products, particularly computer components and parts that have historically generated a significant portion of Newegg's net sales;
- poor economic conditions and any related decline in customers' demand for the products Newegg and its Marketplace sellers offer;
- increased price competition from Newegg's competitors; or
- technological obsolescence of the products that Newegg and its Marketplace sellers offer.

Additionally, it is expected that some of Newegg's future growth should be driven by product releases or upgrades that may occur in the near future. If such product releases do not occur or do not drive sales of IT products to the extent expected, Newegg's future sales may be less than predicted, negatively impacting Newegg's net sales and net income.

The loss of key employees or the failure to attract qualified personnel could have a material adverse effect on Newegg's ability to run its business.

The loss of any of Newegg's current executives, key employees or key advisors, or the failure to attract, integrate, motivate and retain additional key employees, could have a material adverse effect on Newegg's business. Although Newegg has employment agreements with its executive officers, all of its executive officers are employed "at-will" and could terminate their employment at any time. If Newegg loses one or more of its executive officers or other key employees, its ability to implement its business strategy successfully could be seriously harmed. Furthermore, replacing executive officers or other key employees with other highly skilled and qualified candidates may be difficult and may take an extended period of time. Recruiting skilled personnel is highly competitive. There can be no assurance that it will continue to attract and retain the personnel needed for its business. The failure to attract or retain qualified personnel could have a material adverse effect on Newegg's business.

If Newegg is unable to provide a satisfactory customer experience, its reputation would be harmed and it could lose customers.

The success of Newegg's business depends largely on its ability to provide a superior customer experience to maintain and grow its customer base and keep its customers highly engaged on its online platforms, which in turn depends on a variety of factors. These include Newegg's ability to continue to maintain a wide range of product offerings with attractive pricing, provide timely and reliable order fulfillment and provide high-quality customer support and service. If Newegg's customers are not satisfied with its platforms, products or services, or its online platforms are severely interrupted or otherwise fail to meet its customers' requests, Newegg's reputation could be adversely affected.

As an e-commerce company, Newegg has limited ability to allow buyers to touch, test and feel products, personally interact with sales and customer service representatives, and receive or return products without waiting or paying for the products to be shipped, like brick-and-mortar retailers or online retailers that have brick-and-mortar operations do. Therefore, it is important that Newegg continues to improve its online platforms, including efforts to encourage the creation of more high-quality and useful user-generated content, such as reviews and commentary, on the products Newegg and its Marketplace sellers offer. If Newegg does not continue to make investments in the development of its online platforms and customer service operations and, as a result, or due to other reasons, fails to provide a high-quality customer experience, Newegg may lose customers, which could adversely impact its operating results.

Newegg currently operates customer service centers in California and Texas and has customer service representatives working remotely in California, Indiana, Nevada, New Jersey and Texas, focusing on serving North American buyers. To enhance its service capabilities and maintain increased access, Newegg operates an Asia-based multilingual customer service center that is available 24 hours a day, seven days a week via e-mail and instant messaging. Any material disruption or slowdown in its customer support services resulting from telephone or internet failures, power or service outages, natural disasters, labor disputes or other events could make it difficult or impossible for Newegg to provide adequate customer support. In addition, the future volume of customer complaints and inquiries may exceed Newegg's present system capacities. If this occurs, Newegg could experience delays in responding to customer inquiries and addressing customer complaints and concerns. Newegg's current level of customer support may also fail to meet the expectations of customers. Failure to provide satisfactory levels of customer service may harm Newegg's reputation, causing potential loss of existing customers and difficulty in acquiring new customers.

Newegg may not succeed in promoting and strengthening its Newegg brand, which may materially and adversely affect its business and results of operations.

Brand recognition is a primary competitive factor in the e-commerce market and will be a key factor in maintaining and expanding Newegg's customer base, market position and bargaining power with vendors. Any loss of trust in Newegg's brand could harm its reputation and result in consumers, sellers, brands, vendors and other participants reducing their activity level in Newegg's business, which could materially reduce its profitability.

If Newegg does not, or is unable to continue to, promote and strengthen the Newegg brand, or if the brand fails to continue to be viewed favorably, Newegg may not be successful in attracting new customers and Marketplace sellers, which could have a material adverse effect on its financial condition and results of operations. Additionally, Newegg competes not only for customers and Marketplace sellers, but also for favorable product allocations and cooperative advertising support from its vendors. If Newegg fails to maintain favorable recognition of its brand, it may not be successful in maintaining and strengthening its relationships with vendors in existing and new product categories or in maintaining existing offerings and sourcing new products at competitive prices and with adequate levels of inventory.

Adverse publicity about Newegg may arise from time to time. Negative comments about its online platforms, the products and services offered by it and its Marketplace sellers or its management may appear in internet postings and other media sources from time to time, and there is no assurance that other types of negative publicity of a more serious nature will not arise in the future. For example, if Newegg's customer service representatives fail to satisfy the individual needs of the customers, the customers may become disgruntled and disseminate negative comments about Newegg's customer service. In addition, Newegg's Marketplace sellers and brand partners may also be subject to negative publicity for various reasons, such as customers' complaints about the quality of their products and

related services or other public relations incidents, which may adversely affect the sales of their products through Newegg and indirectly affect Newegg's reputation. Moreover, negative publicity about other online retailers or the e-commerce industry in general may arise from time to time and cause customers to lose confidence in the products and services Newegg offers. Any such negative publicity, regardless of veracity, may have a material adverse effect on its business, reputation and financial condition.

Newegg is, or may become, subject to risks associated with its international operations, principally in Canada, which may harm its business.

Newegg began operations on its Canadian retail website, *www.newegg.ca*, in October 2008. Newegg also has a physical presence in China, Taiwan and the UK. While Newegg is investing in building its business in other markets, it may not be able to successfully manage the challenges associated with its current and future international operations due to risks, such as:

- international economic and political conditions;
- changes in, or impositions of, legislative or regulatory requirements on e-commerce businesses and companies, such as U.S. sanctions laws and regulations, and limitations on its ability to directly own or control key assets, such as overseas warehouses;
- the legal and regulatory environment in foreign jurisdictions, including with respect to consumer privacy and data protection laws, tax, law enforcement, network security, trade compliance and intellectual property matters, as well as consumer litigation;
- tax laws, regulations and treaties, including U.S. taxes on foreign operations and repatriation of funds;
- difficulties in identifying, attracting, hiring, training and retaining qualified personnel, and overseeing international operations, including the efficient management of its international operations;
- delays or additional costs resulting from import/export controls, duties, tariffs or other barriers to trade; and
- currency exchange controls or changes in exchange rates, which could make its pricing less competitive or reduce its profit margins.

Any one of the foregoing factors could cause Newegg's business, financial condition and results of operations to suffer.

Newegg's expansion into new product categories, services, technologies and geographic regions subjects it to additional business, legal, financial and competitive risks.

An important element of Newegg's business strategy is to expand into new product categories, services, technologies and regions, such as its expansion into Canada and other countries, and its plans to offer various direct-to-consumer platform services for third parties. In directing its focus into these new areas, Newegg faces numerous risks and challenges, including alienating its core customer base, facing new competitors, having the increased need to develop new strategic relationships and straining its management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. There is no assurance that Newegg's strategy will result in increased net sales or net income. Furthermore, growth into new business areas may require changes to its existing business model and cost structure, modifications to its infrastructure, and exposure to new regulatory and legal risks related to operating in new jurisdictions, any of which may require expertise in areas in which it has little or no experience. These risks may pose a material adverse risk to Newegg's business, financial condition and results of operations.

Any interruption in Newegg's fulfillment operations may have an adverse impact on its business.

Newegg's ability to process and fulfill orders accurately and provide high-quality customer service depends on the smooth operation of its fulfillment infrastructure, including its warehouses and order processing centers. If it does not optimize and operate its fulfillment infrastructure successfully and efficiently, it could result in excess or insufficient fulfillment capacity, an increase in costs or impairment charges and a reduction in its gross profit

margin, or harm its business in other ways. If Newegg does not have sufficient fulfillment capacity or experiences a problem fulfilling orders in a timely manner or if certain products are out of stock, its customers may experience delays in receiving their orders, which could harm its reputation and its relationship with its customers.

Newegg's fulfillment infrastructure may be vulnerable to damage caused by fire, floods, power outages, telecommunications failures, break-ins, earthquakes, human error and other events. For example, its warehouse located in Indianapolis experienced a significant fire in January 2019, causing damage to its inventory. Its fulfillment infrastructure and processes may also contain undetected errors or design flaws that may cause its fulfillment operations to fail and materially impact its business and results of operations. If, for example, any of its warehouses were rendered incapable of operations, Newegg may be unable to fulfill any orders in areas that rely on that warehouse. The occurrence of any of the foregoing risks could have a material adverse effect on Newegg's business, prospects, financial condition and results of operations.

Newegg depends on its vendors to source sufficient quantities of merchandise on favorable terms. If Newegg fails to maintain strong vendor relationships or if its vendors are otherwise unable to supply products that meet its standards in a timely manner, its net sales and net income could suffer.

Newegg's contracts or arrangements with vendors generally do not guarantee the availability of merchandise or provide for the continuation of particular pricing or other practices. Newegg's vendors may not continue to sell their inventory to it on current terms or at all, and, if the terms are changed, Newegg may not be able to establish new supply relationships on similar or better terms. In most cases, Newegg's relationships with its vendors do not restrict them from selling their products through its competitors. Newegg competes with other retailers for favorable product allocations and vendor incentives from product manufacturers and distributors, including marketing dollars and volume-based sales incentive programs. Some of Newegg's competitors could enter into exclusive or favorable distribution arrangements for certain products with its vendors, which would deny Newegg complete or partial access to those products and marketing and promotional resources. In addition, some vendors whose products are offered on Newegg's online platforms also sell their products directly to customers. If Newegg is unable to develop and maintain relationships with vendors that permit it to obtain sufficient quantities of desirable merchandise on favorable terms, Newegg's business, financial condition and results of operations could be adversely impacted.

Newegg's relationship with any particular vendor is dependent on its sales of products manufactured or distributed by that vendor. For certain products, Newegg does not currently, and in the future may not be able to, meet the sales volumes or other requirements necessary to receive favorable treatment from the manufacturer of that product. As a result, Newegg may not receive favorable pricing, vendor incentives or other considerations from those vendors. During times of short supply for highly desirable products, Newegg may not receive adequate, or any, allocation of a popular product, leading to lost sales and customer dissatisfaction.

Certain products help create and maintain customer loyalty to the Newegg brand. Failing to maintain an adequate supply of these products could damage its ability to retain customers. Newegg currently does not carry the full product portfolio of, and in some cases does not carry any products of, certain well-known brands. As a result, consumers who are searching for those brands may not be able to purchase products from Newegg or purchase them at the most favorable prices, leading to potentially reduced net sales and net income.

Certain vendors provide a significant portion of Newegg's merchandise. In the United States and Canada, for the year ended December 31, 2020, ASI Corporation, an IT and CE product distributor, and Newegg's 10 largest suppliers (including ASI Corporation) accounted for approximately 12.8% and 70.6% of the merchandise Newegg purchased, respectively. Failure to maintain a positive relationship with these key suppliers could impact Newegg's ability to sell to customers the products they want.

Newegg's vendors' financial performance, liquidity and access to capital may be materially adversely affected by many factors, including but not limited to general economic factors, such as a continued slowdown in the U.S. or global economy or an uncertain economic outlook; political or financial instability; merchandise quality issues; product safety concerns; trade restrictions; work stoppages; tariffs; international trade war; foreign currency exchange rates; transportation capacity and costs; inflation; or outbreak of pandemics. These and other issues may affect their ability to maintain their inventories, production levels and/or product quality and could cause them to raise prices, lower production levels or cease their operations, all of which may in turn materially adversely affect Newegg's net sales and net income.

If Newegg fails to attract, retain and engage appropriately skilled personnel, including senior management and technology and fulfillment professionals, Newegg's business may be harmed.

Newegg's future success depends on its retention of executives. Competition for well-qualified and skilled employees is intense globally, and Newegg's future success also depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees, including, in particular, software engineers, data scientists and technology and fulfillment professionals. Newegg's continued ability to compete effectively depends on its ability to attract new employees and to retain and motivate existing employees. All of its senior management and key personnel are employees at will and, as a result, any of these employees could leave with little or no prior notice. If any member of its senior management team or other key employees leave Newegg, its ability to successfully operate its business and execute its business strategy could be adversely affected. Newegg may also have to incur significant costs in identifying, hiring, training and retaining replacements of departing employees.

Newegg's international sales and operations require access to international markets and are subject to applicable laws relating to trade, export and import controls and economic sanctions, the violation of which could adversely affect its operations.

Newegg must comply with all applicable U.S. export and import laws and regulations. Such laws and regulations include, but are not limited to, the Export Administration Act and the Export Administration Regulations. Newegg must also comply with U.S. sanctions laws and regulations, which are primarily administered by the U.S. Department of Treasury's Office of Foreign Assets Control, as well as other U.S. government agencies. U.S. sanctions generally prohibit transactions by U.S. persons, including Newegg, involving sanctioned countries, entities and persons, without U.S. government authorization (which will rarely be granted). Non-U.S. subsidiaries of U.S. companies are required to comply with U.S. sanctions against Cuba and Iran.

Violations of U.S. laws and regulations relating to trade, export and import controls and economic sanctions could result in significant civil and/or criminal penalties on Newegg or on its foreign subsidiaries, including fines, prohibitions on exporting and importing, prohibitions on receiving government contracts or other government assistance and other trade-related restrictions. U.S. enforcement of such laws and regulations continues to increase.

Newegg must also comply with applicable foreign laws relating to trade, export and import controls and economic sanctions. Newegg may not be aware of all of such laws applicable in the markets in which it does business, which subjects it to the risk of potential violations.

Newegg conducts marketing activities to help attract visitors to its online platforms, and if it is unable to attract these visitors or convert them into customers in a cost-effective manner, Newegg's business and results of operations could be harmed.

Newegg's success depends on its ability to attract visitors to its online platforms and convert them into customers in a cost-effective manner. Newegg relies on search engines, social media, shopping comparison sites and other affiliate networks to provide content, advertising banners and other links that direct visitors to its online platforms. As of December 31, 2020, approximately 36% of its website and mobile app visitors were referred to it through paid and unpaid search engine listings, shopping comparison sites and other affiliate networks that provide links to its online platforms. In particular, Newegg relies on search engines, such as Google, Microsoft Bing and Yahoo!, as important marketing channels. If search engines change their search engine algorithms periodically or penalize Newegg for non-compliance with their guidelines while using their algorithms, terms of service, or display and featuring of search results, or if competition increases for advertisements, Newegg may be unable to cost-effectively drive visitors to its websites and mobile apps. Newegg also sometimes pays these third parties to include or highlight its websites in their search results. If such third parties modify or terminate their relationship with Newegg or increase the price they charge to Newegg, if Newegg's competitors offer them greater fees for traffic, or if any free third-party platforms on which Newegg relies begin charging fees for listing or placement, Newegg's expenses could rise and traffic to its websites could decrease, resulting in harm to its operations.

Newegg's success also depends on its ability to convert its visitors to its websites and mobile apps into paying customers, a process which is partially reliant upon its ability to identify and purchase relevant keyword search terms, provide relevant content on its online platforms and effectively target its other marketing programs, such

as internet portal referrals, e-mail campaigns and affiliate programs. If Newegg is unable to attract visitors to its websites and mobile apps and convert them into customers cost-effectively, its business and financial results may be harmed.

Newegg is partially dependent on third parties to perform a number of its e-commerce functions. If such third parties are unwilling or unable to continue providing these services, Newegg's business could be harmed.

As of December 31, 2020, approximately 5.7% of Newegg's gross merchandise value, or GMV, was generated by the sale of products fulfilled through third parties. These third parties provide various services on Newegg's behalf, including inventory maintenance and order processing. Newegg has no effective means to ensure that these third parties will continue to perform these services to its satisfaction, in a manner satisfactory to its customers or on commercially reasonable terms. Newegg's customers may become dissatisfied and cancel their orders or decline to make future purchases if these third parties fail to deliver products on a timely basis. If Newegg's customers become dissatisfied with the services provided by these third parties, Newegg's reputation and brand could suffer.

If Newegg fails to manage its inventory effectively, its financial condition, results of operations and liquidity may be materially and adversely affected.

Newegg's scale and business model require it to manage a large volume of inventory effectively. As Newegg may continue expanding its product offerings, Newegg expects to include more SKUs in its inventory, which could make it more challenging for Newegg to manage its inventory effectively and put more pressure on its warehousing system.

Newegg purchases most of the merchandise that it sells directly to customers on its online platforms from manufacturers or distributors. Newegg assumes inventory damage, theft, obsolescence and price erosion risks for its inventory. These risks are especially significant as most of the merchandise sold on its online platforms is characterized by rapid technological change, obsolescence and price erosion. For the year ended December 31, 2020, Newegg recorded inventory write-offs or write-downs totaling $4.7 million, or 0.3% of its cost of goods sold. Newegg may sell obsolete or dated merchandise at a discount or loss. If there were unforeseen product developments or if vendors were to change their terms and conditions, Newegg's inventory risks could increase. Newegg also periodically takes advantage of cost savings associated with certain opportunistic bulk inventory purchases offered by its vendors. These bulk purchases increase Newegg's exposure to inventory obsolescence. Newegg's success depends on its ability to sell its inventory rapidly, purchase inventory at attractive prices relative to its resale value and manage customer returns and the shrinkage resulting from theft, loss and misrecording of inventory. If Newegg is unsuccessful in any of these areas, it may be forced to write down or write off substantial amounts of inventory, or sell it at a discount or loss, which could materially and adversely impact Newegg's business, financial condition and results of operations.

Newegg depends on its demand forecasts for various kinds of products to make purchase decisions and to manage its inventory. Newegg is exposed to inventory risks as a result of seasonality, new product launches, rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand, tastes and spending patterns, and other factors. While Newegg endeavors to accurately predict these trends and avoid overstocking or understocking products it sells, the demand for products can change significantly between the time inventory is ordered and the date of sale, and Newegg may be unable to sell products in sufficient quantities as it expects. Furthermore, Newegg may in the future open additional warehouses and duplicate part of the inventory for its direct sales business that is stored at its current warehouses to increase its overall fulfillment efficiency as it grows its business, which will also increase the inventory risks its direct sales business faces. Failure to effectively manage its inventory risk could have a material adverse effect on Newegg's business, financial condition and results of operations.

Newegg has incurred net loss in the past and may continue to experience losses in the future.

Newegg incurred a net loss of $17.0 million and $33.6 million in 2019 and 2018, respectively. We cannot assure you that Newegg will be able to generate net profits or positive cash flow from operating activities in the future. Newegg's ability to achieve and maintain profitability will depend in large part on its ability to, among other things, source and sell higher margin products, grow and diversify its supplier base, and optimize its cost structure. Newegg may not be able to achieve any of the above. As Newegg continues to grow and expand its business, its operating expenses may increase further. As a result of the foregoing, Newegg may incur net losses in the future.

If Newegg fails to adopt new technologies or adapt its websites, mobile apps and systems to changing customer requirements or emerging industry standards, its business may be materially and adversely affected.

To remain competitive, Newegg must continue to enhance and improve the responsiveness, functionality and features of its online platforms, including its websites and mobile apps. The internet and the e-commerce industry are characterized by rapid technological evolution, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices, and changes in customer requirements and preferences, any of which could render Newegg's existing technologies and systems obsolete. Newegg may be required to devote substantial resources to developing proprietary technologies or license technologies, enhancing its existing websites and mobile apps, developing new services and technology that address the increasingly sophisticated and varied needs of its current and prospective customers and adapting to technological advances and emerging industry and regulatory standards and practices in a cost-effective and timely manner. The development of proprietary technology entails significant technical and business risks. There can be no assurance that Newegg's efforts to develop proprietary technologies will succeed or that any technology licenses will be available on commercially reasonable terms. Substantial investments will be required to remain technologically competitive, and Newegg's failure to do so may harm its business and results of operations.

The seasonality of Newegg's business places increased strain on its operations.

Newegg historically experiences higher sales in the fourth quarter due to the holiday season. If Newegg does not stock or restock popular products in sufficient amounts such that it fails to meet customer demand, it could significantly affect its revenue and future growth. If Newegg overstocks products, Newegg may be required to take significant inventory markdowns or write-offs and incur commitment costs, which could reduce profitability. Newegg may experience an increase in its net shipping cost due to complimentary upgrades, split-shipments and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access its online platforms within a short period of time due to increased holiday demand, Newegg may experience system interruptions that make its online platforms unavailable or prevent it from efficiently fulfilling orders, which may reduce the volume of goods sold through its online platforms and the attractiveness of its products and services. In addition, Newegg may be unable to adequately staff its fulfillment and customer service capability during these peak periods.

As Newegg tends to experience higher sales in the fourth quarter, Newegg experiences an increase in its cash position at year-end, as compared to the first, second and third quarters when sales are lower. As of December 31 of each year, Newegg's cash, cash equivalents, and marketable securities balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). In anticipation of higher sales during the holiday season, Newegg typically begins building up inventory levels in the later part of the third quarter. As a result of this inventory build-up and faster inventory turnover during the fourth quarter, Newegg's accounts payable are typically at their highest levels at year-end. As sales begin to slow in the first and second quarters, inventory levels decrease, inventory turnover lengthens, and accounts payable and cash balances decrease as Newegg pays its vendors. The COVID-19 pandemic has resulted in an increased cash and accounts payable balances due to an increased demand in Newegg's products. Inventory levels increased and turned faster than normal as a result of increased sales.

The successful operation of Newegg's business depends upon the performance, reliability and security of the internet infrastructure in the countries where it operates.

Newegg's business depends on the performance, reliability and security of the telecommunications and internet infrastructure in the countries where it operates. Newegg has several servers located in China providing development, testing and quality control services. Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology of the People's Republic of China. In addition, the national networks in China are connected to the internet through state-owned international gateways, which are the only channels through which a domestic user can connect to the internet outside China. Newegg may face similar or other limitations in other countries in which it operates. Newegg may not have access to alternative networks in the event of disruptions, failures or other problems with the internet infrastructure in China or elsewhere. In addition, the internet infrastructure in the countries in which it operates may not support the demands associated with continued growth in internet usage.

The failure of telecommunications network operators to provide Newegg with the requisite bandwidth could also interfere with the speed and availability of Newegg's websites and mobile apps. If the prices that Newegg pays for telecommunications and internet services rise significantly, Newegg's gross margins could be adversely affected. In addition, if internet access fees or other charges to internet users increase, Newegg's user traffic may decrease, which in turn may significantly decrease its revenues.

If Newegg is unable to manage its growth or execute its strategies effectively, Newegg's business and prospects may be materially and adversely affected.

Newegg's success depends upon its ability to manage the growth of its operations effectively. Newegg anticipates expanding further as it pursues its growth strategies. Newegg's expansion increases the complexity of its business and places a significant strain on its management, operations, technical systems, financial resources and internal control over financial reporting functions. Newegg's current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage its future operations, especially as it employs personnel in several geographic locations. In addition, Newegg's growth will require it to improve its operational and financial systems, procedures and controls, successfully manage international operations and hire additional personnel. These efforts may not be successful, and Newegg may be unable to improve its systems, procedures and controls in a timely manner. Delays or problems associated with any of these initiatives could harm its business and operating results. These initiatives will also cause its operating expenses to increase. If Newegg fails to accurately estimate and assess its growth or fails to increase net sales to match its increased operating expenses, Newegg's financial condition and results of operations could suffer.

An adverse change in the vendor payment terms and conditions may have a material adverse effect on Newegg's business, financial condition and results of operations.

Newegg purchases its inventory from vendors on trade accounts typically requiring payment between 15 and 45 days after the date the inventory is shipped to Newegg. As of December 31, 2020, its accounts payable balance was approximately $241.5 million with 40 days of payables outstanding. Newegg's accounts payable balances as of December 31, 2020 represented 54.6% of its liabilities, temporary equity and stockholders' equity. An adverse change in its vendors' payment terms and conditions would significantly increase its working capital requirements and have a material adverse effect on Newegg's business, financial condition and results of operations.

Because many of the products that Newegg sells are manufactured abroad, Newegg may face delays, increased cost or quality control deficiencies in the importation of these products, which could reduce its net sales and profitability.

Many of the products that Newegg purchases for direct sale on its online platforms are manufactured in countries outside the United States. These imported products subject Newegg to the risk of changes in import duties or quotas, new restrictions on imports, work stoppages, delays in shipment, freight cost increases, product cost increases due to foreign currency fluctuations or revaluations and economic uncertainties (including the imposition of antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices) and instability in the political and economic environments of the countries in which the manufacturers of these products operate. If any of these or other factors were to cause a disruption of trade from these countries, Newegg may be unable to obtain sufficient quantities of these imported products to satisfy its requirements or its cost of obtaining such products may increase. Historically, instability in the political and economic environments of the countries in which Newegg's suppliers operate has not had a material adverse effect on its operations. However, the effect that future changes in economic or political conditions in the foreign countries where Newegg's supplying manufacturers are located may have on its operations cannot be predicted. Potential disruptions or delays in supply due to economic or political conditions in foreign countries could adversely affect Newegg's results of operations unless and until alternative supply arrangements are made.

Newegg may not be able to adequately protect its intellectual property rights.

Newegg relies on trademark and copyright law, trade secret protection and confidentiality or licensing agreements with employees, buyers, third-party sellers, brand partners and others to protect its proprietary rights. These steps may be inadequate, agreements may be violated or there may be inadequate remedies for a violation of such agreements. Newegg's competitors may independently develop equivalent proprietary information and rights or may

otherwise gain access to Newegg's trade secrets or proprietary information, which could affect Newegg's ability to compete in the market. There is no assurance that the steps that Newegg has taken will adequately protect its proprietary rights, especially in countries where the laws or enforcement of the laws may not protect its rights to the same extent or in the same way as in the United States.

In addition, third parties may infringe or misappropriate Newegg's proprietary rights, and Newegg could be required to enforce its intellectual property rights, which could require expenditure of significant financial and managerial resources. Newegg has registered and common law trademark rights in the United States and certain foreign jurisdictions, as well as pending trademark applications for a number of marks and associated domain names. Even if it obtains approval for such pending applications, the resulting registrations may not adequately cover its trademarks or protect it against infringement or dilution by others. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country or jurisdiction in which Newegg's products may be made available online, which may cause Newegg's business and operating results to suffer. In addition, Newegg may be unable to acquire or protect relevant domain names in the United States and in other countries. If Newegg is not able to acquire or protect its trademarks, domain names or other intellectual property, it may experience difficulties in achieving and maintaining brand recognition and customer loyalty.

Assertions, claims and allegations, even if not true, that Newegg has infringed or violated intellectual property rights could harm Newegg's business and reputation.

Third parties have, and likely will in the future, assert allegations and claims of intellectual property infringement against Newegg on the items or their descriptions listed on Newegg's websites and mobile apps. Any such claims, disputes or litigation, even if resolved in Newegg's favor or not true, could be time-consuming and costly to defend, and could divert its management's efforts from growing its business. Newegg has intellectual property complaint and take-down procedures in place to address communications alleging that items listed on online platforms, including the Newegg Marketplace, infringe third-party copyrights, trademarks or other intellectual property rights. Newegg follows these procedures to review complaints and relevant facts to determine the appropriate action, which may include removal of the item from its online platforms and, in certain cases, discontinuing its relationship with a Marketplace seller or brand partner who violates Newegg's policies. However, these rules and procedures may not effectively reduce or eliminate Newegg's liability. In particular, Newegg may be subject to civil or criminal liability for activities carried out, including products listed, by sellers or brands on its online platforms.

If any third parties prevail in their intellectual property rights claims against Newegg, Newegg may be required to pay significant licensing fees, damages and attorney's fees, and may even be liable for punitive damages if Newegg is found to have willfully infringed third parties' proprietary rights. Newegg may have to stop using certain technology or solutions and need to develop or acquire alternative, non-infringing technology or solutions, which could require significant time and resources. Newegg could even be required to obtain a license to use certain technologies, although such licenses may not be available on reasonable terms or at all, which may result in substantial payments and royalties and significantly increase its operating expenses. If Newegg cannot develop non-infringing technology or license the appropriate technology at commercially reasonable rates, an intellectual property claim successfully asserted against it could cause significant business interruptions in Newegg's operations, which could restrict Newegg's ability to compete effectively and have a material adverse effect on its financial condition and results of operations.

Newegg may be subject to product liability claims, which could be costly and time-consuming to defend.

The majority of the products sold on Newegg's online platforms are manufactured by third parties, and some of them may be defectively designed or manufactured. If any product Newegg sells were to cause physical injury or injury to property, an injured party could bring claims against Newegg as the retailer of the product. Furthermore, Newegg also offers IT components and peripherals under its private labels on its platforms or through other e-commerce platforms, such as eBay, which could potentially create more exposure for Newegg with respect to product liability than if Newegg simply acted as a retailer of third-party products. Newegg's insurance coverage may not be adequate against such product liability claims. If a successful claim were brought against Newegg in excess of its insurance coverage, it could adversely affect Newegg's financial condition and results of operations. Even unsuccessful claims could result in the expenditure of significant funds and management time in defending them and could have a negative impact on Newegg's reputation and business.

Some of Newegg's software and systems contain open source software, which may pose particular risks to Newegg's proprietary software and solutions.

Newegg has incorporated open source software code into some of its internal software and systems and expects to continue to use this open source software in the future. The licenses applicable to open source software typically require that the source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. From time to time, Newegg may face intellectual property infringement claims from third parties, demands for the release or license of the open source software or derivative works that Newegg developed using such software (which could include Newegg's proprietary source code) or claims that otherwise seek to enforce the terms of the applicable open source license. These claims could result in litigation and could require Newegg to purchase a costly license, publicly release the affected portions of Newegg's source code, be limited in the licensing of Newegg's technologies or cease offering the implicated solutions unless and until Newegg can re-engineer them to avoid infringement or change the use of the implicated open source software. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties, indemnities or other contractual protections with respect to the software (for example, non-infringement or functionality). Newegg's use of open source software may also present additional security risks because the source code for open source software is publicly available, which may make it easier for hackers and other third parties to determine how to breach Newegg's websites, mobile apps and systems that rely on open source software. Any of these risks could be difficult to eliminate or manage and, if not addressed, could have a material adverse effect on Newegg's business, financial condition and results of operations.

Newegg and its Marketplace sellers' pricing strategy may not meet customers' price expectations or result in net income.

Demand for Newegg's products is generally highly sensitive to price. Its pricing strategies have had, and may continue to have, a significant impact on its net sales and net income. Newegg often offers discounted prices, free or discounted shipping or bundled products as a means of attracting customers and encouraging repeat purchases. Such offers and discounts may reduce its margins. Moreover, Newegg's competitors' pricing and marketing strategies are beyond its control and can significantly impact the results of its pricing strategies. If Newegg fails to meet its customers' price expectations in any given period, or if its competitors decide to engage in aggressive pricing strategies, its business and results of operations would suffer.

In addition, under applicable federal and state unfair competition laws, including the California Consumer Legal Remedies Act, and U.S. Federal Trade Commission regulations, Newegg is required to accurately identify product offerings, not make misleading claims on its platforms, and use qualifying disclosures where and when appropriate. Newegg is particularly subject to the risks associated with its discounting pricing practices as a result of the aggressive judicial interpretations of deceptive pricing laws, particularly in California, which has led to numerous class action settlements by online and brick-mortar retailers over the past few years. For example, Newegg was named as the defendant in a putative class action accusing it of violating the False Advertising Law, the Unfair Competition Law and the Consumer Legal Remedies Act by using allegedly deceptive list prices with allegedly overstated discounts for its electronic products. While the trial court had sustained without leave to amend Newegg's demurrer to such lawsuit, in July 2018, a California appellate panel reversed the trial court's judgment and reinstated the action against Newegg. This matter is still pending as of the date of this proxy statement/prospectus. There can be no assurance that Newegg will be able to prevail in the foregoing action or that it will be able to settle the dispute on terms favorable to it. Any adverse outcome of the foregoing class action or other lawsuits challenging deceptive pricing against Newegg could have a material adverse effect on its reputation, business and financial condition.

Newegg does not control the pricing strategies of its Marketplace sellers, which could affect its net income and its ability to effectively compete on price with other e-commerce retailers and brick-and-mortar stores. Its Marketplace sellers may determine that they can more competitively price their products through other distribution channels and may choose such other channels instead of listing products on its Marketplace, which could adversely affect its business, financial condition, results of operations and prospects. Additionally, retailers and brands often employ different pricing based on the geographical location of consumers, which is accomplished online through geo-blocking that blocks a consumer's ability to access certain websites based on geography. Legislation in the European Union removed certain types of geo-blocking in the European Union. This could allow Newegg's

consumers registered in the European Union to access and make purchases through its Marketplace at the prices listed in different European geographies irrespective of their country of residence in Europe. This could adversely affect Newegg's business, financial condition, results of operations and prospects.

Newegg may incur additional costs due to tax assessments resulting from ongoing and future audits by tax authorities.

In the ordinary course of business, Newegg is subject to tax examinations by various governmental tax authorities. The global and diverse nature of Newegg's business means that there could be additional examinations by governmental tax authorities and the resolution of ongoing and other probable audits which could impose a future risk to the results of Newegg's business. For example, in February 2018, Newegg received from the Commonwealth of Massachusetts Department of Revenue a notice of intent to assess sales and use taxes relating to a prior tax period, which subsequently resulted in an assessment of $295,910.68, including penalties and interest. In May 2020, Newegg received from the Commonwealth of Massachusetts Department of Revenue another notice of assessment for sales and use taxes for additional prior tax periods in the amount of a total assessment of $2,721,369.77, including penalties and interest. Newegg has appealed these assessments and Newegg intends to vigorously protest the assessments. The outcome of the matter or the timing of such payment, if any, cannot be predicted at this time. However, the ultimate results, if unfavorable, could have a material impact on Newegg's consolidated financial position, cash flows, and results of operations.

Significant developments stemming from recent U.S. government actions and proposals concerning tariffs and other economic proposals could have a material adverse effect on Newegg.

As of December 31, 2020, approximately 61% of Newegg's products that were sold through its platforms were manufactured in China. Recent U.S. government actions are imposing greater restrictions and economic disincentives on international trade impacting imports and exports. The U.S. government has adopted changes, and may adopt further changes, to trade policy and in some cases, to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements. It has initiated the imposition of additional tariffs on certain foreign goods, including steel and aluminum, semiconductor manufacturing equipment and spare parts thereof. The government has amended export regulations regarding sales to companies on the U.S. Entity List. These changes prevent sales of foreign produced direct product of the US that is manufactured using controlled U.S.-origin equipment, technology, and software located outside the United States to companies on the U.S. Entity List.

Examples of recent actions are tariffs on steel and aluminum product imports announced by the U.S. Department of Commerce in March 2018, the scope of which increased on February 8, 2020, and a 25% tariff on certain products that originate in China announced by the United States Trade Representative, or USTR, in June 2018. The USTR also announced in June and July 2018 two additional supplemental lists of products that are subject to tariffs if the goods imported into the United States originate in China, which would increase the cost of imported products. These supplemental lists issued by the USTR added an additional 25% tariff on certain semiconductor equipment and parts originating in China that are sold by Newegg or used in its business in the United States. In August 2018, the second list was made effective with a 25% tariff and in September 2018 the third list was made effective with a 10% tariff, increasing to 25% in May 2019. A fourth list was proposed by USTR in May 2019 for all remaining items originating in China. A portion of the fourth list, was made effective September 1, 2019, with an additional tariff of 15%, reduced to 7.5% on February 14, 2020. The remainder of the fourth list was scheduled to have an additional tariff of 15% go into effect on December 15, 2019; however on December 13, 2019, the tariffs for the fourth list were suspended after the U.S. announced it would enter into a trade agreement with China (which we refer to as the Phase 1 Agreement). Although the Phase 1 Agreement was signed January 15, 2020, implementation has been delayed due to COVID-19; however, Phase 1 will have no impact on the tariffs imposed on Newegg's products. A Phase 2 Agreement has not been announced as of date of this proxy statement/prospectus. Any increase in the cost of importing such goods and parts could decrease Newegg's margins, reduce the competitiveness of its products, or inhibit its ability to sell products or purchase necessary parts, which could have a material adverse effect on its business results, results of operations, or financial condition.

On April 28, 2020 the U.S. Department of Commerce issued new rules that (1) expand the definition of military end use and (2) eliminate the applicability of certain license exceptions for exports to countries on Country Group D of Supplement No. 1 to part 740 of the Export Administration Regulations. These changes expand export license requirements for U.S. companies to sell certain items to companies in China that have operations that

could support military end uses, even if the items sold by the U.S. companies are for civilian end use and they reduce the applicability of license exceptions for exports to those countries listed on Country Group D, including China. Additionally, amendments have been made to General Prohibition Three (Foreign-Produced Direct Product Rule) and the Entity List, the most recent of which was effective August 17, 2020. These amendments expand the restrictions on the sale of foreign-made goods that are based on U.S. technology, and software located outside the United States to companies on the U.S. Entity List, and regulate the use of U.S. origin semiconductor manufacturing equipment that produces semiconductor devices for companies on the U.S. Entity List. The rule changes for export controls may reduce or impair customers' ability to sell products internationally, which could in turn decrease the demand for Newegg's products and have a material adverse effect on its revenues and profitability. At this time, the additional proposed rule changes are not anticipated to impact Newegg's sales of non-U.S. products; however, any unpredicted rule changes could adversely affect its business results, operations, or financial condition.

Changes in U.S. trade policy could result in one or more U.S. trading partners adopting responsive trade policy making it more difficult or costly for Newegg s to export its products to those countries. As indicated above, these measures could also result in increased costs for goods imported into the U.S. This in turn could require Newegg to increase prices to customers which may reduce demand, or, if it is unable to increase prices, result in lowering its margin on goods and services sold. To the extent that trade tariffs and other restrictions imposed by the U.S. increase the price of semiconductor equipment and related parts imported into the U.S., the cost of materials may be adversely affected and the demand from customers for products and services may be diminished, which could adversely affect Newegg's revenues and profitability.

Newegg cannot predict future trade policy, the terms of any renegotiated trade agreements or additional imposed tariffs and their impact on Newegg's business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for Newegg's products, its costs, its customers, its suppliers, and the U.S. economy, which in turn could adversely impact its business, financial condition and results of operations.

Changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where it currently develops and sells products, and any negative sentiments towards the United States as a result of such changes, could adversely affect Newegg's business. In addition, negative sentiments towards the United States among non-U.S. customers and among non-U.S. employees or prospective employees could adversely affect sales or hiring and retention, respectively.

Employment laws in some of the countries in which Newegg operates are relatively stringent.

As of December 31, 2020, Newegg had 1,789 full-time employees, of whom approximately 55% were located in the United States, 37% in China, 7% in Taiwan, 2% in Canada and 0% in other countries and regions. In some of the countries in which it operates, employment laws may grant significant job protection to employees, including rights on termination of employment and setting maximum number of hours and days per week that a particular employee is permitted to work. In addition, in certain countries in which it operates, Newegg is or may be required to consult and seek the advice of employee representatives and/or unions. These laws, coupled with the requirement to consult with any relevant employee representatives and unions, could impact Newegg's ability to react to market changes and the needs of its business.

Newegg and certain of its subsidiaries are parties to a revolving credit agreement, which contains a number of covenants that may restrict Newegg's current and future operations and could adversely affect Newegg's ability to execute business needs.

Newegg and certain of its subsidiaries have entered into a credit agreement with financial institutions which contain a number of covenants that limit its ability and its subsidiaries' ability to, among other things, incur indebtedness, create liens, make investments, merge with other companies, dispose of its assets, prepay other indebtedness and make dividends and other distributions. The obligations under the credit agreements are also guaranteed by assets of Newegg or those of Newegg's subsidiaries. The terms of the credit agreements may restrict Newegg's current and future operations and could adversely affect Newegg's ability to finance its future operations or capital needs or to execute business strategies in the means or manner desired. In addition, complying with these covenants may make

it more difficult for it to successfully execute its business strategy, invest in its growth strategy and compete against companies who are not subject to such restrictions. The credit agreements also contain financial covenants that require Newegg to maintain certain minimum financial ratios and maintain an operating banking relationship with the financial institutions. Although Newegg has been in compliance with the financial covenants, it cannot guarantee that it will continue to be able to generate sufficient cash flow or sales to meet the financial covenants or pay the principal or interest under the credit agreements.

If Newegg is unable to comply with its payment requirements, the financial institutions may accelerate Newegg's obligations under the credit agreement and foreclose upon the collateral, or it may be forced to sell assets, restructure its indebtedness or seek additional equity capital, which would dilute shareholders' interests. If Newegg fails to comply with any covenant it could result in an event of default under the agreement and the lenders could make the entire debt immediately due and payable. If this occurs, Newegg might not be able to repay the debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be on terms that are acceptable to Newegg.

Risks Related to Ownership of our Common Shares

If we fail to maintain compliance with NASDAQ Listing Rules, we may be delisted from the NASDAQ Capital Market, which would result in a limited public market for trading our shares and make obtaining future debt or equity financing more difficult for us.

Our Class A common shares are traded and listed on the NASDAQ Capital Market under the symbol "LLIT." On September 11, 2019, we received a notification letter from the NASDAQ Listing Qualifications Staff of NASDAQ notifying us that the minimum bid price per share for our Class A common shares had been below $1.00 for a period of 30 consecutive business days and we therefore no longer met the minimum bid price requirements set forth in NASDAQ Listing Rule 5550(a)(2). We were granted a compliance period of 180 days, or until March 9, 2020 to regain compliance.

On January 2, 2020, we received another notification letter from the NASDAQ Listing Qualifications Staff notifying us that we no longer complied with the minimum of $2.5 million in stockholders' equity for continued listing on the NASDAQ Capital Market under NASDAQ's Listing Rule 5550(b)(1) and that we also did not comply with either of the two alternative standards of Listing Rule 5550(b), the market value standard and the net income standard. We thereafter submitted a plan to regain compliance with NASDAQ's applicable listing standards. On March 10, 2020, in consideration of our three financings during the first quarter of 2020, from which we received gross proceeds of approximately $8.08 million, the NASDAQ Listing Qualifications Staff determined that we complied with the stockholders' equity requirement set forth in Listing Rule 5550(b)(1). On that date, we met all applicable requirements for initial listing on the NASDAQ Capital Market, other than the minimum bid price requirement. The NASDAQ Listing Qualifications Staff recognized our intention of curing the minimum bid price deficiency by effecting a reverse stock split, and granted a second compliance period of 180 days, or until September 8, 2020, to regain compliance. The second compliance period was thereafter extended to November 20, 2020 by NASDAQ per SR-NASDAQ-2020-021. On October 21, 2020, we effectuated a share combination of our common shares at a ratio of one-for-eight in order to increase the per share trading price of our Class A common shares to satisfy the $1.00 minimum bid price requirement. We regained compliance with the minimum bid price rule on November 10, 2020.

However, there is no assurance that we will be able to continue to maintain our compliance with the NASDAQ continued listing requirements. If we fail to do so, our Class A common shares may lose their status on NASDAQ Capital Market and they would likely be traded on the over-the-counter markets, including the Pink Sheets market. As a result, selling our common shares could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts' coverage of us may be reduced. In addition, in the event our common shares are delisted, broker dealers would bear certain regulatory burdens which may discourage broker dealers from effecting transactions in our common shares and further limit the liquidity of our shares. These factors could result in lower prices and larger spreads in the bid and ask prices for our common shares. Such delisting from NASDAQ and continued or further declines in our common share price could also greatly impair our ability to raise additional necessary capital through equity or debt financing and could significantly increase the ownership dilution to shareholders caused by our issuing equity in financing or other transactions.

An active trading market for our common shares may not develop and the trading price for the common shares may fluctuate significantly.

It is a closing condition to merger that our common shares continue to list on NASDAQ. The post-merger entity will be required to meet the initial listing standards of NASDAQ, which are generally more stringent than NASDAQ's continued listing standards. We may not be able to meet those initial listing requirements. Even if our common shares are approved for listing on NASDAQ upon completion of the merger, we cannot assure you that a liquid public market for our common shares will develop. If an active public market for our common shares does not develop, the market price and liquidity of our common shares may be materially and adversely affected.

The trading price of the common shares is likely to be volatile and could fluctuate widely due to multiple factors, some of which are beyond our control.

The market price of our common shares is volatile, and this volatility may continue. This may happen because of broad market and industry factors. In addition to market and industry factors, the price and trading volume for the common shares may be highly volatile due to other factors, including the following:

- variations in our revenues, operating costs and expenses, earnings, and cash flow;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements about our earnings that are not in line with analysts' expectations;
- announcements of new products and services by us or our competitors;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our shareholders, affiliates, directors, officers or employees, our product offerings, our business model, or our industry;
- announcements of new regulations, rules or policies relevant for our business;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which the common shares will trade.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

If we were delisted from NASDAQ, we may become subject to the trading complications experienced by "Penny Stocks" in the over-the-counter market.

Delisting from NASDAQ may cause our common shares to become subject to the SEC's "penny stock" rules. The SEC generally defines a penny stock as an equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. One such exemption is to be listed on NASDAQ. Therefore, if we were to be delisted from NASDAQ, our common shares could become subject to the SEC's "penny stock" rules. These rules require, among other things, that any broker engaging in a purchase or sale of our securities provide its customers with: (i) a risk disclosure document, (ii) disclosure of market quotations, if any, (iii) disclosure of the compensation of the broker and its salespersons in the transaction, and (iv) monthly

account statements showing the market values of our securities held in the customer's accounts. A broker would be required to provide the bid and offer quotations and compensation information before effecting the transaction. This information must be contained on the customer's confirmation. Generally, brokers are less willing to effect transactions in penny stocks due to these additional delivery requirements. These requirements may make it more difficult for shareholders to purchase or sell our common shares. Since the broker, not us, prepares this information, we would not be able to assure that such information is accurate, complete or current.

We are a "controlled company" within the meaning of the NASDAQ rules and, as a result, qualify for exemptions from certain corporate governance requirements. You will not have the same protections afforded to shareholders of companies that are subject to such requirements.

Currently, and after completion of the merger, Hangzhou Lianluo, Digital Grid and their affiliates are and will continue to control a majority of the voting power of our outstanding common shares. As a result, we will continue to be a "controlled company" within the meaning of NASDAQ's corporate governance standards. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company." For so long as we remain a controlled company under this definition, we are permitted to elect to rely on certain exemptions from corporate governance rules, including:

- an exemption from the rule that a majority of our board of directors must be independent directors;
- an exemption from the rule that the compensation of our chief executive officer must be determined or recommended solely by independent directors; and
- an exemption from the rule that our director nominees must be selected or recommended solely by independent directors.

As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our A common shares, the market price for our common shares and trading volume could decline.

The trading market for our common shares will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our common shares, the market price for our common shares would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume for our common shares to decline.

Techniques employed by short sellers may drive down the market price of our common shares.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions and allegations regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks appear to have, in the past, led to selling of our shares in the market. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. We may not be able defend against any such short seller attacks, and may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality.

Because we do not expect to pay dividends in the foreseeable future, you must rely on a price appreciation of our common shares for a return on your investment.

We currently intend to retain most, if not all, of our funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our common shares as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to our amended and restated memorandum and articles of association and certain requirements of BVI law. Under BVI law, a BVI company may pay a dividend provided the directors are satisfied that immediately following the dividend the value of the company's assets will exceed its liabilities and the company will be able to pay its debts as they fall due. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions, and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our common shares will likely depend entirely upon any future price appreciation of our common shares. There is no guarantee that our common shares will appreciate in value or even maintain the price at which you purchased our common shares. You may not realize a return on your investment in our common shares and you may even lose your entire investment in our common shares. Additionally, because we are a holding company, our ability to pay dividends on our common shares may be limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions that are imposed under the terms of the agreements governing our subsidiaries' loan and credit facilities. There is no assurance that future dividends will be paid, and if dividends are paid, there is no assurance with respect to the amount of such dividend.

Investors may have difficulty enforcing judgments against us, our directors and management.

We are incorporated under the laws of the BVI and many of our directors and officers reside outside the United States. Moreover, many of these persons do not have significant assets in the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon these persons, or to recover against us or them on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws.

The courts of the BVI would not automatically enforce judgments of U.S. courts obtained in actions against us or our directors and officers, or some of the experts named herein, predicated upon the civil liability provisions of the U.S. federal securities laws, or entertain actions brought in the BVI against us or such persons predicated solely upon U.S. federal securities laws. Further, there is no treaty in effect between the United States and the BVI providing for the enforcement of judgments of U.S. courts in civil and commercial matters, and there are grounds upon which BVI courts may decline to enforce the judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including remedies available under the U.S. federal securities laws, may not be allowed in the BVI courts if contrary to public policy in the BVI. Because judgments of U.S. courts are not automatically enforceable in the BVI, it may be difficult for you to recover against us or our directors and officers based upon such judgments.

In addition, under PRC law, a foreign judgment, which does not otherwise violate basic legal principles, state sovereignty, safety or social public interest, may be recognized and enforced by a PRC court, based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. As currently there exists no treaty or other form of reciprocity between China and the U.S. governing the recognition and enforcement of judgments, including those predicated upon the liability provisions of the U.S. federal securities laws, there is uncertainty whether and on what basis a PRC court would enforce judgments rendered by United States courts.

Certain types of class or derivative actions generally available under U.S. law may not be available as a result of the fact that we are incorporated in the BVI. As a result, the rights of shareholders may be limited.

Shareholders of BVI companies may not have standing to initiate a shareholder derivative action in a court of the United States. The BVI courts are also unlikely to recognize or enforce against us judgments of courts in the United States based on certain liability provisions of U.S. securities law or to impose liabilities against us, in original actions brought in the BVI, based on certain liability provisions of U.S. securities laws that are penal in nature.

You may have more difficulty protecting your interests than you would as a shareholder of a U.S. corporation.

Our corporate affairs will be governed by the provisions of our amended and restated memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable BVI law. The rights of shareholders and the fiduciary responsibilities of our directors and officers under BVI law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the United States, and some states (such as Delaware) have more fully developed and judicially interpreted bodies of corporate law.

These rights and responsibilities are to a large extent governed by the British Virgin Island Business Companies Act, 2004 as amended from time to time, or the BVI Act, and the common law of the BVI. The common law of the BVI is derived in part from judicial precedent in the BVI as well as from English common law, which has persuasive, but not binding, authority on a court in the BVI. In addition, BVI law does not make a distinction between public and private companies and some of the protections and safeguards (such as statutory pre-emption rights, save to the extent expressly provided for in the memorandum and articles of association) that investors may expect to find in relation to a public company are not provided for under BVI law.

There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, the BVI regulations governing the securities of BVI companies may not be as extensive as those in effect in the United States, and the BVI law and regulations regarding corporate governance matters may not be as protective of our shareholders as state corporation laws in the United States. Therefore, you may have more difficulty protecting your interests in connection with actions taken by our directors and officers or our principal shareholders than you would as a shareholder of a corporation incorporated in the United States.

The laws of BVI provide limited protections for our shareholders, so our shareholders will not have the same options as to recourse in comparison to the United States if the shareholders are dissatisfied with the conduct of our affairs.

Under the laws of the BVI there is limited statutory protection of our shareholders other than the provisions of the BVI Act dealing with shareholder remedies. The principal protections under BVI statutory law are derivative actions, actions brought by one or more shareholders for relief from unfair prejudice, oppression and unfair discrimination and/or to enforce the BVI Act or the memorandum and articles of association. Shareholders are entitled to have the affairs of the company conducted in accordance with the BVI Act and the memorandum and articles of association, and are entitled to payment of the fair value of their respective shares upon dissenting from certain enumerated corporate transactions.

There are common law rights for the protection of shareholders that may be invoked, largely dependent on English company law, since the common law of the BVI is limited. Under the general rule pursuant to English company law known as the rule in Foss v. Harbottle, a court will generally refuse to interfere with the management of a company at the insistence of a minority of its shareholders who express dissatisfaction with the conduct of the company's affairs by the majority or the board of directors. However, every shareholder is entitled to seek to have the affairs of the company conducted properly according to law and the constitutional documents of the company. As such, if those who control the company have persistently disregarded the requirements of company law or the provisions of the company's memorandum and articles of association, then the courts may grant relief. Generally, the areas in which the courts will intervene are the following: (i) a company is acting or proposing to act illegally or beyond the scope of its authority; (ii) the act complained of, although not beyond the scope of the authority, could only be effected if duly authorized by more than the number of votes which have actually been obtained; (iii) the individual rights of the plaintiff shareholder have been infringed or are about to be infringed; or (iv) those who control the company are perpetrating a "fraud on the minority."

These rights may be more limited than the rights afforded to our shareholders under the laws of states in the United States.

Other than as set forth in the BVI Act, shareholders of BVI companies like us have no general rights under BVI law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders, other than as set forth in the BVI Act. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

As a company incorporated in the BVI, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from NASDAQ corporate governance listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with NASDAQ's corporate governance listing standards.

As a BVI company listed on the NASDAQ Capital Market, we are subject to NASDAQ's corporate governance listing standards. However, NASDAQ rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the BVI, which is our home country, may differ significantly from the NASDAQ corporate governance listing standards. After the completion of the merger, we intend to follow some or all BVI corporate governance practices in lieu of the corporate governance requirements of NASDAQ that listed companies must have for as long as we qualify as a foreign private issuer.

For instance, we are not required to:

- have a majority of the board be independent (although all of the members of the audit committee must be independent under the Exchange Act);
- have a compensation committee and a nominating committee to be comprised solely of independent directors; and
- hold an annual meeting of shareholders no later than one year after the end of the Company's fiscal year-end.

To the extent we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would enjoy under NASDAQ's corporate governance listing standards applicable to U.S. domestic issuers.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their share ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the rules under Regulation FD governing selective disclosure rules of material nonpublic information.

We are and will continue to be required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, after the completion of merger, we intend to publish our results on a semi-annual basis as press releases, distributed pursuant to the rules and regulations of NASDAQ. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

THE COMPANIES

Lianluo Smart Limited

The Company, through its wholly owned Chinese subsidiaries, has been engaged in the medical device business, currently focusing on the development, production and marketing of sleep respiratory analysis system in China.

The Company has developed and distributed medical devices, with a focus on sleep respiratory solutions for OSAS, since 2010. The Company provides users with medical grade detection and monitoring, long-distance treatment and integration solutions of professional rehabilitation. Since 2018, the Company has been providing examination services to hospitals and medical centers through its proprietary medical wearable devices, and doctors are able to refer to examination results provided by such devices in making diagnoses regarding OSAS.

The Company was incorporated pursuant to the laws of the BVI on July 22, 2003 under the name "De-Haier Medical Systems Limited." It changed its name to "Lianluo Smart Limited" on November 21, 2016. As a holding company, the Company does not conduct any operations and instead relies on Lianluo Connection, and prior to August 2020, Beijing Dehaier, to operate in China.

The Company's Class A common shares are listed on the NASDAQ Capital Market under the symbol "LLIT." The Company's principal executive offices are located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, People's Republic of China, and its telephone number is +86-10-89788107.

On October 21, 2020, we completed a share combination of our common shares at a ratio of one-for-eight, which decreased our outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and our outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares. This share combination also decreased our authorized shares to 6,250,000 common shares of par value of $0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares. Accordingly, except as otherwise indicated, all share and per share information contained in this proxy statement/prospectus has been restated to retroactively show the effect of this share combination.

See "Information about the Company" and "Management Discussion and Analysis of Financial Condition and Results of Operations for the Company" for important business and financial information regarding the Company.

Lightning Delaware Sub, Inc.

Merger Sub was formed in the State of Delaware on September 23, 2020 and is a wholly owned subsidiary of the Company. Merger Sub was formed solely for the purpose of completing the merger. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the merger agreement and the merger.

Merger Sub is a privately-held corporation and its securities do not trade on any marketplace. The principal executive offices of Merger Sub are located at c/o the Company, Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, People's Republic of China, and its telephone number is +86-10-89788107.

Newegg Inc.

Newegg is a tech-focused e-commerce company in North America, and ranked second after Best Buy as the global top electronics online marketplace according to Web Retailer's report, as measured by 32.4 million visits per month in 2019. Through newegg.com and other online platforms, Newegg operates a direct sales and marketplace models for IT computer components, consumer electronics, entertainment, smart home and gaming products and provides certain third party logistics services globally.

Newegg is a privately-held corporation and its securities do not trade on any marketplace. The principal executive offices of Newegg are located at 17560 Rowland Street, City of Industry, CA 91748, and its telephone number is 626-271-9700. Newegg maintains a website at *www.newegg.com*. Information on Newegg's website is not incorporated by reference into or otherwise part of this proxy statement/prospectus.

See "Information about Newegg" and "Management Discussion and Analysis of Financial Condition and Results of Operations for Newegg" for important business and financial information regarding Newegg.

SPECIAL MEETING OF SHAREHOLDERS

We are providing this proxy statement/prospectus to our shareholders in connection with the solicitation of proxies to be voted at the special meeting (or any adjournment or postponement of the special meeting).

Date, Time and Location

Together with this proxy statement/prospectus, we are also sending shareholders a notice of the special meeting and a form of proxy card that is solicited by our board of directors for use at the special meeting to be held on [ ], 2021 at 10:00 a.m., local time, at our offices located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing, 102200, People's Republic of China, and any adjournments or postponements of the special meeting.

Only shareholders or their proxy holders may attend the special meeting.

Purpose

At the special meeting, shareholders will be asked to consider and vote on the following proposals:

- to adopt the merger agreement (we refer to this proposal as the merger proposal);
- to adopt the disposition agreement (we refer to this proposal as the disposition proposal);
- to approve the redesignation of all issued and unissued Class A common shares of par value of $0.021848 each and Class B common shares of par value of $0.021848 each into common shares of par value of $0.021848 each on a one to one basis, thus eliminating the Company's dual class structure (we refer to this proposal as the redesignation proposal);
- to approve a share combination of our issued and outstanding common shares by a ratio of not less than one-for-two and not more than one-for-fifty at any time no later than June 30, 2021, with the exact ratio to be set at a whole number within this range, as determined by our board of directors in its sole discretion (we refer to this proposal as the share combination proposal);
- to approve an increase of the number of common shares that the Company is authorized to an unlimited number of common shares (we refer to this proposal as the share increase proposal);
- to approve a change of the name of the Company to "Newegg Commerce, Inc." (we refer to this proposal as the name change proposal);
- to approve an amendment and restatement of our current amended and restated memorandum and articles of association to effect the redesignation proposal, the share combination proposal, the share increase proposal and the name change proposal, as well as certain other amendments described in this proxy statement/prospectus (we refer to this proposal as the charter amendment proposal); and
- to approve the adjournment of the special meeting if necessary to solicit additional proxies if there are not sufficient votes to approve the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal or the charter amendment proposal at the time of the special meeting, or any adjournment or postponement thereof (we refer to this proposal as the adjournment proposal).

Under our memorandum and articles of association, the business to be conducted at the special meeting will be limited to the proposals set forth in the notice to shareholders provided with this proxy statement/prospectus.

Recommendations of Board of Directors

Each of the special committee and our board of directors unanimously recommends that shareholders vote "FOR" the merger proposal, "FOR" the disposition proposal, "FOR" the redesignation proposal, "FOR" the share combination proposal, "FOR" the share increase proposal, "FOR" the name change proposal, "FOR" the charter amendment proposal and "FOR" the adjournment proposal.

Record Date; Outstanding Shares; Shareholders Entitled to Vote

Our board of directors has fixed the close of business on March 26, 2021 as the record date for determination of the shareholders entitled to vote at the special meeting, or any adjournment or postponement thereof. Only shareholders of record at the record date are entitled to receive notice of, and to vote at, the special meeting, or any adjournment or postponement thereof. As of the close of business on the record date, there were 3,465,683 Class A common shares and 1,388,888 Class B common shares outstanding and entitled to vote at the special meeting. Each Class A common share is entitled to one vote per share and each Class B common share is entitled to ten votes per share.

Quorum

The presence at the commencement of the special meeting, in person or by proxy, of not less than 50% of the votes of the common shares issued and outstanding and entitled to vote constitutes a quorum for the special meeting. Abstentions will be deemed present at the special meeting for the purpose of determining the presence of a quorum. Shares held in "street name" with respect to which the beneficial owner fails to give voting instructions to the broker, bank or other nominee holder of record will not be deemed present at the special meeting for the purpose of determining the presence of a quorum.

Shares held in "street name" with respect to which the beneficial owner fails to give voting instructions to the broker, bank or other nominee holder of record on any of the proposals to be voted on at the special meeting, and shares with respect to which the beneficial owner otherwise fails to vote, will not be deemed present at the special meeting for the purpose of determining the presence of a quorum. Accordingly, we encourage you to provide voting instructions to your broker, whether or not you plan to attend the special meeting.

Required Vote

Assuming that a quorum is present, the merger agreement requires the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of the votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo in order to approve the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal and the charter amendment proposal. In addition, assuming that a quorum is present, approval of the redesignation proposal also requires the affirmative vote of a majority of the issued and outstanding Class B common shares entitled to vote and voting on that proposal at the special meeting. The affirmative vote of a majority of the votes cast at the special meeting is required to approve the adjournment proposal.

Share Ownership of and Voting by Directors and Executive Officers

At the record date for the special meeting (the close of business on March 26, 2021), our directors and executive officers and their affiliates did not beneficially own any common shares of the Company.

Support Agreements

In conjunction with the merger agreement, Hangzhou Lianluo and its affiliate, Hyperfinite Galaxy Holding Limited, entered into a Support Agreement dated as of October 23, 2020 pursuant to which such shareholders agreed to vote in favor of the each of the proposals described in this proxy statement/prospectus. Hangzhou Lianluo is our controlling shareholder, and is controlled by Mr. Zhitao He, our former Chairman of Board of Directors and former Chief Executive Officer. Hyperfinite Galaxy Holding Limited is also controlled by Mr. He. Collectively, Hangzhou Lianluo and Hyperfinite Galaxy Holding Limited have voting control over 58,937 outstanding Class A common shares and 1,388,888 outstanding Class B common shares, which collectively comprise over 80.4% of the voting power of our outstanding common shares as of the record date.

Mr. Ping Chen, our former Chief Executive Officer and board member, also entered into a similar Support Agreement. Mr. Chen holds 201,692 outstanding Class A common shares, which represents approximately 5.9% of the outstanding voting power which is not controlled by Hangzhou Lianluo as of the record date. Mr. Chen also holds options exercisable for an additional 65,733 Class A common shares at exercise prices ranging from $11.60 to $42.48 per share.

Voting of Shares

Via the Internet or by Telephone

If you hold shares directly in your name as a shareholder of record, you may vote via the Internet or by telephone in accordance with the instructions on your proxy card. In order to submit a proxy to vote via the Internet or by telephone, you will need the control number on your proxy card (which is unique to each shareholder to ensure all voting instructions are genuine and to prevent duplicate voting). Votes may be submitted via the Internet or by telephone 24 hours a day, seven days a week, and must be received by 10:00 a.m. (Eastern Time) on [ ], 2021.

If you hold shares in "street name," meaning through a broker, bank or other nominee holder of record, you may vote via the Internet only if Internet voting is made available by your broker, bank or other nominee holder of record. Please follow the voting instructions provided by your broker, bank or other nominee holder of record with these materials.

By Mail

If you hold shares directly in your name as a shareholder of record, you may submit a proxy card to vote your shares by mail. You will need to complete, sign and date your proxy card and return it using the postage-paid return envelope provided. Your proxy card must be received no later than the close of business on [ ], 2021.

If you hold shares in "street name," meaning through a broker, bank or other nominee holder of record, in order to provide voting instructions by mail, you will need to complete, sign and date the voting instruction form provided by your broker, bank or other nominee holder of record with these materials and return it in the postage-paid return envelope provided. Your broker, bank or other nominee holder of record must receive your voting instruction form in sufficient time to vote your shares.

In Person

If you hold shares directly in your name as a shareholder of record, you may vote in person at the special meeting. Shareholders of record also may be represented by another person at the special meeting by executing a proper proxy designating that person and having that proper proxy be presented to the judge of election with the applicable ballot at the special meeting.

When a shareholder of record submits a proxy via the Internet or by telephone, his or her proxy is recorded immediately. You are encouraged to register your vote via the Internet or by telephone whenever possible. If you submit a proxy via the Internet or by telephone, please do not return your proxy card by mail. If you attend the meeting, you may also vote in person. Any votes that you previously submitted — whether via the Internet or by telephone — will be revoked and superseded by any vote that you cast at the special meeting. Your attendance at the special meeting alone will not revoke any proxy previously given.

If you hold shares in "street name" through a broker, bank or other nominee holder of record, you must obtain a proxy, executed in your favor, from the bank or broker to be able to vote in person at the special meeting. To request a proxy, please contact your broker, bank or other nominee holder of record.

Whether you vote via the Internet, by telephone or mail, or in person, if your shares are held in an account at a broker, bank or other nominee holder of record (i.e., in "street name"), you must instruct the broker, bank or other nominee holder of record on how to vote your shares. Your broker, bank or other nominee holder of record will vote your shares only if you provide instructions on how to vote by filling out the voting instruction form sent to you by your broker, bank or other nominee holder of record with this proxy statement/prospectus. Brokers, banks and other nominee holders of record who hold shares in "street name" typically have the authority to vote in their discretion on "routine" proposals when they have not received instructions on how to vote from the beneficial owner. However, brokers, banks and other nominee holders of record typically are not allowed to exercise their voting discretion on matters that are "non-routine" without specific instructions on how to vote from the beneficial owner. Under the current rules of the NYSE, all proposals to be considered at the special meeting as described in this proxy statement/prospectus are considered non-routine. Therefore brokers, banks and other nominee holders of record do not have discretionary authority to vote on these proposals.

All shares represented by each properly completed and valid proxy received before or at the special meeting will be voted in accordance with the instructions given in the proxy. If a shareholder signs a proxy card and returns it without giving instructions for the voting on any proposal, the shares represented by that proxy card will be voted "FOR" each proposal at the time of the special meeting.

Your vote is very important, regardless of the number of shares you own. Whether or not you expect to attend the special meeting in person, please vote or otherwise submit a proxy to vote your shares as promptly as possible so that your shares may be represented and voted at the special meeting. If your shares are held in the name of a bank, broker or other nominee holder of record, please follow the instructions on the voting instruction form furnished to you by such record holder.

Revocability of Proxies; Changing Your Vote

You may revoke your proxy or change your vote at any time before the closing of the polls at the special meeting. If you are a shareholder of record at the record date (the close of business on March 26, 2021), you can revoke your proxy or change your vote by:

- sending a signed notice stating that you revoke your proxy to us that bears a date later than the date of the proxy you want to revoke and is received prior to the special meeting;
- submitting a valid, later-dated proxy via the Internet or by telephone before 10:00 a.m. (Eastern Time) on [ ], 2021, or by mail that is received prior to the special meeting; or
- attending the special meeting (or, if the special meeting is adjourned or postponed, attending the adjourned or postponed meeting) and voting in person, which automatically will cancel any proxy previously given, or revoking your proxy in person, but your attendance alone will not revoke any proxy previously given.

If you hold your shares in "street name" through a broker, bank or other nominee holder of record, you must contact your brokerage firm, bank or other nominee holder of record to change your vote or obtain a written legal proxy to vote your shares if you wish to cast your vote in person at the special meeting.

Solicitation of Proxies; Expenses of Solicitation

This proxy statement/prospectus is being provided to holders of our common shares in connection with the solicitation of proxies by our board of directors to be voted at the special meeting and at any adjournments or postponements of the special meeting. We will bear all costs and expenses in connection with the solicitation of proxies, including the costs of filing, printing and mailing this proxy statement/prospectus for the special meeting.

In addition to solicitation by mail, directors, officers and employees of the Company or Newegg or their respective subsidiaries may solicit proxies from our shareholders by telephone, email, personal interview or other means. We currently do not expect to incur any costs beyond those customarily expended for a solicitation of proxies. None of our or Newegg's directors, officers and employees will receive additional compensation for their solicitation activities but may be reimbursed for reasonable out-of-pocket expenses incurred by them in connection with the solicitation. Brokers, dealers, commercial banks, trust companies, fiduciaries, custodians and other nominees have been requested to forward proxy solicitation materials to their customers, and such nominees will be reimbursed for their reasonable out-of-pocket expenses.

Householding

Unless we have received contrary instructions, we may send a single copy of this proxy statement/prospectus and notice to any household at which two or more shareholders reside if we believe the shareholders are members of the same family. Each shareholder in the household will continue to receive a separate proxy card. This process, known as "householding," reduces the volume of duplicate information received at your household and helps to reduce our expenses.

Adjournment

Shareholders are being asked to approve a proposal that will give our board of directors authority to adjourn the special meeting one or more times for the purpose of soliciting additional proxies in favor of the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal, or the charter amendment proposal if there are not sufficient votes at the time of the special meeting to approve such proposals. If the adjournment proposal is approved, the special meeting could be adjourned to any date. In addition, our board of directors, with or without shareholder approval, could postpone the meeting before it commences, whether for the purpose of soliciting additional proxies or for other reasons. If the special meeting is adjourned for the purpose of soliciting additional proxies, shareholders who have already submitted their proxies will be able to revoke them at any time prior to their use.

Other Information

The matters to be considered at the special meeting are of great importance to our shareholders. Accordingly, you are urged to read and carefully consider the information contained in this proxy statement/prospectus and submit your proxy via the Internet or by telephone or complete, date, sign and promptly return the enclosed proxy card in the enclosed postage-paid envelope. **If you submit your proxy via the Internet or by telephone, you do not need to return the enclosed proxy card.**

Assistance

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact:

Lianluo Smart Limited
Room 1003B, 10th Floor, BeiKong Technology Building
No. 10 Baifuquan Road, Changping District
Beijing 102200
People's Republic of China
Attention: Corporate Secretary
Telephone: 86-10-89788107

PROPOSAL I: THE MERGER

General

This proxy statement/prospectus is being provided to shareholders in connection with the solicitation of proxies by our board of directors to be voted at the special meeting and at any adjournments or postponements of the special meeting. At the special meeting, we will ask shareholders to, among other things, adopt the merger agreement.

The merger agreement provides for the merger of Merger Sub with and into Newegg, with Newegg continuing as the surviving corporation and a wholly owned subsidiary of the Company. **The merger will not be completed unless shareholders adopt the merger agreement and approve the other matters to be considered at the special meeting.** A copy of the merger agreement is attached as Annex A to this proxy statement/prospectus and incorporated herein by reference. You are urged to read the merger agreement in its entirety because it is the legal document that governs the merger. For additional information about the merger agreement, see "The merger Agreement."

If the merger is completed, each share of the capital stock of Newegg that was issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 5.8417 common shares of the Company (which we refer to as the exchange ratio), plus the right, if any, to receive cash in lieu of fractional shares of the Company (which we collectively refer to as the merger consideration); provided that the exchange ratio shall be appropriately adjusted to reflect the effect of any share split, split-up, reverse share split, share dividend or distribution of securities convertible into the Company's common shares or Newegg's capital stock or any reorganization, recapitalization, reclassification or other like change with respect to Company's common shares or Newegg's capital stock having a record date occurring on or after the date of the merger agreement and prior to the completion of the merger.

Background of the Merger

Our Company and Newegg have been affiliated with each other since at least 2017 through common control. Hangzhou Lianluo acquired a controlling interest in our Company in a stock purchase transaction entered into on April 28, 2016 and completed on August 18, 2016. Hangzhou Lianluo, through its wholly-owned subsidiary Digital Grid, acquired a controlling interest in Newegg in a stock purchase transaction that was entered into on August 15, 2016 and completed on March 30, 2017. Digital Grid and Hangzhou Lianluo are both controlled by our principal shareholder, former Chairman of the board and former chief executive officer, Mr. Zhitao He. The investment in Newegg and the investment in the Company were part of a general effort by Mr. He to diversify his investments, but were otherwise unrelated to each other.

Although affiliated by common control, Newegg and the Company have historically operated independently from each other, with separate businesses. From March 30, 2017 to August 12, 2020, Mr. He served simultaneously as the Chairman of our board and as either the Chairman or member of Newegg's board. Mr. He also served as our Chief Executive Officer from April 1, 2020 to August 12, 2020. Ms. Yingmei Yang has served as our interim chief financial officer since March 15, 2018 and as our board member since April 1, 2020, while she simultaneously served as a board member of Newegg since July 1, 2018 and as the Vice President of Capital Markets for Newegg since March 26, 2020. In addition, Mr. Li Chen was appointed by Hangzhou Lianluo to serve on Newegg's board from March 31, 2017 to July 1, 2018 while he also served as the legal representative and director of our former subsidiary, Beijing Dehaier, from July 26, 2017 to January 25, 2019 and as the legal representative and director of Lianluo Connection from July 26, 2017 to January 25, 2019. Other than these common officers and directors, our Company and Newegg have had separate management teams.

On September 11, 2019, we received a notification letter from the NASDAQ Listing Qualifications Staff notifying us that the minimum bid price per share for our Class A common shares had been below $1.00 for a period of 30 consecutive business days and we therefore no longer met the minimum bid price requirements set forth in NASDAQ Listing Rule 5550(a)(2). We were granted a compliance period of 180 days, or until March 9, 2020 to regain compliance.

Around November 2019, our management informally discussed the Company's financial position and the challenges facing the Company's medical device business, including continued decrease in revenue and the difficulties in meeting NASDAQ's continued listing standards (e.g., minimum bid price, shareholders' equity, market value and

net income standards). Our management considered the risks and difficulties of our current medical device business and its potential to regain profitability. Mr. He mentioned to our management that one possible strategic alternative for the Company was to combine with Newegg. Other than raising this potential opportunity, no material terms or conditions relating to such combination were discussed from November 2019 to March 2020, as the Company focused its efforts on its medical device business and regaining compliance with the NASDAQ listing requirements.

On January 2, 2020, we received another notification letter from the NASDAQ Listing Qualifications Staff notifying us that we no longer complied with the minimum of $2.5 million in stockholders' equity for continued listing on the NASDAQ Capital Market under NASDAQ's Listing Rule 5550(b)(1) and that we also did not comply with either of the two alternative standards of Listing Rule 5550(b), the market value standard and the net income standard.

In February and March 2020, we completed three capital financings and received gross proceeds of approximately $8.08 million in exchange for the issuance of 1,373,750 of our Class A common shares and warrants to acquire an additional 1,373,750 Class A common shares. On March 10, 2020, the NASDAQ Listing Qualifications Staff determined that we complied with the stockholders' equity requirement set forth in Listing Rule 5550(b)(1). On that date, we met all applicable requirements for initial listing on the NASDAQ Capital Market, other than the minimum bid requirement. The NASDAQ Listing Qualifications Staff recognized our intention of curing the minimum bid price deficiency by effecting a reverse stock split, and granted a second compliance period of 180 days, or until September 8, 2020, to regain compliance. The second compliance period was thereafter extended to November 20, 2020 by NASDAQ per SR-NASDAQ-2020-021.

During the first quarter of 2020, China and the rest of the world were beginning to restrict travel and daily activities in response to the outbreak of COVID-19. The World Health Organization declared the COVID-19 outbreak a pandemic on March 11, 2020, leading to worldwide travel restrictions and stay-at-home orders, which have continued intermittently through the date of this proxy statement/prospectus. These restrictions severely limited our ability to conduct in-person discussions, negotiations and due diligence with Newegg throughout the time periods discussed below. As a result, we conducted such efforts primarily through telephonic meetings and electronic correspondence.

From late March 2020 to May 11, 2020, Mr. He, in his capacity as a shareholder of the Company and Newegg, held preliminary discussions with us and Newegg regarding a potential combination. Newegg and the Company began exploring a preliminary timeline, potential deal structures and tasks that needed to be completed before a combination could occur.

The Company also considered whether the potential combination with Newegg would help the Company meet the NASDAQ's continued listing requirements, and whether NASDAQ's initial listing requirements (rather than the continued listing requirements) would apply in the event of a combination. The Company determined that the initial listing requirements would likely apply, including the requirement in NASDAQ Listing Rule 5505 for the Company to have, among other requirements, a minimum bid price of $4 per share, at least 300 unrestricted round lot shareholders and market value of unrestricted publicly held shares of at least $15 million. The Company considered whether to conduct a potential public offering of our common shares in addition to a combination with Newegg in order to meet those NASDAQ's initial listing requirements.

The Company also considered the potential conflicts that Mr. He might have in any combination between the Company and Newegg, since he was the controlling shareholder of both companies. The Company considered the merits of forming a special committee of independent directors to lead the discussions and negotiations with Newegg regarding a potential combination, and the merits of engaging a qualified independent financial advisor to opine on the fairness of the financial terms of any potential combination with Newegg.

The discussions and considerations above resulted in a non-binding indication of interest presented by Newegg to the Company and executed on May 11, 2020. The material terms of this non-binding indication of interest are summarized below. Newegg indicated that it would be interested in having the Company acquire 100% of the equity interests of Newegg in exchange for newly issued Company common shares. The number, exchange ratio and class of those shares were not discussed in the indication of interest or preceding discussions, except to say that they would be based on a proposed valuation for Newegg ranging from $750 million to $950 million or an amount as otherwise agreed by the Company and Newegg.

This valuation range was first proposed by Mr. He in his capacity as a shareholder of our Company and Newegg in late April or early May. Mr. He based his proposal on his general knowledge of Newegg's business, but he did not convey his reasoning to the Company or Newegg at that time. Nor did Mr. He propose any valuation for our Company, any exchange ratio to be used, or any other terms or conditions relating to a potential combination of us with Newegg. The board and management for our Company and Newegg did not negotiate with Mr. He on his proposal at this time because neither we nor Newegg had formed a special committee yet, because the proposed valuation for Newegg was not meaningful without a corresponding valuation for the Company, and because the indication of interest and proposed valuation for Newegg were non-binding, subject to further agreement, due diligence and approvals, and terminable by us or Newegg at will.

The indication of interest stated that the consummation of the proposed transaction would be subject to customary closing conditions, including approval by a special committee of the board of directors of Company that would be composed solely of independent directors; approval by our board and the board of directors of Newegg; approval by our shareholders; completion of an audit of Newegg's financial statements for the prior two years; receipt of all governmental, regulatory and third party requisite approvals and consents; results of legal, financing and accounting due diligence being satisfactory to Newegg and the Company in their sole discretion; receipt of a fairness opinion by a qualified independent firm opining on the fairness of the purchase consideration from a financial point of view; the disposition of the existing medical device and related business of the Company; a public offering of equity securities by the combined entity with gross proceeds ranging from $10 million to $30 million; NASDAQ's approval of the listing of such equity securities and of the initial listing application for the combined entity; completion of a reverse split by the combined entity as needed to satisfy the minimum bid price requirements of NASDAQ; and an increase of the Company's authorized amount of common shares to the extent sufficient to consummate the acquisition of Newegg.

The indication of interest was effective from May 11, 2020 to the earlier of (i) 60 days from its execution, (ii) the time when Newegg or the Company indicated in writing that it no longer desired to pursue the transaction, or (iii) execution of a definitive agreement relating to the indication of interest. During the term of the indication of interest, both Newegg and the Company agreed not to engage in, solicit or pursue with any other party any discussion, negotiations or agreements of any nature with a substantially similar object or purpose as the indication of interest, except that the officers and directors of the Company could consider or negotiate any unsolicited acquisition proposal that may be superior to the transaction contemplated in the indication of interest as determined by the board of directors of the Company in good faith. The officers and directors of the Company could also consider, negotiate, approve, recommend to its shareholders, or enter into such unsolicited, superior acquisition proposal if the Company directors determined in good faith after consulting with outside counsel that such action was necessary or advisable for such directors to act in a manner consistent with their fiduciary duties under applicable law.

On May 11, 2020, the Company's board also formed a special committee consisting of three of our directors, Richard Zhiqiang Chang (not related to Mr. Fred Chang or Mr. Robert Chang of Newegg), Bin Pan and Fuya Zheng, with Mr. Fuya Zheng acting as the chairman. All three committee members were determined by our board to be disinterested in the proposed transaction with Newegg and independent under NASDAQ rules. The scope of the special committee's authority was to consider, review, and evaluate a potential acquisition of Newegg by the Company; to consider, review and negotiate the terms and conditions of any unsolicited acquisition proposal that may be a superior proposal to that contemplated by the Newegg indication of interest; to recommend to our full board any action that should be taken by the Company with respect to a potential acquisition of Newegg or an alternative acquisition proposal; to reject a potential acquisition of Newegg or an alternative acquisition proposal; to express the special committee's view as to the fairness to the Company and its shareholders of a potential acquisition of Newegg or an alternative acquisition proposal; and to take all such other actions necessary or appropriate to discharge the scope of the committee's duties. After our special committee was formed, all material negotiations and decisions of the Company relating to the proposed transaction with Newegg were done at the direction and supervision of our special committee.

In May 2020, the special committee of the Company retained Benchmark as its financial advisor to render an opinion as to the fairness to the Company's shareholders of the consideration to be paid by the Company for the acquisition of Newegg from a financial point of view. The special committee also engaged Kaufman & Canoles, P.C., or Kaufman, as its legal counsel on July 9, 2020.

Following the establishment of our special committee, the committee had frequent discussions on the proposed acquisition of Newegg and held telephonic meetings on July 15, August 14, September 24, September 30 and October 23, 2020. At such meetings, our special committee discussed various issues involved in the proposed acquisition of Newegg, including the status of due diligence, terms of the acquisition agreement including valuation methodology, exchange ratios and non-financial matters and the status of Benchmark's fairness opinions relating to the merger and divestment.

In June, Newegg began providing limited due diligence information to us, including a draft set of financial forecasts for the years ending December 31, 2020, 2021 and 2022. These draft forecasts were later updated by Newegg and presented to us on August 31, 2020. We and our special committee began to conduct due diligence on Newegg with the assistance of Kaufman. Additionally, Benchmark provided a preliminary draft of its fairness opinion's supporting analysis to us in June based on the proposed valuation contained in the indication of interest.

On July 8, 2020, Newegg provided us with an initial draft of a proposed acquisition agreement whereby Newegg's stockholders would sell all of the outstanding capital stock of Newegg to us in exchange for an unspecified class and unspecified number of our common shares. The transaction structure, acquisition consideration, exchange ratio, form of consideration, and other material terms for the proposed combination had not yet been negotiated or agreed upon at this time. Between July 8, 2020 and August 26, 2020, no material terms to the proposed acquisition agreement were discussed or negotiated by either Newegg or us.

The indication of interest expired on its own terms on July 10, 2020, although the Company and Newegg continued their discussions regarding a potential combination as described below.

In August 2020, Newegg provided us access to a datasite containing confidential due diligence materials relating to Newegg. Also during August, Newegg provided to us the first draft of its audited financial statements for the years ended December 31, 2019, 2018 and 2017. In late August 2020, we began supplying due diligence materials about our Company to Newegg.

On August 12, 2020, in connection the investigation by China Securities Regulatory Commission for alleged violation of laws and regulations regarding information disclosures of Hangzhou Lianluo, Mr. He resigned from his positions as Chief Executive Officer, Chairman and director of the Company. Mr. He's resignation reduced any ability he might have to influence our Company with respect to our proposed combination with Newegg. On August 25, 2020, based on the Company Nominating Committee's recommendation, the Board of the Company appointed Mr. Bin Lin as Chief Executive Officer, a director and Chairman of the Company to fill the vacancies created by Mr. He's resignation. Prior to his appointment, Mr. Lin had no prior involvement with our Company, Newegg or either party's affiliates or subsidiaries.

In August 2020, Mr. Zhitao He, acting in his capacity as a shareholder of the Company and Newegg, proposed to Newegg that the combination of the two companies could be based on a valuation for Newegg of $880 million. Mr. He based his proposal on his general knowledge of Newegg's business, but he did not convey his reasoning to the Company or Newegg at that time. Nor did Mr. He propose any valuation for our Company, any exchange ratio to be used, or any other terms or conditions relating to a potential combination of us with Newegg. The board and management for our Company and Newegg did not negotiate with Mr. He on his proposal at this time because Newegg had not yet formed a special committee, and because we and Newegg had not yet completed due diligence on the proposed transaction at that time.

On August 24, 2020, Newegg's board formed a special committee which was exclusively empowered on behalf of Newegg to consider, review, negotiate and recommend approval or rejection of a potential acquisition of or reverse merger with us. Newegg's board determined that all members of its special committee were free of any conflicts of interest in any potential combination between Newegg and the Company, and were independent in accordance with NASDAQ standards. Newegg's special committee engaged Gibson, Dunn & Crutcher LLP as its independent special counsel in connection with the proposed transaction with us. After Newegg's special committee was formed, all material negotiations and decisions of Newegg relating to the proposed transaction with us were done at the direction and supervision of the special committee.

On August 26, 2020, legal counsels representing the Company, Newegg, and each of their respective special committees had a call to conduct due diligence and discuss the status and structure of a potential combination of Newegg and us. Over the next few days, we and Newegg agreed to structure the transaction as a reverse

merger whereby Newegg would merge with a newly formed, wholly owned subsidiary of ours in exchange for an unspecified number and class our common shares. Over the next two months, legal counsels for us, Newegg and their respective special committees had a number of calls and communications to discuss and negotiate issues in the acquisition agreement, focusing on the exchange ratio between our common shares and Newegg stock; whether the purchase consideration would be in the form of our Class A common shares or Class B common shares; whether different classes of Newegg stock would receive the same or a different form or amount of consideration; the allocation of risks relating to our warrant liabilities, including the impact of such allocation on the exchange ratio and the establishment of reserves to settle such risks; the allocation of and indemnification for risks relating to our Company and Newegg; the board and shareholder governance structure for the combined entity after completion of the merger; termination rights for our Company and Newegg; the ability of Newegg and us to seek alternative transactions before completion of the merger; our ability to incur liabilities and make cash expenditures before completion of the merger; and conditions to closing of the merger.

On August 31, 2020, Newegg provided the Company with updated financial forecasts for the years ending December 31, 2020, 2021 and 2022. See description of these forecasts under “Reports, Opinions and Appraisals — Discounted Cash Flow Analysis”.

On September 18, 2020, Newegg delivered to us a revised draft of the acquisition agreement which reflected the merger structure agreed upon in late August. In this draft, each share of Newegg capital stock, regardless of the class of such stock, would be acquired by us in exchange for a certain number of our Class A common shares, which we refer to as the exchange ratio. The exchange ratio in this draft merger agreement was based on a stipulated valuation for Newegg of $880 million, divided by our aggregate equity value (as determined by the trading price of our Class A common shares in the 20 trading days prior to completion of the merger). If the merger had been completed on that day under the terms of this draft merger agreement, the exchange ratio would have been 4.2983 shares of our Class A common shares issued by us in exchange for each outstanding share of Newegg capital stock, and the resulting combined company would have been owned 98.67% by Newegg stockholders and 1.33% by our stockholders. The proposed exchange ratio mechanism was still being considered by the special committees for our Company and Newegg at that time.

On September 24, 2020, counsel for Newegg’s special committee delivered to us a revised draft of the merger agreement with a proposed exchange ratio similar to the prior draft, but our aggregate equity value was based on the trading price of our Class A common shares in the 20 trading days prior to the execution date of the merger agreement (rather than the completion date of the merger). If this draft merger agreement had been executed and consummated on that day, the exchange ratio would have been 4.4290 shares of our Class A common shares issued by us in exchange for each outstanding share of Newegg capital stock, and the resulting combined company would have been owned 98.71% by Newegg stockholders and 1.29% by our stockholders. The proposed exchange ratio mechanism was still being considered by the special committees for our Company and Newegg at that time. Around this time, Benchmark also provided a revised draft of the supporting analysis for its fairness opinion that was based on updated deal terms.

On September 27, 2020, counsel for Newegg’s special committee delivered to us a further revised draft of the merger agreement with a proposed exchange ratio similar to the prior draft, but our aggregate equity value was based on the trading price of our Class A common shares in the 20 trading days prior to September 26, 2020 (rather than the execution date of the merger agreement), and then deducting $5 million from our equity value. The $5 million deduction reflected the Newegg special committee’s estimate of the cost of certain potential liabilities relating to our then-outstanding warrants, as described under “Description of Securities — The Investor Warrants — Fundamental Transactions.” If this draft merger agreement had been executed and consummated on that day, the exchange ratio would have been 8.1365 shares of our Class A common shares issued by us in exchange for each outstanding share of Newegg capital stock, and the resulting combined company would have been owned 99.29% by Newegg stockholders and 0.71% by our stockholders. The proposed exchange ratio mechanism was still being considered by the special committees for our Company and Newegg at that time.

On September 29, 2020, we informed Newegg that our special committee was not willing to have $5 million deducted from our equity value in connection with calculation of the proposed exchange ratio, as proposed by Newegg on September 27. Our committee believed that the deduction proposed by Newegg was greater than the warrant liability expected by our committee at that time.

On September 30, 2020, counsel for Newegg's special committee delivered to us a further revised draft of the merger agreement with a proposed exchange ratio similar to the prior draft, except that the previously proposed $5 million deduction relating to our then-outstanding warrants was reduced to $3.5 million. If this draft merger agreement had been executed and consummated on that day, the exchange ratio would have been 6.5636 shares of our Class A common shares issued by us in exchange for each outstanding share of Newegg capital stock, and the resulting combined company would have been owned 99.13% by Newegg stockholders and 0.87% by our stockholders.

On September 30, 2020, our special committee held a telephonic meeting with representatives of Benchmark and Kaufman to discuss a draft fairness opinion and related supporting financial analysis delivered by Benchmark. Benchmark explained to the special committee its valuation analyses and the methodologies it applied and answered questions from the members of the special committee. After the meeting, our special committee continued to consider the exchange ratio mechanism. Our committee ultimately agreed to the exchange ratio mechanism but recommended that it be based on more recent trading prices for our Class A common shares.

On October 3, 2020, our special committee proposed to Newegg to update the exchange ratio mechanism to measure our aggregate equity value based on a more recent trading price for our Class A common shares. On October 5, 2020, Newegg agreed to our request, and updated the exchange ratio mechanism in the merger agreement to be determined based on the trading price of our Class A common shares in the 20 trading days prior to and including October 6, 2020. If this draft merger agreement had been executed and consummated on that day, the exchange ratio would have been 6.2307 shares of our Class A common shares issued by us in exchange for each outstanding share of Newegg capital stock, and the resulting combined company would have been owned 99.08% by Newegg stockholders and 0.92% by our stockholders.

On October 16, 2020, we again proposed to Newegg to update the exchange ratio mechanism to be determined based on the trading price of our Class A common shares in the 20 trading days prior to and including October 16, 2020. Newegg agreed to this request on October 18, 2020. On October 21, 2020, Newegg circulated a revised draft of the merger agreement with this change, as well as a provision allowing our Company and Newegg to solicit alternative proposals, as described under "The Merger Agreement — Go Shop." No other material changes were made to the merger agreement after this date. The exchange ratio in the final merger agreement is 5.8417 shares of our Class A common shares to be issued by us in exchange for each outstanding share of Newegg capital stock, and we expect the resulting combined company to be owned 99.02% by Newegg stockholders and 0.98% by our stockholders, based on shares outstanding on that date.

On October 23, 2020, Benchmark provided the fairness opinion to the special committee indicating that, as of such date and based upon and subject to the assumptions, matters and limitations set forth in its written opinion, the merger consideration to be paid by the Company was fair to the Company's shareholders from a financial point of view.

On October 23, 2020, the Company's special committee reviewed the final fairness opinion delivered by Benchmark and recommended that the board approve the merger agreement. Based on the special committee's recommendation, on the same date, the board approved the execution of the merger agreement and the submission of the merger agreement to shareholders for a vote. On October 23, 2020, the special committee of Newegg also recommended that Newegg's board approve the merger agreement. Newegg's board, based on Newegg's special committee's recommendation, approved the execution of the merger agreement on the same date.

On October 23, 2020, the merger agreement was executed by the parties.

In late January 2021, investors exercised 1,255,000 of our warrants that were originally issued in February and March of 2020. This exercise resulted in the issuance of 1,255,000 of our Class A common shares and aggregate cash proceeds to the Company of $6.8 million. Because this exercise increased the number of our outstanding shares, we expect the portion of the combined company that is owned by our stockholders after completion of the merger to increase to 1.32% and the portion owned by Newegg stockholders to decrease to 98.68%, based on outstanding shares on [ ], 2021, the most recent practicable date before the date of this proxy statement/prospectus.

Reasons for the Merger

The special committee, by a unanimous vote on October 23, 2020, determined that the merger agreement and the proposed merger contemplated thereby are advisable and fair to, and in the best interests of, the Company. At this meeting, the special committee recommended that the board approve, authorize and adopt the merger agreement.

In evaluating the merger, the special committee, in consultation with the Company's management and outside legal counsel, considered numerous positive factors relating to the merger, including:

- challenges facing the Company's current medical device business, including a history of significant operating losses and negative operating cash flows;
- challenges facing the Company in maintaining its competitive position in the highly competitive medical device market in China;
- challenges facing the Company regarding compliance with NASDAQ Listing Rules, including the minimum bid price and stockholders' equity requirements;
- the belief that other strategic alternatives available to the Company, such as continuing to develop its business through internal growth, were less advisable than the proposed merger under current circumstances;
- the terms and conditions of the merger agreement and related transaction documents including the ability of the Company to continue to solicit, negotiate and enter into alternative acquisition proposals as described under "The Merger Agreement — Go Shop," and to terminate the merger agreement in certain circumstances described under "The Merger Agreement — Termination of the Merger Agreement;"
- the positive financial condition, operating results and business outlook of Newegg as of the date of the merger agreement; and
- the fact that the special committee received and reviewed a fairness opinion from Benchmark affirming that the merger consideration to be paid by the Company was fair to the Company's shareholders from a financial point of view.

The special committee also considered the risks and potentially negative factors relating to the proposed merger, including:

- the possibility that the consummation of the merger may be delayed or not occur at all, and the adverse impact of such event would have on the Company and its business;
- the significant costs involved in connection with completing the proposed merger, the substantial management time and effort required to complete the proposed merger and the related disruption to operations of the Company;
- the potential liabilities that the Company may inherit from Newegg as a result of the proposed merger that would not be covered by the indemnities in the merger agreement;
- the risk that the anticipated benefits of the proposed merger may not be realized; and
- other risks described under the section "Risk Factors" above.

The special committee believed that, overall, the potential benefits of the merger to the Company's shareholders outweighed the risks and uncertainties of the merger. The foregoing discussion of factors considered by the special committee is not intended to be exhaustive and is not provided in any specific order or ranking, but includes material factors considered by the special committee. In reaching its decision regarding the proposed merger, the special committee did not quantify or otherwise assign relative weights to the specific factors. Moreover, each member of the special committee applied his own personal business judgment and may have given different weights to different factors. The special committee did not undertake to make any specific determination as to whether any factor, or any particular aspect of any factor, supported or did not support its ultimate determination. The special committee based its recommendation on the totality of the information presented.

Reports, Opinions and Appraisals

The Company engaged Benchmark to render an opinion as to whether the merger consideration to be paid by the Company is fair to the Company's shareholders from a financial point of view. Benchmark is an investment bank that regularly evaluates businesses and their securities in connection with acquisitions, corporate restructuring and financings. On August 13, 2020, Lianluo Connection entered into a share transfer agreement with China Mine United Investment Group Co., Ltd., or China Mine, pursuant to which Lianluo Connection transferred its 100% equity interests in its then wholly-owned PRC subsidiary, Beijing Dehaier Medical Technology Company Limited, or Beijing Dehaier, to China Mine for cash consideration of RMB 0. Benchmark, acting as the independent financial advisor to our board, provided a written opinion that the consideration to be received by the Company in the sale of Beijing Dehaier is fair to the Company's shareholders from a financial point of view. We paid a cash fee of $25,000 to Benchmark for the opinion.

The special committee engaged Benchmark as its financial advisor in connection with the merger as the Company determined that Benchmark has substantial experience in similar matters. Benchmark rendered its written opinion to the special committee on October 23, 2020 that merger consideration to be paid by the Company was fair to the Company's shareholders from a financial point of view as of that date.

The Company paid an aggregate cash fee of $165,000 to Benchmark for its opinion. The Company provided to Benchmark a financial model of Newegg with projected income statement data for the fiscal years 2020-2022. The Company has obtained consent from Benchmark for the use of its fairness opinions in this proxy statement/prospectus.

Benchmark's opinion was provided to the special committee and the board for their assessment of the merger and only addressed the fairness to the Company's shareholders, from a financial point of view, of the merger consideration to be paid by the Company pursuant to the merger agreement as of the date of the opinion and did not address any other aspects or implications of the merger.

The summary of Benchmark's opinion below is qualified in its entirety by reference to the full text of the written opinion, which is included as Annex D to this proxy statement/prospectus. This summary also describes the procedures, assumptions, qualifications and limitations, and other matters considered by Benchmark in preparing its opinion. However, neither Benchmark's written opinion nor the summary of its opinion set forth in this proxy statement/prospectus purports to be, or constitutes advice or recommendations to, any shareholder as to how such shareholder should act or vote with respect to the merger proposal.

In arriving at its opinion, Benchmark reviewed and considered such financial and other matters as it deemed relevant, including, among other things:

- the latest draft of the merger agreement provided to it on October 22, 2020;
- certain information relating to the historical, current and future operations, financial condition and prospects of Newegg, made available to it by the Company, including financial statements that included the actual income statements for the year ending December 31, 2019 and the nine months ending September 30, 2020, a balance sheet as of September 30, 2020, and a financial model with projected income statements for the calendar years 2020-2022;
- discussions with certain members of the management of the Company and certain of its advisors and representatives regarding the business, operations, financial condition and prospects of the Company, the Transaction and related matters;
- a certificate addressed to us from senior management of the Company which contains, among other things, representations regarding the accuracy of the information, data and other materials (financial or otherwise) provided to, or discussed with, us by or on behalf of the Company;
- the current and historical market prices for certain of the Company's publicly traded securities, and the current and historical market prices, trading characteristics and financial performance of the publicly traded securities of certain other companies that we deemed to be relevant;

- the publicly available financial terms of certain transactions that we deemed to be relevant; and
- such other information, economic and market criteria and data, financial studies, analyses and investigations and such other factors as Benchmark deemed relevant.

Benchmark has relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to it, discussed with or reviewed by it, or publicly available, and do not assume any responsibility with respect to such data, material and other information. In addition, management of the Company has advised Benchmark, and Benchmark has assumed, that the financial projections reviewed by it have been reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of such management as to the future financial results and condition of the Company or Newegg and Benchmark expresses no opinion with respect to such projections or the assumptions on which they are based. Benchmark has relied upon and assumed, without independent verification, that there has been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company or Newegg since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to it that would be material to its analyses or the opinion, and that there is no information or any facts that would make any of the information reviewed by Benchmark incomplete or misleading. Benchmark has further relied upon the assurance of the management of the Company that they are unaware of any facts that would make the information provided to Benchmark incomplete or misleading in any material respect. In connection with its review and arriving at its opinion, Benchmark did not assume any responsibility for the independent verification of any of the foregoing information and relied on the completeness and accuracy as represented by the Company. In addition, Benchmark has relied upon and assumed, without independent verification, that the final form of the merger agreement will not differ in any material respect from the latest draft of the merger agreement provided to it as identified above. In addition, Benchmark did not make any independent evaluation or appraisal of the assets or liabilities of the Company or Newegg nor was Benchmark furnished with any such independent evaluations or appraisals. The opinion is necessarily based upon financial, economic, market and other conditions as they existed on, and should be evaluated as of, the date thereof. Although subsequent developments might affect the opinion, Benchmark does not have any obligation to update, revise or reaffirm its opinion.

Benchmark has assumed that the merger will be consummated on terms substantially similar to those set forth in the merger agreement identified above.

Benchmark has not been requested to opine as to, and the opinion does not express an opinion as to or otherwise address, among other things: (1) the underlying business decision of the board, the Company, its security holders or any other party to proceed with or effect the merger, (ii) the terms of any arrangements, understandings, agreements or documents related to, or the form, structure or any other portion or aspect of, the merger or otherwise (other than the consideration to the extent expressly specified herein), (iii) the fairness of any portion or aspect of the merger to the holders of any class of securities, creditors or other constituencies of the Company, or to any other party, except if and only to the extent expressly set forth in the last sentence of this opinion, (iv) the relative merits of the merger as compared to any alternative business strategies or transactions that might be available for the Company, Newegg or any other party, (v) the fairness of any portion or aspect of the merger to any one class or group of the Company's or any other party's security holders or other constituents vis-à-vis any other class or group of the Company's or such other party's security holders or other constituents (including, without limitation, the allocation of any consideration amongst or within such classes or groups of security holders or other constituents), (vi) the solvency, creditworthiness or fair value of Newegg, the Company or any other participant in the merger, or any of their respective assets, under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters, or (vii) the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation to or consideration payable to or received by any officers, directors or employees of any party to the merger, any class of such persons or any other party, relative to the consideration or otherwise. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources. Furthermore, we have relied, with the consent of the board, on the assessments by the board, the Company and its advisors, as to all legal, regulatory, accounting, insurance and tax matters with respect to Newegg, the Company, the merger or otherwise.

In the ordinary course of its business, Benchmark may have actively traded the equity or debt securities of the Company and may continue to actively trade such equity or debt securities. In addition, certain individuals who are employees of, or are affiliated with, Benchmark may have in the past and may currently be shareholders of the Company.

Summary of Financial Analysis

The following is a summary of the analyses performed by Benchmark in connection with its opinion. The analyses and factors described below must be considered as a whole; considering any portion of such analyses or factors, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Benchmark's opinion. Some of the summaries of the financial analyses include information presented in tabular format. The tables are not intended to stand alone, and in order to more fully understand the financial analyses used by Benchmark, the tables must be read together with the full text of each summary. Considering the data set forth below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Benchmark's financial analyses.

Benchmark completed a series of financial analyses to derive a range of potential equity values for Newegg and calculated the value of the implied post-merger stake of the Company's shareholders. Benchmark's financial analysis employed three methodologies, with no particular weight given to any:

- selected public company analysis;
- precedent transaction analysis; and
- discounted cash flow analysis.

Valuation Summary

Based on its analysis, the estimated equity value of Newegg ranged from as low as $978 million to as high as $1.93 billion, as of the date of its analysis. This range is based on the following, among other factors:

- The comparative values of tech-focused e-commerce and retail companies
- The comparative values of recent e-commerce M&A transactions
- Newegg's net sales of approximately $2.04 billion in 2020 and $2.25 billion forecast in 2021
- The results of the Selected Public Company Analysis, Precedent Transaction Analysis, and Discounted Cash Flow Analysis

Estimated Value of Newegg Equity

Valuation Methodology	**Range**	
Selected Public Company Analysis	$ 1,806,572,150	$ 1,928,729,510
Precedent Transaction Analysis	$ 1,625,558,893	$ 1,897,533,830
Discounted Cash Flow Analysis	$ 978,343,709	$ 1,673,769,939
Range	$ 978,343,709	$ 1,928,729,510

The value of the Company shareholders' equity stake was $12.2 million based on the Company 20-day VWAP. After adjusting for the escrow amount, this was expected to result in Company shareholders maintaining a post-merger ownership stake of approximately 0.98% of the combined entity, based on the outstanding shares of the Company and Newegg as of October 23, 2020.

- The implied value of the 0.98% stake was estimated to be between $8.8 million and $18.1 million based on Newegg's valuation range on October 23, 2020

Company Shareholders Equity Stake Pre- and Post- Merger	Range 30-day Low	20-day VWAP (10/16/20)	30-day High
Pre-Merger			
Company Shares Outstanding (Class A and Class B) on October 23, 2020	3,599,573	3,599,573	3,599,573
Stock Price (9/23/20 – 10/22/20)	$ 0.3500	$ 0.4243	$ 0.5200
Stock Price (Split-adjusted Equivalent)	$ 2.8000	$ 3.3944	$ 4.1600
Company Total Equity Value Pre-Combination	$ 10,078,804	$ 12,218,391	$ 14,974,224
Post-Merger			
Escrow Amount		$ 3,500,000	
Company Equity Value		$ 8,718,391	
Company Per Share Value		$ 2.4221	
Newegg Equity Value for Share Exchange		$ 880,000,000	
Newegg Shares Outstanding on October 23, 2020		62,195,173	
Newegg Per Share Value		$ 14.1490	
Company Exchange Ratio		5.8417	
Merger Consideration to Newegg (Company Shares)		363,325,542	
Company Shareholders Post-Merger Stake (%) based on shares outstanding on October 23, 2020		0.98%	
Company Shareholders Implied Value of Post-Merger Stake			
At High End of Newegg Valuation		$ 18,921,034	
At Low End of Newegg Valuation		$ 9,597,652	
Transaction-related Expenses		$ 800,000	
Company Shareholders Implied Net Equity Value Post-Merger			
Net Value at High End of Newegg Valuation		$ 18,121,034	
Net Value at Low End of Newegg Valuation		$ 8,797,652	

Selected Public Company Analysis

Benchmark analyzed the valuation of publicly-listed tech-focused e-commerce and retail companies. Its analysis of Newegg's valuation included the following four companies, none of which is identical to Newegg: Best Buy, CDW, Dell and HP.

	2020	2021
Selected Public Companies' Average EV/Revenue	0.84x	0.82x
Newegg Revenue	$ 2,037,261,787	$ 2,249,715,499
Enterprise Value	$ 1,713,801,150	$ 1,835,958,510
Plus		
Net Cash/(Debt), Other Adjustments	$ 92,771,000	$ 92,771,000
Equity Value	$ 1,806,572,150	$ 1,928,729,510

Source: FactSet; the Company

The individual EV/Revenue calculations for each of the selected public companies are as follows:

Company Name	EV/Revenue	EV/Revenue

	(2020)	(2021)
Best Buy	0.65x	0.66xx
CDW	1.20x	1.14xx
Dell Technologies Corp.	0.99x	0.92xx
HP	0.51x	0.55xx

Precedent Transaction Analysis

Benchmark analyzed the valuation of M&A transactions completed over the last five years involving e-commerce marketplace companies. Benchmark's analysis included the following four precedent transactions, none of which is identical to Newegg: HSN, Inc.; Millennial Media, Inc.; RetailMeNot, Inc.; The Bon-Ton Stores, Inc.

	2020	2021
Precedent Transactions' Average and Median EV/Revenue	0.75x	0.80x
Newegg Revenue	$ 2,037,261,787	$ 2,249,715,499
Enterprise Value	$ 1,532,787,893	$ 1,804,762,830
Plus		
Net Cash/(Debt), Other Adjustments	$ 92,771,000	$ 92,771,000
Equity Value	$ 1,625,558,893	$ 1,897,533,830

Source: FactSet; the Company

The individual EV/Revenue calculations for each of the selected precedent transactions are as follows:

Company Name	EV/Revenue
HSN, Inc.	0.73x
Millennial Media, Inc.	0.77x
RetailMeNot, Inc.	1.34x
The Bon-Ton Stores, Inc.	0.37x

Generally, the enterprise value is calculated based on the value as of a specified date of the relevant company's outstanding equity securities, plus the amount of its net debt (the amount of its outstanding indebtedness, non-convertible preferred stock, capital lease obligations and non-controlling interests less the amount of cash and cash equivalents on its balance sheet).

Discounted Cash Flow Analysis

Benchmark used a 3-year forecast model for Newegg (2020-2022) to estimate a range of equity values based on a discounted cash flow analysis of free cash flows projections as provided by the Company and Newegg. The key assumptions in its analysis include the following:

- Newegg net sales growing from $2.0 billion in 2020, $2.2 billion in 2021 and $2.5 billion in 2022;
- Discount rates (WACC or Weighted-Average Cost of Capital) ranging from 17.4% to 21.4%
- Terminal value multiples of 0.52x to 0.88x net revenue

Projected income statements of Newegg for the periods indicated below:

Income Statement Projections (Newegg)	Q4 2020	12/31/2021	12/31/2022
Net Sales	**$ 715,823,814**	**$ 2,249,715,499**	**$ 2,489,003,013**
COGS	$ 640,113,345	$ 1,950,700,005	$ 2,147,465,955
Gross Margin	**$ 75,710,469**	**$ 299,015,494**	**$ 341,537,058**
SG&A	$ 70,323,322	$ 260,908,584	$ 298,025,144
Operating Profit	**$ 5,387,147**	**$ 38,106,910**	**$ 43,511,914**
Non-operating Income (Expenses)			
EBITDA	**$ 5,387,147**	**$ 38,106,910**	**$ 43,511,914**
Depreciation and Amortization	$ 1,956,117	$ 8,462,541	$ 8,208,665

Interest Expense (Income)	$ 22,241	$ (104,459)	$ (75,733)
Stock Comp	$ 186,349	$ 450,968	$ 428,420
Provision for Income Taxes	$ (64,274)	$ 2,486,115	$ 2,838,741
Net Income	**$ 3,286,713**	**$ 26,811,745**	**$ 32,111,822**

The above projected income statements were made based on the following material assumptions:

GMV ($ in millions)	Fiscal year 2021	Fiscal year 2022
Direct Sales	$ 2,045.7	$ 2,235.0
Marketplace	$ 916.7	$ 1,191.7
Others	$ 126.5	$ 155.0
Gross Margin		
Direct Sales	10.0%	10.0%
Marketplace	8.5%	8.3%

Net Present Value Analysis — Terminal Value Multiple 0.52x

Discount Rate	Enterprise Value	Cash/ (Net Debt)	Due from Affiliate	Working Capital Surplus/(Deficit)	Preferred Stock	Equity Investments (Mountain/ Bitmain)	Equity Value
17.4%	$ 953,862,315	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,046,633,315
18.4%	$ 936,087,652	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,028,858,652
19.4%	$ 918,792,239	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,011,563,239
20.4%	$ 901,959,282	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 994,730,282
21.4%	$ 885,572,709	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 978,343,709

Net Present Value Analysis — Terminal Value Multiple 0.88x

Discount Rate	Enterprise Value	Net Debt	Due from Affiliate	Working Capital Surplus/ (Deficit)	Preferred Stock	Equity Investments (Mountain/ Bitmain)	Equity Value
17.4%	$ 1,580,998,939	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,673,769,939
18.4%	$ 1,551,360,634	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,644,131,634
19.4%	$ 1,522,522,958	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,615,293,958
20.4%	$ 1,494,457,827	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,587,228,827
21.4%	$ 1,467,138,367	$ 76,050,000	$ 21,867,000	$ (26,542,000)	$ (61,000)	$ 21,457,000	$ 1,559,909,367

Ownership of Common Shares After the Merger

We will issue approximately 363,325,542 common shares to Newegg stockholders upon completion of the merger, based on the number of shares of Newegg issued and outstanding as of March 30, 2021, the most recent practicable date for which such information was available. Based on the number of our common shares and Newegg stock outstanding as of such date, immediately following the completion of merger, our shareholders immediately prior to the merger are expected to own approximately 1.32% of our outstanding common shares and former Newegg stockholders are expected to own approximately 98.68% of our outstanding common shares.

In addition, Mr. Zhitao He and Mr. Fred Chang will own approximately 60.91% and 35.98%, respectively, of the voting power of our issued and outstanding common shares, and 96.90%, collectively. See additional disclosures relating to the shares held by Mr. He under “Risk Factors — A majority of Newegg’s capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness.” Moreover, Mr. Zhitao He and Mr. Fred Chang, both of whom will serve as our directors upon closing, will be able to exercise substantial influence over our business and operations. They may also have a conflict of interests with our other shareholders. Where those conflicts exist, our other shareholders will be dependent upon Mr. He, Mr. Chang, and other directors exercising, in a manner fair to all of our shareholders, their fiduciary duties. Also, Mr. He and Mr. Chang will have the ability to control the outcome of most corporate actions requiring shareholder approval, including the sale of all or substantially all of our assets and amendments to our

Memorandum and Articles of Association. Moreover, such concentration of voting power could have the effect of delaying, deterring, or preventing a change of control or other business combination, which may, in turn, have an adverse effect on the market price of our shares or prevent our shareholders from realizing a premium over the then-prevailing market price for their shares.

Effect on the Company if the Merger is Not Completed

If the merger is not approved by the shareholders or if the merger is not completed for any other reason, the Company will remain a public company, and our Class A common shares will continue to be listed and traded on NASDAQ (assuming the Company meets all of NASDAQ's continued listing standards). In addition, our management expects that the business will be operated as how it is currently being operated until we pursue another strategic alternative, and that our shareholders will continue to be subject to the same risks and opportunities to which they are currently subject.

Furthermore, if the merger is not completed, and depending on the circumstances that would have caused the merger not to be completed, the price of the Company's Class A common shares may decline. If that were to occur, it is uncertain when, if ever, the price of the Company's Class A common shares would return to the price at which it trades as of the date of this proxy statement/prospectus.

Accordingly, if the merger is not completed, there can be no assurance as to the effect of these risks and opportunities on the future value of your Class A common shares. If the merger is not completed, the board will continue to evaluate and review the Company's business operations, properties, dividend policy and capitalization, among other things, make such changes as deemed appropriate and continue to seek to identify strategic alternatives to enhance shareholder value.

In addition, under specified circumstances, the Company may be required to reimburse Newegg's expenses or pay Newegg a termination fee, upon the termination of the merger agreement, as described under "The Merger Agreement — Termination Fees and Expenses" below.

Interests of Directors, Executive Officers and Major Shareholders in the Merger

In considering the recommendations of the special committee and the board to vote for the merger proposal, you should be aware that certain of the current directors, executive officers and major shareholders of the Company and Newegg have interests in the merger that may be different from, or in addition to, the interests of our unaffiliated shareholders generally and may create potential conflicts of interest. These interests are described in more detail below. The special committee was aware of each of these interests in reviewing, considering and negotiating the terms of the proposed merger and in recommending to the entire board to pursue the proposed merger. The board was also aware of these interests in approving the merger agreement and the transactions thereby and in recommending the approval of the merger agreement to our shareholders.

Mr. Zhitao He, our former Chairman and Chief Executive Officer, who also controls approximately 80.4% of our total voting power on the record date through Hangzhou Lianluo and its affiliate, Hyperfinite Galaxy Holding Limited, also serves on the board of Newegg and, through Digital Grid, beneficially owns a majority of the equity interests in Newegg. Hangzhou Lianluo has indicated that one of the reasons it would like to complete the merger is that it believes it is the best way for Newegg to become publicly listed, which will provide it and other Newegg stockholders better liquidity for their Newegg investment. Ms. Yingmei Yang, our Interim Chief Financial Officer and one of directors, also serves on the board of Newegg.

The merger agreement provides that all of Newegg's shareholders, including Digital Grid, will receive common shares. Following the merger, Mr. Zhitao He will beneficially own approximately 224,269,418 outstanding common shares, representing approximately 60.91% of our outstanding total voting power. See additional disclosures relating to the shares held by Mr. He under "Risk Factors — A majority of Newegg's capital shares are, and upon completion of the merger, a majority of our common shares will be, pledged as collateral to support delinquent indebtedness of our parent company and could be sold to satisfy that indebtedness."

Regulatory Approvals Required for the Merger

The consummation of the merger is not subject to any regulatory or governmental approvals or filings, other than (i) the filing of a certificate of merger with the Secretary of State of the State of Delaware and (ii) the declaration by the SEC of the effectiveness of the registration statement of which this proxy statement/prospectus forms a part, and any required notice or other filings under applicable state securities laws.

Listing on NASDAQ

The approval for listing of our common shares on the NASDAQ Capital Market, including the shares issued in the merger, subject only to official notice of issuance, is a condition to the obligations of Newegg to complete the merger. We have applied for such listing under the symbol "NEGG."

Material U.S. Federal Income Tax Consequences of the Merger

The following discussion constitutes part of the opinion of Potomac Law Group, PLLC, tax counsel to the Company, as to the material U.S. federal income tax consequences of the merger to the U.S. holders of Newegg common stock. This discussion is based upon provisions of the Code, U.S. Treasury Regulations, and administrative rulings and court decisions, all as in effect or in existence on the date of this proxy statement/prospectus and all of which are subject to change or differing interpretations by the IRS or a court, possibly with retroactive effect. Changes in these authorities may cause the tax consequences of the merger to vary substantially from the consequences described below. An opinion from Potomac Law Group, PLLC has been requested by us and is attached to this prospectus as Exhibit 8.1. The opinion of counsel will be based upon and rely on, among other things, various facts and assumptions, as well as certain representations, statements and undertakings of us and Newegg.

This discussion addresses only those U.S. holders (as defined below) of Newegg common stock that hold such stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment), and does not address all the United States federal income tax consequences that may be relevant to Newegg or to any U.S. holders of Newegg stock in light of their individual circumstances such as (i) beneficial owners of Newegg stock subject to special tax rules (e.g., banks or other financial institutions, real estate investment trusts, regulated investment companies, insurance companies, broker-dealers, traders that elect or are required to mark-to-market for U.S. federal income tax purposes, tax-exempt organizations and retirement plans, individual retirement accounts and tax-deferred accounts, or former citizens or long-term residents of the United States) or to persons that hold Newegg stock as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, (ii) partnerships or other entities classified as partnerships for U.S. federal income tax purposes or their partners, (iii) U.S. holders that have a functional currency other than the U.S. dollar, (iv) U.S. holders of stock rights, options, or warrants with respect to Newegg stock, or (v) U.S. holders of Newegg stock that acquired their Newegg stock as compensation, all of whom may be subject to tax rules that differ significantly from those summarized below. This discussion also does not address any ways in which the tax consequences may differ for holders of preferred stock. If a partnership or other entity classified as a partnership for U.S. federal income tax purposes holds Newegg stock, the tax treatment of its partners generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. If you are a partner in a partnership holding Newegg stock, you should consult your own tax advisor regarding the tax consequences to you of the partnership's purchase, ownership and sale of Newegg stock.

This discussion does not discuss (i) the U.S. federal income tax consequences to a U.S. holder of Newegg stock who dissents and exercises appraisal rights, (ii) any state or local, foreign, estate, gift or alternative minimum tax considerations concerning the merger, or (iii) any information regarding a non-U.S. holder. A non-U.S. holder is a holder that is not a U.S. holder. If you are not a U.S. holder you should consult with your own tax advisor as to the United States federal, state, local, and foreign tax laws with respect to the merger.

Accordingly, each beneficial owner of Newegg stock is urged to consult its own tax advisors regarding the U.S. federal, state, local, foreign, and other tax consequences of the merger to such owner.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of Newegg common or preferred stock that:

- is an individual U.S. citizen or resident (as determined for U.S. federal income tax purposes),
- a corporation (or other entity that is classified as a corporation for U.S. federal income tax purposes) organized under the laws of the United States or any of its political subdivisions,
- an estate the income of which is subject to U.S. federal income taxation regardless of its source, or

- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons" (as defined in the Code) have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under current U.S. Treasury Regulations to be treated as a "United States person."

The Company and Newegg have structured the merger with the intent that it will qualify as a tax-free "reorganization" within the meaning of Section 368(a) of the Code, specifically as a "reverse subsidiary merger" under Section 368(a)(2)(E) of the Code. However, the qualification of the merger as a reorganization depends on compliance with numerous technical requirements, and, as described in "Risk Factors", there is a risk that the merger may not satisfy certain of these requirements. The Company and Newegg have not sought, and will not seek, any ruling from the IRS regarding any matter affecting the merger or any of the United States federal income tax consequences discussed herein; and have not sought, and will not seek, any tax opinion from their respective legal counsel regarding the qualification of the merger as a tax-free "reorganization" within the meaning of Section 368(a) of the Code. Thus, there can be no assurance that the IRS will ultimately conclude that the merger does meet all of the requirements for qualification as a "reorganization" within the meaning of Section 368(a) of the Code and generally as a tax-free transaction, and there can be no assurance that any of the other statements made herein would not be challenged by the IRS and, if so challenged, would be sustained upon review in a court. A successful challenge by the IRS could result in taxable income to Newegg and, as described below, its stockholders.

If the merger is treated as a tax-free reorganization within the meaning of Section 368(a) of the Code, then, subject to the limitations and qualifications referred to herein, the following U.S. federal income tax consequences should result:

- A U.S. holder of Newegg stock will not recognize any gain or loss upon the receipt of Company shares in the merger.
- The aggregate adjusted tax basis of the shares received in the transaction by a U.S. holder of Newegg stock will be equal to the aggregate adjusted tax basis of such holder's Newegg stock exchanged therefor.
- The holding period for shares received in the transaction by a U.S. holder of Newegg stock will include the holding period of such U.S. holder's Newegg stock exchanged therefor.

If the merger does not qualify as a tax-free reorganization within the meaning of Section 368(a) of the Code, then the merger generally will be a taxable transaction, in which, in general, a U.S. holder will recognize capital gain or loss on the exchange in an amount equal to the difference, if any, between (i) the sum of the fair market value of Company shares and the fair market value of other merger consideration received and (ii) the U.S. holder's adjusted tax basis in the Newegg stock exchanged in the merger. Gain or loss, as well as the holding period, will be determined separately for each block of shares exchanged pursuant to the merger. Such gain or loss will be long-term capital gain or loss provided that the U.S. holder has held (or is treated as having held) his or her Newegg stock for more than one year as of the date of the merger. Otherwise, the recognized gain or loss generally will be a short-term capital gain or loss. **The deductibility of capital losses may be subject to limitations, so U.S. holders are urged to consult with their own tax advisors about their particular tax consequences, including the potential deductibility of their capital losses, if any.** The U.S. holder will have an adjusted tax basis in the shares received equal to its fair market value, and the holding period of the shares received by a U.S. holder pursuant to the merger will generally start anew. If the merger is determined by the Company to be a taxable transaction, then information returns will be filed with the IRS with respect to each U.S. holder receiving shares in the merger.

U.S. federal backup withholding or other withholding may apply to any exchange of stock pursuant to the merger, unless the U.S. holder furnishes its taxpayer identification number and other required information to the exchange agent (or otherwise provides acceptable proof of an applicable exemption) and complies with all applicable requirements of the withholding rules.

For a discussion of the material U.S. federal income tax consequences of owning our common shares after the merger, see "Taxation."

Anticipated Accounting Treatment

The merger will be accounted for as a reverse merger in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. Under this method of accounting, the Company will be treated as the "acquired" company for financial reporting purposes. This determination was primarily based on Newegg comprising the ongoing operations of the combined company, Newegg's senior management comprising the senior management of the combined company and Newegg shareholder having a majority of the voting power of the combined company. For accounting purposes, Newegg will be deemed to be the accounting acquirer in the transaction and, consequently, the transaction will be treated as a recapitalization of Newegg (i.e., a capital transaction involving the issuance of shares by the Company for the stock of Newegg). Accordingly, the consolidated assets, liabilities and results of operations of Newegg will become the historical financial statements of the combined company, and the Company's assets, liabilities and results of operations will be consolidated with Newegg beginning on the acquisition date.

Transaction Expenses

The Company estimates that its total merger transaction expenses will be approximately $1.20 million, which includes financial advisor fees of approximately $0.27 million, legal fees in the amount of approximately $0.60 million, accounting fees in the amount of approximately $0.14 million, transfer agent fees in the amount of approximately $0.01 million, printing and mailing fees in the amount of approximately $0.05 million, filing fees in the amount of approximately $0.10 million and other expenses in the amount of approximately $0.03 million. None of these expenses are contingent on approval and consummation of the merger unless stated otherwise.

Newegg estimates that its total merger transaction expenses will be approximately $2.24 million, which includes legal fees in the amount of approximately $1.15 million and accounting fees in the amount of approximately $1.09 million. None of these expenses are contingent on approval and consummation of the merger unless stated otherwise.

No Appraisal or Dissenters' Rights

Under BVI law, our shareholders will not be entitled to appraisal or dissenters' rights in connection with the merger.

Vote Required

Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required to approve the merger proposal.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommended that shareholders vote "FOR" the merger proposal.

THE MERGER AGREEMENT

The following is a summary of the material terms and conditions of the merger agreement. This summary may not contain all the information about the merger agreement that is important to you. This summary is qualified in its entirety by reference to the merger agreement attached as Annex A to, and incorporated by reference into, this proxy statement/prospectus. You are encouraged to read the merger agreement in its entirety because it is the legal document that governs the merger.

The merger agreement and the summary of its terms in this proxy statement/prospectus have been included to provide information about the terms and conditions of the merger agreement. The terms, conditions and information in the merger agreement are not intended to provide any public disclosure of factual information about the Company, Newegg or any of their respective subsidiaries or affiliates. The representations, warranties, covenants and agreements contained in the merger agreement were made by the Company, Newegg and Merger Sub as of specific dates and were qualified and subject to certain limitations and exceptions agreed to by the Company, Newegg and Merger Sub in connection with negotiating the terms of the merger agreement. In particular, in your review of the representations and warranties contained in the merger agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated for the purpose of allocating contractual risk among the parties to the merger agreement rather than to establish matters as facts. The representations and warranties may also be subject to a contractual standard of materiality or material adverse effect that is different from what may be viewed as material by shareholders or other investors and from the materiality standard applicable to reports and documents filed with the SEC and in some cases may be qualified by disclosures made by one party to the other, which are not reflected in the merger agreement. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement/prospectus, may have changed since the date of the merger agreement.

For the foregoing reasons, the representations, warranties, covenants and agreements and any descriptions of those provisions should not be read alone as characterizations of the actual state of facts or condition of the Company, Newegg or any of their respective subsidiaries or affiliates. Instead, such provisions or descriptions should be read only in conjunction with the other information provided elsewhere in this proxy statement/prospectus or incorporated by reference into this proxy statement/prospectus.

Structure of the Merger

The merger agreement provides for the merger, in which Merger Sub will be merged with and into Newegg, with Newegg surviving the merger as a wholly owned subsidiary of the Company.

Upon the completion of the merger, the Company's memorandum and articles of association as in effect immediately prior to the merger shall continue to be the memorandum and articles of association of the Company, subject to the amendments to be considered at the special meeting that are described elsewhere in this proxy statement/prospectus. Upon the completion of the merger, all of the directors (except for one) and officers of Newegg immediately prior to the merger will be appointed to the same positions within the Company and all of our current directors and officers will resign. See "Directors and Executive Officers" for more information about our management upon completion of the merger.

Completion and Effectiveness of the Merger

The merger will be completed and become effective at such time as the certificate of merger for the merger is filed with the Secretary of State of the State of Delaware (or at such time as agreed to between the Company and Newegg and as specified in such certificate of merger) in accordance with applicable law. Unless the merger agreement is terminated or another date and time are agreed to by the Company and Newegg, completion of the merger will occur no later than the second business day following the day on which the last of the conditions described under "— Conditions to Completion of the Merger" is satisfied or waived (other than those conditions that by their nature are to be satisfied at the closing of the merger, but subject to the satisfaction or waiver of such conditions).

As of the date of this proxy statement/prospectus, we expect that the merger will be completed by May 31, 2021. However, completion of the merger is subject to the satisfaction or waiver of the conditions to completion of the merger, which are summarized below. There can be no assurances as to when, or if, the merger will occur. If the

merger is not completed on or before June 30, 2021, either the Company or Newegg may terminate the merger agreement; provided that the right to terminate the merger agreement if the merger is not completed on or prior to such date will not be available to either of the Company or Newegg if the failure of the merger to be consummated by such date is due to a material breach by such party of any representation, warranty, covenant or other agreement of such party set forth in the merger agreement. See "— Conditions to Completion of the Merger" and "— Termination of the Merger Agreement."

Merger Consideration

If the merger is completed, each share of the capital stock of Newegg that was issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 5.8417 common shares of the Company (which we refer to as the exchange ratio), plus the right, if any, to receive cash in lieu of fractional shares of the Company (which we collectively refer to as the merger consideration); provided that the exchange ratio shall be appropriately adjusted to reflect the effect of any share split, split-up, reverse share split, share dividend or distribution of securities convertible into the Company's common shares or Newegg's capital stock or any reorganization, recapitalization, reclassification or other like change with respect to Company's common shares or Newegg's capital stock having a record date occurring on or after the date of the merger agreement and prior to the completion of the merger.

The exchange ratio is equal the Newegg per share value divided by the Company per share value. The Newegg per share value is equal $880,000,000 divided by the number of outstanding Newegg shares on October 23, 2020. The Company per share value" shall equal (i) the volume-weighted average trading price of the Company's Class A common shares for the consecutive twenty (20) trading days immediately prior to and including October 16, 2020, as adjusted for a 1 to 8 reverse stock split effective on the date of merger agreement minus (ii) (A) $3,500,000 deposited in the escrow account divided by (B) the number of Company Class A common shares and Class B common shares issued and outstanding on the date of merger agreement, after giving effect to such reverse stock split.

Fractional Shares

No fractional shares will be issued to any holder of Newegg capital stock upon the completion of the merger. Instead, the Company will pay in cash, without interest, an amount equal to the amount of such fractional shares times $3.3944, the volume-weighted average trading price of the Company's Class A common shares for the consecutive twenty (20) trading days immediately prior to and including October 16, 2020, after giving effect to the 1 to 8 reverse stock split.

Shares Subject to Properly Exercised Appraisal Rights

Newegg shares issued and outstanding immediately prior to the completion of the merger and held by a holder who is entitled to demand, and has properly demanded, appraisal for such Newegg shares in accordance with the General Corporation Law of the State of Delaware will not be converted into the right to receive the merger consideration to which they would otherwise be entitled to under the merger agreement, but will instead be converted into the right to receive such consideration as may be determined to be due to such holder pursuant to the procedures set forth in the General Corporation Law of the State of Delaware. If any such holder withdraws its demand for appraisal or fails to perfect or otherwise loses its right of appraisal pursuant to the General Corporation Law of the State of Delaware, then such holder's Newegg shares will instead be deemed to have been converted into the right to receive the merger consideration.

Treatment of Newegg Equity Awards

The terms of the equity-based compensation issued by Newegg prior to the merger will be assumed by the Company. The shares of common stock that are issued or may be issued under Newegg's Incentive Award Plan and Significant Shareholder Incentive Plan or granted by Newegg outside of such plans will be converted into the right to receive our common shares in accordance with the exchange ratio, but otherwise on the same terms and conditions.

Escrow Account

The Company has placed $3,500,000 into a U.S. bank account designated by a third-party escrow agent mutually selected by the Company and Newegg. The escrow amount will be used solely to (i) defend, indemnify and hold harmless Newegg, the Company and each of their respective affiliates and representatives against, and satisfy any liabilities relating to, any actions relating to the securities purchase agreements dated February 12, 2020, February 21, 2020 and February 27, 2020 between the Company and certain investors or the Class A common share purchase warrants issued on February 14, 2020, February 25, 2020, and March 2, 2020, in each case as amended or restated and (ii) pay the termination fee that may become payable by the Company to Newegg in accordance with the terms of the merger agreement.

Conditions to Completion of the Merger

Mutual Conditions to Completion

The obligation of each of the Company, Newegg and Merger Sub to complete the merger is subject to the fulfillment (or waiver, to the extent permissible under applicable law) of the following conditions:

- the shareholders of the Company shall have approved the merger, the disposition and the other proposals set forth herein (other than the adjournment proposal), which shall in all cases include approval of a majority of votes cast which are not beneficially owned by Hangzhou Lianluo;
- all consents or filings required to be obtained from or made with any governmental authority or third parties in order to consummate the transactions contemplated by the merger agreement shall have been obtained or made;
- no governmental authority shall have enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) or order that is then in effect and which has the effect of making the transactions or agreements contemplated by the merger agreement or the disposition agreement illegal or which otherwise prevents or prohibits consummation of the transactions contemplated by the merger agreement;
- there shall not be any pending action brought by a third-party non-affiliate to enjoin or otherwise restrict the consummation of the merger or the disposition;
- the persons identified by Newegg shall have been elected or appointed to the Company's board of directors;
- all of the conditions to the obligations of each party to consummate the disposition described in the disposition agreement shall have been satisfied;
- the amendment to that certain stockholder agreement, dated March 30, 2017, between Newegg and certain stockholders of Newegg that was entered into concurrently with the merger agreement shall be in full force and effect and shall be assigned from Newegg to the Company at the closing of the merger;
- the registration statement of which this proxy statement/prospectus forms a part shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order;
- the registration statement on Form F-1 relating to a public offering of common shares of the Company for $30 million, or such other amount necessary to meet NASDAQ's initial listing requirements shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order; and
- the foregoing offering shall have simultaneously closed at the time of the merger, with the disposition closing immediately thereafter.

Additional Conditions to Completion for the Benefit of Newegg

In addition, the obligation of Newegg to complete the merger is subject to the satisfaction (or waiver, to the extent permitted by applicable law) of the following conditions:

- all of the representations and warranties of the Company and the Merger Sub set forth in the merger agreement and in any certificate delivered by the Company and the Merger Sub pursuant thereto shall be true and correct on and as of the date of the agreement and on and as of the completion date of the merger as if made on the completion date, except for (i) those representations and warranties that address matters only as of a particular date (which representations and warranties shall have been accurate as of such date), and (ii) any failures to be true and correct that (without giving effect to any qualifications or limitations as to materiality or material adverse effect), individually and in the aggregate, have not had and would not reasonably be expected to have a material adverse effect on, or with respect to, the Company and its subsidiaries or materially and adversely affects the Company and the Merger Sub's ability to consummate the transactions contemplated by the merger agreement (see "— Definition of Material Adverse Effect" for the definition of material adverse effect);
- the Company and the Merger Sub shall have performed in all material respects all of such party's obligations and complied in all material respects with all of such party's agreements and covenants under the merger agreement to be performed or complied with by it on or prior to the completion of the merger;
- no material adverse effect shall have occurred with respect to the Company, Merger Sub and any subsidiary since the date of the merger agreement;
- the Company shall have entered into employment agreements, in form and substance reasonably satisfactory to Newegg, with the persons identified by Newegg;
- Newegg shall have received a duly executed legal opinion addressed to Newegg from the Company's legal counsel in form and substance reasonably satisfactory to Newegg;
- Newegg shall have received from the Company copy of the amended and restated memorandum and articles of association of the Company approved by shareholders at the special meeting;
- the Company and Merger Sub shall have delivered to Newegg customary officer's certificates, secretary's certificates and good standing certificates;
- if required, the transactions contemplated by the merger agreement shall have been approved by the investors pursuant to the securities purchase agreements that the investors and the Company entered into on February 12, February 21 and February 27, 2020; and
- the Company shall have been approved by NASDAQ for listing following the merger.

Additional Conditions to Completion for the Benefit of the Company and Merger Sub

In addition, the obligation of each of the Company and Merger Sub to complete the merger is subject to the satisfaction (or waiver, to the extent permitted by applicable law) of the following conditions:

- all of the representations and warranties of Newegg (including its subsidiaries) set forth in the merger agreement and in any certificate delivered by Newegg pursuant thereto shall be true and correct on and as of the date of the merger agreement and on and as of the completion date of the merger as if made on the completion date, except for (i) those representations and warranties that address matters only as of a particular date (which representations and warranties shall have been accurate as of such date), and (ii) any failures to be true and correct that (without giving effect to any qualifications or limitations as to materiality or material adverse effect), individually or in the aggregate, have not had and would not reasonably be expected to have a material adverse effect on, or with respect to, Newegg and any subsidiary or materially and adversely affect Newegg's ability to consummate the transactions contemplated by the merger agreement;

- Newegg shall have performed in all material respects all of Newegg's obligations and complied in all material respects with all of Newegg's agreements and covenants under the merger agreement to be performed or complied with by it on or prior to the completion of the merger;
- the lock-up agreements entered into on the date of the merger agreement by among Newegg, the Company and any Newegg stockholders who would hold more than 5% of the Company common shares immediately after the closing of the merger shall be in full force and effect;
- No material adverse effect shall have occurred and be continuing with respect to Newegg and its subsidiaries, taken as whole, since the date of the merger agreement;
- Newegg shall have delivered to the Company and Merger Sub customary officer's certificates, secretary's certificates, good standing certificates and a certified copy of its certificate of incorporation; and
- the Company and Merger Sub shall have received a duly executed legal opinion addressed to the Company and Merger Sub from Newegg's legal counsel in form and substance reasonably satisfactory to the Company and Merger Sub.

Representations and Warranties

The merger agreement contains a number of representations and warranties made by the Company, Merger Sub and Newegg, that are subject in certain cases to exceptions and qualifications (including exceptions that are not material to the party making the representations and warranties and its subsidiaries, taken as a whole, and exceptions that do not have, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the party making the representations and warranties). The representations and warranties in the merger agreement relate to, among other things:

- organization, good standing and corporate power;
- due authorization, execution and validity of the merger agreement;
- capitalization;
- ownership of subsidiaries;
- governmental approvals for the merger;
- absence of any violation, conflict, default under or breach of agreements, or any conflict with or violation of organizational documents or laws as a result of the execution or delivery of the merger agreement and completion of the merger;
- financial statements and disclosures;
- absence of certain changes or events since December 31, 2019;
- compliance with laws and permits;
- litigation;
- material contracts;
- intellectual property;
- tax matters;
- real or personal properties owned or leased by a party to the merger agreement;
- labor and other employee matters;
- employee benefit plans;
- transactions with related persons;

- books and records;
- accounts receivable;
- business practices;
- Investment Company Act of 1940;
- fees payable to finders or brokers in connection with the merger;
- information provided by the applicable party for inclusion in disclosure documents to be filed with the SEC in connection with the merger;
- SAFE registrations; and
- SEC filings, the absence of material misstatements or omissions from such filings.

Definition of Material Adverse Effect

Many of the representations and warranties in the merger agreement are qualified by the term "material adverse effect."

For purposes of the merger agreement, "material adverse effect" means any effect that is or would be materially adverse to the business, operations, assets, condition (financial or otherwise) or results of operations of such party and its subsidiaries, taken as a whole, or to the ability of such party to enter into or perform its obligations under the merger agreement or any ancillary document to which it is or is required to be a party or to consummate the transactions under the merger agreement or such ancillary document; provided, however, that with respect to Company or its subsidiaries, "material adverse effect" shall be measured after giving effect to the disposition and shall also include any effect that is or would be reasonably expected to be materially adverse to the issuance of the common shares to be issued in the merger and listing thereof on NASDAQ.

Conduct of Business Pending the Merger

Each of the Company and Newegg have agreed that, unless the other party shall otherwise consent in writing (such consent not to be unreasonably withheld, conditioned or delayed), during the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, except as expressly contemplated by the merger agreement or necessary for the consummation of the transaction contemplated thereby, each party shall, and shall cause its subsidiaries to, (i) conduct their respective businesses, in all material respects, in the ordinary course of business consistent with past practice, (ii) comply with all laws applicable to each party and their respective businesses, assets and employees, and (iii) take all reasonable measures necessary or appropriate to preserve intact, in all material respects, their respective business organizations, to keep available the services of their respective managers, directors, officers, employees and consultants, to maintain, in all material respects, their existing relationships with all top customers and top suppliers (as such terms are defined in the merger agreement), and to preserve the possession, control and condition of their respective material assets, all as consistent with past practice. The Company also agreed to settle any and all pending or threatened actions, lawsuits and/or proceedings involving any it or any of its subsidiaries, its current or former directors, officers or equity holders in connection with any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act or transaction existing prior to the completion of the merger. The Company and its subsidiaries (excluding Lianluo Connection) will not reduce their consolidated working capital (as determined in accordance with GAAP) by more than $1,000,000, and the Company and its subsidiaries (excluding Lianluo Connection) will not reduce their consolidated net assets (measured as the sum of their assets minus their liabilities, each as determined in accordance with GAAP) by more than $1,000,000, except for any deviations from any of the foregoing due to expenses which are strictly necessary for the consummation of the transactions contemplated by the merger agreement or for maintenance of Company's status as an SEC reporting company with its Class A common shares listed on NASDAQ.

In addition, without limiting the generality of the foregoing and except as contemplated by the terms of the merger agreement, during the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, each of the Company and Newegg agreed that it shall not, and shall cause its subsidiaries not to, without the prior written consent of the other party (such consent not to be unreasonably withheld, conditioned or delayed):

- except for the changes contemplated by the charter amendment proposal, as otherwise necessary for the Company to maintain compliance with the minimum bid price requirements of the NASDAQ Capital Market, or to effectuate the merger agreement and the transactions contemplated thereby, amend, waive or otherwise change, in any respect, its organizational documents;
- subject to certain exceptions, authorize for issuance, issue, grant, sell, pledge, dispose of or propose to issue, grant, sell, pledge or dispose of any of its equity securities or any options, warrants, commitments, subscriptions or rights of any kind to acquire or sell any of its equity securities, or other securities, including any securities convertible into or exchangeable for any of its equity securities or other security interests of any class and any other equity-based awards, or engage in any hedging transaction with a third person with respect to such securities;
- except for the changes contemplated by the charter amendment proposal, or as otherwise necessary for the Company to maintain compliance with the minimum bid price requirements of the NASDAQ Capital Market, split, combine, recapitalize or reclassify any of its shares or other equity interests or issue any other securities in respect thereof or pay or set aside any dividend or other distribution (whether in cash, equity or property or any combination thereof) in respect of its equity interests, or directly or indirectly redeem, purchase or otherwise acquire or offer to acquire any of its securities;
- in the case of Newegg, incur, create, assume, prepay or otherwise become liable for any indebtedness (directly, contingently or otherwise), outside the ordinary course of business, in excess of $250,000 (individually or in the aggregate), make a loan or advance to or investment in any third party, or guarantee or endorse any indebtedness, liability or obligation of any person outside the ordinary course of business;
- in the case of the Company, except for accounts payable incurred in the ordinary course of business that are necessary to maintain the Company's public listing or to implement the transactions contemplated by the merger agreement, incur, create, assume or otherwise become liable for any indebtedness (directly, contingently or otherwise) or liability that the Company or any of its then current subsidiaries would be liable for after the disposition, make a loan or advance to or investment in any third party, or guarantee or endorse any indebtedness, liability or obligation of any person, or prepay any indebtedness of liability;
- increase the wages, salaries or compensation of its employees other than in the ordinary course of business, consistent with past practice, and in any event not in the aggregate by more than five percent (5%), or make or commit to make any bonus payment (whether in cash, property or securities) to any employee, or materially increase other benefits of employees generally, or enter into, establish, materially amend or terminate any benefit plan with, for or in respect of any current consultant, officer, manager director or employee, in each case other than as required by applicable law, pursuant to the terms of any benefit plans or in the ordinary course of business consistent with past practice;
- make or rescind any material election relating to taxes, settle any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes, file any amended tax return or claim for refund, or make any material change in its accounting or tax policies or procedures, in each case except as required by applicable law or in compliance with U.S. GAAP;
- other than the disposition of Lianluo Connection, transfer or license to any person or otherwise extend, materially amend or modify, permit to lapse or fail to preserve any of the Company's intellectual property, or disclose to any person who has not entered into a confidentiality agreement any trade secrets;
- terminate, waive or assign any material right under any material agreement to which it is a party;

- fail to maintain its books, accounts and records in all material respects in the ordinary course of business consistent with past practice;
- establish any subsidiary or enter into any new line of business;
- fail to use commercially reasonable efforts to keep in force insurance policies or replacement or revised policies providing insurance coverage with respect to its assets, operations and activities in such amount and scope of coverage as are currently in effect;
- revalue any of its material assets or make any change in accounting methods, principles or practices, except to the extent required to comply with U.S. GAAP and after consulting with its outside auditors;
- in the case of Newegg, waive, release, assign, settle or compromise any claim, action or proceeding (including any suit, action, claim, proceeding or investigation relating to the merger agreement or the transactions contemplated thereby), other than waivers, releases, assignments, settlements or compromises that involve only the payment of monetary damages (and not the imposition of equitable relief on, or the admission of wrongdoing by, Newegg or its affiliates) not in excess of $250,000 (individually or in the aggregate), or otherwise pay, discharge or satisfy any actions, liabilities or obligations, unless such amount has been reserved in Newegg's financial statements;
- in the case of the Company, waive, release, assign, settle or compromise any claim, action or proceeding (including any suit, action, claim, proceeding or investigation relating to the merger agreement or the transactions contemplated thereby), or otherwise pay, discharge or satisfy any actions, liabilities or obligations, unless such amount has been reserved in the Company's financial statements;
- in the case of Newegg, effectuate a "plant closing" (as defined in the federal Worker Adjustment and Retraining Notification Act) affecting any site of employment or one or more facilities or operating units within any site of employment or facility; or experience a "mass layoff" (as defined in such Act) affecting any site of employment or facility; or engaged in layoffs or employment terminations sufficient in number to trigger application of any similar state, local or foreign law or regulation;
- in the case of the Company, other than the disposition of Lianluo Connection, close or materially reduce its or any of its subsidiaries' activities, or effect any layoff or other personnel reduction or change, at any of their respective facilities;
- acquire, including by merger, consolidation, acquisition of stock or assets, or any other form of business combination, any corporation, partnership, limited liability company, other business organization or any division thereof, or any material amount of assets outside the ordinary course of business consistent with past practice;
- in the case of Newegg, make capital expenditures in excess of $250,000 (individually for any project (or set of related projects) or in the aggregate);
- in the case of the Company, make any expenditures in excess of $50,000 individually (or for any set of related expenditures) or $250,000 in the aggregate, other than expenditures which are paid for by Lianluo Connection which are strictly necessary and in the ordinary course of business of Lianluo Connection or expenses which are strictly necessary for the consummation of the transactions contemplated by the merger agreement or to maintain the Company's status as an SEC reporting company with its Class A common shares listed on NASDAQ;
- adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization, except as contemplated by the merger agreement and this proxy statement/prospectus;
- in the case of Newegg, voluntarily incur any liability or obligation (whether absolute, accrued, contingent or otherwise) in excess of $250,000 individually or $1,000,000 in the aggregate other than in the ordinary course of business or pursuant to the terms of a material contract or benefit plan in effect on the date of the merger agreement;

- other than the disposition of Lianluo Connection, sell, lease, license, transfer, exchange or swap, mortgage or otherwise pledge or encumber (including securitizations), or otherwise dispose of any portion of its properties, assets or rights;
- other than the support agreements, enter into any agreement, understanding or arrangement with respect to the voting of equity securities of such party;
- take any action that would reasonably be expected to significantly delay or impair the obtaining of any consents or approvals of any governmental authority to be obtained in connection with the merger agreement;
- enter into, amend, waive or terminate (other than terminations in accordance with their terms) any transaction with any related person (as defined in the merger agreement);
- transfer any cash in excess of $1,000,000 from the Company to any of its subsidiaries (other than Merger Sub); or
- authorize or agree to do any of the foregoing actions.

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During the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, each of the Company, Merger Sub and Newegg may and may cause its representatives to directly or indirectly, (i) solicit, assist, initiate or facilitate the making, submission or announcement of, or intentionally encourage, any acquisition proposal, (ii) furnish any non-public information regarding such party or its affiliates or their respective businesses, operations, assets, liabilities, financial condition, prospects or employees to any person or group in connection with or in response to an acquisition proposal, (iii) engage or participate in discussions or negotiations with any person or group with respect to, or that could be expected to lead to, an acquisition proposal, (iv) approve, endorse or recommend, or publicly propose to approve, endorse or recommend, any acquisition proposal, (v) negotiate or enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to any acquisition proposal, or (vi) release any third person from, or waive any provision of, any confidentiality agreement to which such party is a party.

Each of the Company, Merger Sub and Newegg agreed to notify the other as promptly as practicable (and in any event within 48 hours) orally and in writing of the receipt by such party or any of its representatives of (i) any bona fide inquiries, proposals or offers, requests for information or requests for discussions or negotiations regarding or constituting any acquisition proposal or any bona fide inquiries, proposals or offers, requests for information or requests for discussions or negotiations that could be expected to result in an acquisition proposal, and (ii) any request for non-public information relating to such party or its affiliates (or any subsidiary, respectively), specifying in each case, the material terms and conditions thereof (including a copy thereof if in writing or a written summary thereof if oral) and the identity of the party making such inquiry, proposal, offer or request for information. Each of the Company, Merger Sub and Newegg agreed to keep the other parties promptly informed of the status of any such inquiries, proposals, offers or requests for information.

For purposes of the merger agreement, an “acquisition proposal” means any inquiry, proposal or offer, or any indication of interest in making an offer or proposal, from any person or group at any time relating to an alternative transaction (other than the transactions contemplated by the merger agreement) concerning the sale of (i) all or any material part of the business or assets of any subsidiaries of Newegg or the Company and its subsidiaries, or (ii) any of the shares or other equity interests or profits of any subsidiaries of Newegg or the Company and its subsidiaries, in any case, whether such transaction takes the form of a sale of shares or other equity, assets, merger, consolidation, issuance of debt securities, management contract, joint venture or partnership, or otherwise.

Proxy Statement and Registration Statement Covenant

The Company agreed to prepare and file this proxy statement/prospectus with the SEC. Except with respect to the information provided by or on behalf of Newegg for inclusion in this proxy statement/prospectus, the Company agreed to ensure that, when furnished, this proxy statement/prospectus will comply in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder. The Company also agreed to cause this proxy statement/prospectus to be disseminated as promptly as practicable to its shareholders as and to the extent

such dissemination is required by U.S. federal securities laws and the rules and regulations of the SEC and NASDAQ promulgated thereunder or otherwise. Newegg agreed to promptly provide to the Company such information concerning it and its subsidiaries and their respective businesses, operations, condition (financial or otherwise), assets, liabilities, properties, officers, directors and employees as is either required by federal securities laws or reasonably requested by the Company for inclusion in this proxy statement/prospectus. Subject to compliance by Newegg with the immediately preceding sentence with respect to the information provided or to be provided by or on behalf of it for inclusion in this proxy statement/prospectus, the Company agreed to cause the proxy statement/prospectus to comply in all material respects with federal securities laws.

The Company also agreed to provide copies of the proposed forms of the proxy statement/prospectus (including any amendments or supplements thereto) to Newegg such that Newegg and its representatives are afforded a reasonable amount of time prior to the dissemination or filing thereof to review such material and comment thereon prior to such dissemination or submission, and the Company agreed to reasonably consider in good faith any comments of such persons. The Company and Newegg and their respective representatives agreed to respond promptly to any comments of the SEC or its staff with respect to the proxy statement/prospectus and promptly correct any information provided by it for use in the proxy statement/prospectus if and to the extent that such information shall have become false or misleading in any material respect or as otherwise required by federal securities laws. The Company agreed to provide Newegg and its representatives with copies of any written comments, and shall inform them of any material oral comments, that the Company or any of its representatives receive from the SEC or its staff with respect to the proxy statement/prospectus promptly after the receipt of such comments and shall give Newegg a reasonable opportunity under the circumstances to review and comment on any proposed written or material oral responses to such comments.

The Company agreed to use its reasonable commercial efforts to cause the registration statement of which this proxy statement/prospectus forms a part to "clear" comments from the SEC and its staff and to permit Newegg and its representatives to participate with the Company or its representatives in any discussions or meetings with the SEC and its staff. Newegg agreed to make, and to cause each of its subsidiaries to make, their respective directors, officers and employees, upon reasonable advance notice, available to the Company and its representatives in connection with the drafting of the public filings with respect to the transactions contemplated by the merger agreement, including the proxy statement/prospectus, and responding in a timely manner to comments from the SEC.

The Company agreed to call the special meeting as promptly as reasonably practicable after the registration statement of which this proxy statement/prospectus forms a part has "cleared" comments from the SEC.

The Company and Newegg also agreed that, if at any time prior to the completion of the merger, any information relating to the Company, on the one hand, or Newegg, on the other hand, or any of their respective affiliates, businesses, operations, condition (financial or otherwise), assets, liabilities, properties, officers, directors or employees, should be discovered by the Company, on the one hand, or Newegg, on the other hand, that should be set forth in an amendment or supplement to this proxy statement/prospectus, so that such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify each other party and an appropriate amendment or supplement describing such information shall be promptly furnished to the SEC and, to the extent required by law, disseminated to the Company's shareholders.

Other Covenants and Agreements

The merger agreement contains certain other covenants and agreements, including covenants and agreements requiring that, among other things, and subject to certain exceptions and qualifications described in the merger agreement:

- each of the Company and Newegg will provide the other party and its representatives at reasonable times during normal business hours and upon reasonable intervals and notice, access to all offices and other facilities and to all employees, properties, contracts, agreements, commitments, books and records, financial and operating data and other information as the other party may reasonably request;

- from the date of the merger agreement through the completion of the merger, within thirty (30) calendar days following the end of each three-month quarterly period and each fiscal year, Newegg will deliver to the Company an unaudited consolidated income statement and an unaudited consolidated balance sheet for the period from the date of the most recent audited financials through the end of such quarterly period or fiscal year and the applicable comparative period in the preceding fiscal year, in each case accompanied by a certificate of the chief executive officer and the chief financial officer of Newegg to the effect that all such financial statements fairly present in all material respects the consolidated financial position and results of operations of Newegg as of the date or for the periods indicated, in accordance with U.S. GAAP, subject to year-end audit adjustments and excluding footnotes;
- from the date of the merger agreement through the completion of the merger, Newegg will also promptly deliver to the Company copies of any audited consolidated financial statements of Newegg and its subsidiaries that Newegg's certified public accountants may issue;
- during the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, the Company will keep current and timely file all of its public filings with the SEC (including any extension periods that may be applicable) and otherwise comply in all material respects with applicable securities laws and shall use its commercially reasonable efforts to maintain the listing of its Class A common shares on NASDAQ;
- during the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, each of the Company and Newegg will to give prompt notice of certain material developments as more particularly described in the merger agreement; and
- each of the Company and Newegg will use its commercially reasonable efforts and cooperate fully to take all actions necessary, proper or advisable in order to complete the merger.

Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after shareholders have approved the merger, in any of the following ways:

- by mutual written consent of the Company and Newegg;
- by either the Company or Newegg (i) if the merger shall not have occurred on or prior to April 30, 2021; provided, that the right to terminate shall not be available to any party whose material breach of a representation, warranty or covenant in the merger agreement has been a principal cause of the failure of the merger to be consummated on or before such outside date, provided further that such outside date shall be automatically extended up to two additional times by one month each time if, on the then current outside date (A) all conditions to closing, except for NASDAQ initial listing, have been satisfied or waived, or are imminently capable of being satisfied, (B) NASDAQ initial listing is reasonably likely to be satisfied by such outside date, as extended, and (C) the parties have exercised and continue to exercise their best efforts to satisfy the conditions of NASDAQ initial listing; (ii) if any governmental authority of competent jurisdiction shall have issued an order or taken any other action permanently restraining, enjoining or otherwise prohibiting the merger, and, in each case, such order or action shall have become final and non-appealable; provided, that the right to terminate shall not be available to any party whose material breach of a representation, warranty or covenant in the merger agreement has been the principal cause of such action, (iii) if the approval of a majority of votes cast which are not beneficially owned by Hangzhou Lianluo shall not have been obtained at the special shareholder meeting; or (iv) if any required approval by the Newegg shareholders shall not have been obtained within five days after the date of the merger agreement;
- by Newegg (provided it is not then in material breach of any of its obligations under the merger agreement) (i) if there is any breach of any representation, warranty, covenant or agreement on the part of the Company or Merger Sub set forth in the merger agreement, or if any representation or warranty of the Company or Merger Sub shall have become untrue, in either case such that the applicable conditions set forth in the merger agreement would not be satisfied; provided, however, if such breach is curable

by the Company or Merger Sub, Newegg may not terminate for so long as the Company or Merger Sub continue to exercise their best efforts to cure such breach, unless such breach is not cured within thirty (30) days after notice of such breach is provided by Newegg to the Company, (ii) if for any reason the Company fails to call and hold the special meeting within sixty (60) days following the filing of this registration statement of which this proxy statement/prospectus forms a part, unless such failure is as a result of the Company responding in good faith to comments on such registration statement, or the registration statement on Form F-1 related to the public offering of the Company's common shares for $30 million, or such other amount necessary to meet NASDAQ's initial listing requirements, received from the SEC or comments from NASDAQ, or (iii) if the Company's board (or any subgroup or committee thereof) withdraws, modifies or changes its recommendation of the merger agreement or the merger in a manner adverse to Newegg or shall have resolved to do any of the foregoing, or approves or recommends, or proposes to approve or recommend, an acquisition proposal; or (iv) if the escrow amount is not placed into the escrow account within five days after the date of the merger agreement;

- by the Company (provided neither it nor its subsidiary is then in material breach of any of their obligations under the merger agreement) (i) if there is any breach of any representation, warranty, covenant or agreement on the part of Newegg as set forth in the merger agreement or if any representation or warranty of Newegg shall have become untrue, in either case such that the applicable conditions set forth in the merger agreement would not be satisfied; provided, however, if such breach is curable by Newegg, the Company may not terminate the merger agreement for so long as Newegg continues to exercise its best efforts to cure such breach, unless such breach is not cured within thirty (30) days after notice of such breach is provided by the Company to Newegg, or (ii) if the Newegg board (or any subgroup or committee thereof) (A) withdraws, modifies or changes its recommendation of the merger agreement or the merger in a manner adverse to the Company or shall have resolved to do any of the foregoing, or (B) approves or recommends, or proposes to approve or recommend, an acquisition proposal;

- by Newegg if it receives a bona fide written offer prior to the approval of the merger by our shareholders at the special meeting, and Newegg's special committee determines in good faith (based upon a written opinion of an independent financial advisor) that such offer constitutes a superior offer to the stockholders of Newegg to the terms set forth in the merger agreement, and the special committee determines in good faith (based upon advice of counsel) that, in light of such superior offer, the withdrawal or modification of the board's approval is required in order for the board to comply with its fiduciary obligations to Newegg's stockholders under the applicable law; or

- by the Company if it receives a bona fide written offer prior to the approval of the merger by our shareholders at the special meeting, and the Company's special committee determines in good faith (based upon a written opinion of an independent financial advisor) that such offer constitutes a superior offer to the shareholders of the Company to the terms set forth in the merger agreement, and the special committee determines in good faith (based upon advice of counsel) that, in light of such superior offer, the withdrawal or modification of the board's approval is required in order for the board to comply with its fiduciary obligations to the Company's shareholders under the applicable law.

If the merger agreement is validly terminated, the merger agreement will terminate (except that the confidentiality agreement between Newegg and the Company, and the provisions described in Section 5.12 (Public Announcements), Section 5.13 (Confidential Information), Section 7.2 (Effect of Termination), Article VII (Termination), Article VIII (Indemnification) and Article IX (General Provisions) of the merger agreement, which provisions shall survive such termination), and there will be no other liability on the part of either party to the other except as described under "— Termination Fees and Expenses;" provided, that no party will be relieved from liability for any willful breach of a representation or warranty contained in the merger agreement or the breach of any covenant contained in the merger agreement, in which case the aggrieved party will be entitled to all rights and remedies available at law or in equity in accordance with the terms of the merger agreement.

Termination Fees and Expenses

If the merger agreement is terminated (i) due to the failure of the Company to obtain the approval of a majority of votes cast which are not beneficially owned by Hangzhou Lianluo at the special shareholder meeting, or (ii) upon any of the events described in the third or sixth bullet under "— Termination of the Merger Agreement" above, then the Company is required to immediately pay to Newegg in cash or by wire transfer of immediately available funds or by disbursement from the escrow account an amount equal to $450,000.

If the merger agreement is terminated (i) due to the failure of Newegg to obtain any required approval by the Newegg shareholders within five days after the date of the merger agreement, or (ii) upon the event described in the fourth or fifth bullet under "— Termination of the Merger Agreement" above, then Newegg is required to immediately pay to the Company in cash or by wire transfer of immediately available funds an amount equal to $450,000. During the period from the date of the merger agreement and continuing until the earlier of the termination of the merger agreement or the completion of the merger, Newegg agreed to keep $450,000 of cash available for the payment of the foregoing termination fee.

Other Expenses

The merger agreement provides that each of the Company, Merger Sub and Newegg will pay its own costs and expenses in connection with the transactions contemplated by the merger agreement.

Specific Performance

The parties to the merger agreement are entitled to an injunction or injunctions to prevent breaches of the merger agreement and to specifically enforce the terms of the merger agreement.

Amendments

The merger agreement may be amended by a written agreement signed by Newegg and the Company.

THE SUPPORT AGREEMENTS

The following is a summary of the material terms and conditions of the support agreements. This summary may not contain all the information about the support agreements that is important to you. This summary is qualified in its entirety by reference to the support agreements attached as Annexes B and C to, and incorporated by reference into, this proxy statement/prospectus. You are encouraged to read the support agreements in their entirety because they are the legal documents that governs the matters discussed in the summary below.

Agreement to Vote and Irrevocable Proxy

Concurrently with the execution of the merger agreement, the Company and Newegg entered into support agreements with Hangzhou Lianluo, Hyperfinite Galaxy Holding Limited, and Mr. Ping Chen. The common shares outstanding that are beneficially owned by these shareholders and subject to the support agreements constitute approximately 81.5% of the total voting power of the issued and outstanding common shares as of the record date.

Pursuant to the support agreements, each shareholder agreed that, prior to the earlier to occur of the termination of the merger agreement or the completion of the merger (which we refer to as the expiration date) at any meeting including any postponement or adjournment thereof of the Company's shareholders, or in connection with any written consent of shareholders, such shareholder shall (i) appear at such meeting or otherwise cause all of his or her shares as of the date of the support agreements, and any additional shares or other equity securities of the Company that such shareholder purchases or with respect to which such shareholder otherwise acquires sole or shared voting power (including any proxy, other than to the extent such proxy expressly limits such proxy holder's ability to act as provided in the support agreements) after the date of the support agreements, whether by the exercise of any options, warrants or otherwise, including, without limitation, by gift, succession, in the event of a share split or as a dividend or distribution of any shares, which, together with the existing shares as of the date of the support agreements, are referred to in this proxy statement/prospectus as the voting shares, to be counted as present thereat for purposes of calculating a quorum and (ii) vote or cause to be voted all of his or her voting shares (A) in favor of each of the proposals described in this proxy statement/prospectus and (B) against any agreement, transaction or other matter that is intended to, or would reasonably be expected to, impede, interfere with, delay, postpone, discourage or materially and adversely affect the consummation of the proposals described in this proxy statement/prospectus. The shareholders also agreed that they will not take or commit or agree to take any action inconsistent with the foregoing and will take such further affirmative steps as may be reasonably required to effect the foregoing.

In addition, each shareholder appointed Newegg and any of its designees with full power of substitution and resubstitution, as such shareholder's true and lawful attorney and irrevocable proxy, to the fullest extent of such shareholder's rights with respect to the voting shares, to vote and exercise all voting and related rights, including the right to sign such shareholder's name (solely in its capacity as a shareholder) to any shareholder consent, if such shareholder is unable to perform or otherwise does not perform his, her or its obligations under the support agreements with respect to such voting shares, solely with respect to the proposal set forth in this proxy statement/prospectus. Such irrevocable proxy shall automatically terminate on the expiration date.

Transfer Restrictions

Each shareholder also agreed that he or she will not, prior to the expiration date, directly or indirectly, (i) sell, assign, transfer, tender, or otherwise dispose of (including, without limitation, by the creation of any liens) any voting shares, (ii) deposit any voting shares into a voting trust or enter into a voting agreement or similar arrangement with respect to such voting shares or grant any proxy or power of attorney with respect thereto (other than the support agreements), (iii) enter into any contract, option, commitment or other arrangement or understanding with respect to the direct or indirect sale, transfer, assignment or other disposition of (including, without limitation, by the creation of any liens) any voting shares, or (iv) take any action that would make any representation or warranty of such shareholder contained in the support agreements untrue or incorrect or have the effect of preventing or disabling such shareholder from performing such shareholder's obligations under the support agreements.

Notwithstanding the foregoing, each shareholder may make (i) transfers by will or by operation of law or other transfers for estate-planning purposes, in which case the support agreements shall bind the transferee, (ii) with respect to such shareholder's options, if any, which expire on or prior to the expiration date, a transfer, sale, or

other disposition of voting shares to the Company as payment for the exercise price of such shareholder's options, warrants and taxes applicable to the exercise of such shareholder's options or warrants, (iii) if such shareholder is a

partnership or limited liability company, a transfer to one or more partners or members of such shareholder or to an affiliate of shareholder, or if such shareholder is a trust, a transfer to a beneficiary, provided that in each such case the applicable transferee has signed another voting agreement in substantially the form of the support agreements, (iv) transfers to another holder of our common shares that has signed another voting agreement in substantially the form of the support agreements and (v) transfers, sales or other dispositions as Newegg may otherwise agree in writing in its sole discretion. If any voluntary or involuntary transfer of any voting shares covered by the foregoing shall occur (including a transfer or disposition permitted by the foregoing, a sale by a shareholder's trustee in bankruptcy, or a sale to a purchaser at any creditor's or court sale), the transferee shall take and hold such voting shares subject to all of the restrictions, liabilities and rights under the support agreements, which shall continue in full force and effect, notwithstanding that such transferee is not a party to the support agreements and has not executed a counterpart or joinder thereto.

Agreement to Convert Class B Common Shares

Pursuant to a support agreement, Hangzhou Lianluo has also agreed (i) to convert each Class B common share that it holds into one Class A common share immediately prior to completion of the merger and (ii) that the warrant contained in Section 4(j) of the share purchase agreement, dated as of April 28, 2016, between the Company and Hangzhou Lianluo, shall become a warrant to acquire 125,000 Class A common shares at a purchase price of $17.60 per share. Following the redesignation, this warrant will be exercisable for common shares and subject to any adjustment to reflect the effect of any stock split, split-up, reverse stock split, stock dividend, reorganization, recapitalization, reclassification or other like change.

Governing Law

Except to the extent that the laws of British Virgin Islands shall apply to the internal corporate governance of the Company, the support agreements shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any jurisdiction other than the State of Delaware.

PROPOSAL II: THE DISPOSITION

Description of the Proposed Disposition

Beijing Fenjin Times Technology Development Co., Ltd., or the Purchaser, is a limited liability company existing under the laws of the People's Republic of China. Pursuant to the disposition agreement, the Purchaser will acquire 100% of the equity interests in Lianluo Connection for RMB0 immediately following completion of the merger. In exchange for all of the equity interests in Lianluo Connection, the Purchaser agreed to contribute RMB87.784 million to Lianluo Connection's registered capital by September 23, 2023 in accordance with the articles of association of Lianluo Connection. In addition, as an inducement for the Purchaser entering into the disposition agreement, the Company agreed to convert indebtedness in the aggregate amount of $11,255,188 that Lianluo Connection owes to the Company into additional paid-in capital of Lianluo Connection immediately prior to the closing of the disposition.

Reasons and Background for the Proposed Disposition

The Company, through its wholly owned PRC subsidiaries, has been engaged in the medical device business. The Company develops and distributes medical devices, with a focus on sleep respiratory solutions to OSAS since 2010. Starting from 2018, the Company has been providing examination services to hospitals and medical centers through its proprietary medical wearable devices, and doctors are able to refer to examination results provided by such devices in making diagnoses regarding OSAS.

The Company has incurred significant operating losses for the past five years. For the years ended December 31, 2015, 2016, 2017, 2018 and 2019, the Company incurred operating losses of approximately $6.9 million, $9.1 million, $5.1 million, $9.3 million and $3.8 million. As of December 31, 2019, the Company had an accumulated deficit of approximately $44.6 million and negative shareholders' equity of approximately $1.3 million. In addition, in 2019, the Company terminated the employment of over fifty employees and had only 28 employees as of December 31, 2019.

On September 11, 2019, we received a notification letter from the NASDAQ Listing Qualifications Staff of NASDAQ notifying us that the minimum bid price per share for our common shares had been below $1.00 for a period of 30 consecutive business days, and therefore, we no longer met the minimum bid price requirement set forth in NASDAQ Listing Rule 5550(a)(2). We were granted a compliance period of 180 days, or until March 9, 2020 to regain compliance.

On January 2, 2020, we received another notification letter from the NASDAQ Listing Qualifications Staff notifying us that we no longer complied with the minimum of $2.5 million in stockholders' equity for continued listing on the NASDAQ Capital Market under NASDAQ's Listing Rule 5550(b)(1) and that we also did not comply with either of the two alternative standards of Listing Rule 5550(b), the market value standard and the net income standard. We thereafter submitted a plan to regain compliance with NASDAQ's applicable listing standards. On March 10, 2020, in consideration of our recent three financings, from which we received gross proceeds of approximately $8.08 million, the NASDAQ Listing Qualifications Staff determined that we comply with the stockholders' equity requirement set forth in Listing Rule 5550(b)(1). On the same date, given that except the minimum bid price requirement, we met all other applicable requirements for initial listing on the NASDAQ Capital Market, the NASDAQ Listing Qualifications Staff recognized our intention of curing the bid price deficiency by effecting a reverse stock split, and granted a second compliance period of 180 days, or until September 8, 2020, to regain compliance. The second compliance period was thereafter extended to November 20, 2020 by NASDAQ per SR-NASDAQ-2020-021. On October 21, 2020, we effectuated a share combination of our common shares at a ratio of one-for-eight in order to increase the per share trading price of our Class A common shares to satisfy the $1.00 minimum bid price requirement. We regained the compliance with the minimum bid price rule on November 10, 2020. However, there is no assurance that we will be able to continue to maintain our compliance with the NASDAQ continued listing requirements. If we fail to do so, our Class A common shares may lose their status on NASDAQ Capital Market and they would likely be traded on the over-the-counter market.

Given the significant amount of liabilities incurred by our medical device business, the board decided that a plausible way to return to profitability and maintain our NASDAQ listing status is to dispose of the medical device business and concurrently complete the merger with Newegg. Since December 2019, we had been searching for a suitable buyer for our medical device business. In or about March 2020, we started discussion with the Purchaser concerning sale of the medical device business.

After intensive negotiations, the parties agreed on the principal terms of the proposed transaction and entered into the disposition agreement on October 23, 2020. The terms of the disposition agreement are described in greater detail in the section below entitled "The Disposition Agreement."

Reports, Opinions and Appraisals

The Company engaged Benchmark to render an opinion as to whether the disposition consideration to be received by the Company is fair to the Company's shareholders from a financial point of view. The Company decided to engage Benchmark as the Company determined that Benchmark has substantial experience in similar matters. Benchmark rendered its written opinion to the board of directors on October 23, 2020 that the disposition consideration to be received by the Company was fair to the Company's shareholders from a financial point of view.

The Company paid an aggregate cash fee of $100,000 to Benchmark for its opinion and has obtained consent from Benchmark for the use of its fairness opinions in this proxy statement/prospectus.

Benchmark's opinion was provided to the directors for their assessment of the disposition and only addressed the fairness to the Company's shareholders, from a financial point of view, of disposition consideration to be received by the Company pursuant to the disposition agreement as of the date of the opinion and did not address any other aspects or implications of the disposition.

The summary of Benchmark's opinion below is qualified in its entirety by reference to the full text of the written opinion, which is included as Annex F to this proxy statement/prospectus. This summary also describes the procedures, assumptions, qualifications and limitations, and other matters considered by Benchmark in preparing its opinion. However, neither Benchmark's written opinion nor the summary of its opinion set forth in this proxy statement/prospectus purports to be, or constitutes advice or recommendations to, any shareholder as to how such shareholder should act or vote with respect to the merger proposal.

In arriving at its opinion, Benchmark reviewed and considered such financial and other matters as it deemed relevant, including, among other things:

- the latest draft of the disposition agreement provided to it on October 16, 2020;
- certain information relating to the historical, current and future operations, financial condition and prospects of Lianluo Connection, made available to it by the Company, including financial statements that included the actual income statements for the year ending December 31, 2019 and the nine months ending September 30, 2020, a balance sheet as of September 30, 2020, and a financial model with projected income statements for the calendar years 2020-2023;
- discussions with certain members of the management of the Company and certain of the Company's advisors and representatives regarding the business, operations, financial condition and prospects of the Company, the disposition and related matters;
- a certificate addressed to it from senior management of the Company which contains, among other things, representations regarding the accuracy of the information, data and other materials (financial or otherwise) provided to, or discussed with, it by or on behalf of the Company;
- the current and historical market prices for certain of the Company's publicly traded securities, and the current and historical market prices, trading characteristics and financial performance of the publicly traded securities of certain other companies that Benchmark deemed to be relevant;
- the publicly available financial terms of certain transactions that Benchmark deemed to be relevant; and
- such other information, economic and market criteria and data, financial studies, analyses and investigations and such other factors as Benchmark deemed relevant.

Benchmark has relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to it, discussed with or reviewed by it, or publicly available, and do not assume any responsibility with respect to such data, material and other information. In addition, management of the Company has advised Benchmark, and Benchmark has assumed, that the financial projections reviewed by it have been reasonably prepared in good faith on bases reflecting the best

currently available estimates and judgments of such management as to the future financial results and condition of the Company or Lianluo Connection and Benchmark expresses no opinion with respect to such projections or the assumptions on which they are based. Benchmark has relied upon and assumed, without independent verification, that there has been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company or Lianluo Connection since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to it that would be material to its analyses or the opinion, and that there is no information or any facts that would make any of the information reviewed by Benchmark incomplete or misleading. Benchmark has further relied upon the assurance of the management of the Company that they are unaware of any facts that would make the information provided to Benchmark incomplete or misleading in any material respect. In connection with its review and arriving at its opinion, Benchmark did not assume any responsibility for the independent verification of any of the foregoing information and relied on the completeness and accuracy as represented by the Company. In addition, Benchmark has relied upon and assumed, without independent verification, that the final form of the disposition agreement will not differ in any material respect from the latest draft of the disposition agreement provided to it as identified above. In addition, Benchmark did not make any independent evaluation or appraisal of the assets or liabilities of the Company or Lianluo Connection nor was Benchmark furnished with any such independent evaluations or appraisals. The opinion is necessarily based upon financial, economic, market and other conditions as they existed on, and should be evaluated as of, the date thereof. Although subsequent developments might affect the opinion, Benchmark does not have any obligation to update, revise or reaffirm its opinion.

Benchmark has assumed that the disposition will be consummated on terms substantially similar to those set forth in the disposition agreement identified above.

Benchmark has not been requested to, and did not, (a) initiate or participate in any discussions or negotiations with, or solicit any indications of interest from, third parties with respect to the merger, the securities, assets, businesses or operations of the Company or Lianluo Connection or any other party, or any alternatives to the disposition, (b) negotiate the terms of the disposition, or (c) advise the board or any other party with respect to alternatives to the disposition. The opinion is provided for the benefit of the board (solely in their capacities as such) and is not for the benefit of, and may not be used for any other purpose and does not constitute a recommendation to the shareholders of the Company as to how to vote or act with respect to the merger or otherwise.

In the ordinary course of its business, Benchmark may have actively traded the equity or debt securities of the Company and may continue to actively trade such equity or debt securities. In addition, certain individuals who are employees of, or are affiliated with, Benchmark may have in the past and may currently be shareholders of the Company.

Summary of Financial Analysis

The following is a summary of the analyses performed by Benchmark in connection with its opinion. The analyses and factors described below must be considered as a whole; considering any portion of such analyses or factors, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Benchmark's opinion. Some of the summaries of the financial analyses include information presented in tabular format. The tables are not intended to stand alone, and in order to more fully understand the financial analyses used by Benchmark, the tables must be read together with the full text of each summary. Considering the data set forth below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Benchmark's financial analyses.

Benchmark completed a series of financial analyses to derive a range of potential equity values for Lianluo Connection. Benchmark's financial analysis employed three methodologies, with no particular weight given to any:

- selected public company analysis;
- precedent transaction analysis; and
- discounted cash flow analysis.

Valuation Summary

Based on its analysis, the estimated equity value of Lianluo Connection ranges from RMB(100.6) million to RMB1.42 million. This range is based on the following, among other factors:

- The comparative values of medical equipment companies focused on sleep monitoring, respiratory and/or cardio products
- The comparative values of recent M&A transactions involving similar medical equipment companies
- Lianluo Connection's financial forecast for 2020-2023
- The results of the Selected Public Company Analysis, Precedent Transaction Analysis, and Discounted Cash Flow Analysis

Estimated Value of Lianluo Connection

Valuation Methodology	**Range (RMB)**	
Selected Public Company Analysis	603,578	1,407,214
Precedent Transaction Analysis	425,704	1,422,583
Discounted Cash Flow Analysis	286,269	399,278
Range	286,269	1,422,583
Unpaid Registered Capital	(87,784,000)	0
Working Capital Deficit	(13,057,176)	0
Equity Value	(100,554,907)	1,422,583

This compares to a net consideration of RMB (0.5) million to RMB 26.7 million to be received by Lianluo Connection

Consideration from Transaction	**Range (RMB)**	
Purchase Price	0	0
Unpaid Registered Capital	0	87,784,000
Working Capital Deficit	0	13,057,176
Inter-company Debt Not Assumed by the Purchaser	0	(73,545,628)
Transaction-related Expenses	(1,000,000)	(1,000,000)
Net Consideration	(1,000,000)	26,295,548

Selected Public Company Analysis

Benchmark analyzed the valuation of publicly-listed medical equipment companies with a focus on sleep monitoring, respiratory and/or cardio products. Its analysis of Lianluo Connection's valuation included the following eight companies, none of which is identical to Lianluo Connection: Andon Health A, Compumedics, Inogen, Itamar Medical, Natus Medical, NeuroMetrix, Nihon Kohden and SomnoMed.

	2020	**2021**
Selected Public Companies' Average EV/Revenue	2.55x	1.76x
Lianluo Connection Revenue (RMB)	231,102	792,488
Enterprise Value (RMB)	588,253	1,391,889
Plus		
Cash (RMB)	15,325	15,325
Minus		

Debt (RMB)	0	0
Unpaid Registered Capital (RMB)	(87,784,000)	0
WC Deficit (RMB)	(13,057,176)	0
Equity Value (RMB)	(100,237,599)	1,407,214

Source: FactSet; the Company

The individual EV/Revenue calculations for each of the selected public companies are as follows:

Company Name	EV/Revenue (2020)	EV/Revenue (2021)
Andon Health A	3.08x	
Compumedic	2.35x	
Inogen	1.26x	1.31x
Itamar Medical	7.38x	
Natus Medical	1.39x	
NeuroMetrix	0.31x	
Nihon Kohden	1.47x	1.40x
SomnoMed	3.13x	2.56x

Precedent Transaction Analysis

Benchmark analyzed the valuation of M&A transactions completed over the last three years involving medical equipment companies with focus on sleep monitoring, respiratory and/or cardio products. Benchmark's analysis included the following five precedent transactions, none of which is identical to Lianluo Connection: Almirall De Mexico, S.A. De C.V., LifeHealthcare Group Ltd., Sarnova, Inc., Viomedex Ltd., and Vyaire Medical, Inc.

	2020	2021
Precedent Transactions' Average EV/Revenue	1.78x	1.59x
Lianluo Connection Revenue (RMB)	231,102	792,488
Enterprise Value (RMB)	410,379	1,407,259
Plus		
Cash (RMB)	15,325	15,325
Minus		
Debt (RMB)	0	0
Unpaid Registered Capital (RMB)	(87,784,000)	0
WC Deficit (RMB)	(13,057,176)	0
Equity Value (RMB)	(100,415,473)	1,422,583

Source: FactSet; the Company

The individual EV/Revenue calculations for each of the selected precedent transactions are as follows:

Company Name	EV/Revenue
Almirall De Mexico, S.A. De C.V.	3.33x
LifeHealthcare Group Ltd.	1.59x
Sarnova, Inc.,	1.63x
Viomedex Ltd.	1.25x
Vyaire Medical, Inc.	1.09x

Generally, the enterprise value is calculated based on the value as of a specified date of the relevant company's outstanding equity securities, plus the amount of its net debt (the amount of its outstanding indebtedness, non-convertible preferred stock, capital lease obligations and non-controlling interests less the amount of cash and cash equivalents on its balance sheet).

Discounted Cash Flow Analysis

Benchmark used a 4-year forecast model for Lianluo Connection (2020-2023) to estimate a range of equity values based on a discounted cash flow analysis of free cash flows projections as provided by the Company. The

key assumptions in its analysis include the following:

- Lianluo Connection net sales of RMB 231,000 in 2020, RMB792,000 in 2021, and declining to RMB 218,000 by 2023;
- Discount rates (WACC or Weighted-Average Cost of Capital) ranging from 21.4% to 25.4%
- Terminal value multiplies of 1.78x to 2.55x revenue

Projected income statements of Lianluo Connection for the periods indicated below:

Income Statement Projections (Lianluo Connection)	Q4 2020 (RMB)	12/31/2021 (RMB)	12/31/2022 (RMB)	12/31/2023 (RMB)
Net Sales	**57,170**	**792,488**	**494,682**	**218,117**
COGS	(39,183)	(480,451)	(293,208)	(167,606)
Gross Margin	**17,987**	**312,037**	**201,474**	**50,510**
SG&A	150,079	646,115	646,115	598,297
Operating Profit	**(132,092)**	**(334,078)**	**(444,641)**	**(547,787)**
Non-operating Income (Expenses)	1,579	(6,628)	(6,628)	(6,628)
EBIT	**(130,512)**	**(340,706)**	**(451,269)**	**(554,415)**
Provision for Income Taxes				
Net Income	**(130,512)**	**(340,706)**	**(451,269)**	**(554,415)**

Material Assumptions:

- Lianluo Connection will continue its current business and generate revenues during the above periods through sales of its inventories of medical devices.
- conversion of indebtedness of $11,255,188 that Lianluo Connection owes to the Company into additional paid-in capital of Lianluo Connection immediately prior to the closing of the disposition

Net Present Value Analysis — Terminal Value Multiple 2.55x

Discount Rate	Enterprise Value (RMB)	Cash/(Net Debt) (RMB)	Unpaid Registered Capital/WC Deficit (RMB)	Equity Value (RMB)
21.4%	383,953	15,325	0	399,278
22.4%	375,413	15,325	0	390,738
23.4%	367,159	15,325	0	382,483
24.4%	359,178	15,325	0	374,503
25.4%	351,461	15,325	0	366,786

Net Present Value Analysis — Terminal Value Multiple 1.78x

Discount Rate	Enterprise Value (RMB)	Cash/(Net Debt) (RMB)	Unpaid Registered Capital/WC Deficit (RMB)	Equity Value (RMB)
21.4%	294,481	15,325	(100,841,176)	(100,531,371)
22.4%	288,297	15,325	(100,841,176)	(100,537,555)
23.4%	282,318	15,325	(100,841,176)	(100,543,533)
24.4%	276,537	15,325	(100,841,176)	(100,549,314)
25.4%	270,944	15,325	(100,841,176)	(100,554,907)

Effect on the Company if the Disposition is Not Completed

If the disposition is not approved by the shareholders or if the disposition is not completed for any other reason, the Company will remain a public company, and Lianluo Connection will continue to be the sole subsidiary of the Company. In addition, our management expects that the business will be operated as how it is currently being operated until we pursue another strategic alternative, and that our shareholders will continue to be subject to the same risks and opportunities to which they are currently subject.

Interests of Directors and Executive Officers in the Proposed Disposition

Ms. Yingmei Yang, our Interim Chief Financial Officer and one of directors, also serves on the board of Newegg. Because the completion of the merger is contingent upon the disposition our medical device business, Ms. Yang may also have interests in the disposition that may be different from, or in addition to, the interests of our unaffiliated shareholders.

No Appraisal or Dissenters' Rights

Under BVI law, our shareholders will not be entitled to appraisal or dissenters' rights in connection with the disposition.

Vote Required

Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required to approve the disposition proposal.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommended that shareholders vote "FOR" the disposition proposal.

THE DISPOSITION AGREEMENT

The following is a summary of the material terms and conditions of the disposition agreement, which is attached as Annex E to this proxy statement/prospectus and is incorporated by reference herein. This summary does not purport to be complete and may not contain all of the information about the disposition agreement that is important to you. You are encouraged to read the disposition agreement in its entirety because it is the legal document that governs the matters discussed in the summary below.

The Disposition

At the closing and subject to and upon the terms and conditions of the disposition agreement, the Company will sell, transfer, convey, assign and deliver to the Purchaser, and the Purchaser will purchase, acquire and accept from the Company, all of the equity ownership and all relevant rights and interests of Lianluo Connection (which we refer to as the equity interests), free and clear of all liens.

In exchange for the equity interests, the Purchaser agreed to contribute RMB87.784 million to Lianluo Connection's registered capital by September 23, 2023 in accordance with the articles of association of Lianluo Connection. In addition, as an inducement for the Purchaser entering into the disposition agreement, the Company agreed to convert indebtedness in the aggregate amount of $11,255,188 that Lianluo Connection owes to the Company into additional paid-in capital of Lianluo Connection immediately prior to the closing of the disposition.

Representations and Warranties

The disposition agreement contains certain representations and warranties made by the Purchaser, the Company and Lianluo Connection. These representations and warranties relate to, among other things:

- due organization and good standing of each party;
- authorization and binding agreement;
- government approvals;
- non-contravention;
- access to information of Lianluo Connection;
- the unpaid registered capital of Lianluo Connection;
- the Purchaser's acknowledgement that the Company has no obligations or liabilities relating to Lianluo Connection upon consummation of the disposition; and
- the Company's good title to the equity interests, free and clear of all liens.

Closing Conditions

The obligation of each of the Purchaser, the Company and Lianluo Connection to complete the disposition is subject to the fulfillment (or waiver, to the extent permissible under applicable law) of the following conditions:

- obtaining any requisite regulatory approvals;
- no law or order prohibiting or preventing consummation of the disposition;
- no litigation to enjoin or otherwise restrict consummation of the disposition;
- the Company shareholder's approval of the disposition;
- the consummation of the merger; and
- the conversion of indebtedness in the aggregate amount of $11,255,188 owed by Lianluo Connection to the Company into additional paid-in capital of Lianluo Connection.

Amendment and Termination

The disposition agreement may only be amended, supplemented or modified pursuant to a written agreement signed by the Purchaser and the Company.

The disposition agreement may be terminated prior to the closing date as follows:

- by mutual written consent of the Purchaser and the Company;
- by written notice by either the Purchase or the Company if a governmental authority of competent jurisdiction shall have issued an order or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the disposition agreement and such order or other action has become final and non-appealable;
- by written notice by the Company if the required shareholder approval is not obtained; or
- by written notice by the Company if the merger is not closed.

Governing Law

The execution, validity, interpretation, performance, implementation and dispute resolution of the disposition agreement is governed by and construed in accordance with the laws of China. Any dispute arising out of or in connection with the disposition agreement will be settled by the parties through friendly negotiation. Either party may submit any dispute failing friendly settlement to competent courts where this disposition agreement is executed.

PROPOSAL III: REDESIGNATION

Purpose and Effect of the Redesignation

The Company is currently authorized to issue a maximum of 6,250,000 common shares of par value of $0.021848 each, of which 4,736,111 are designated as Class A common shares of par value of $0.021848 each and 1,513,889 are designated as Class B common shares of par value of $0.021848 each.

The holder of all of the Company's issued and outstanding Class B common shares, Hangzhou Lianluo, has agreed (i) to convert each Class B common share that it holds into one Class A common share immediately prior to completion of the merger and (ii) that the warrant contained in Section 4(j) of the share purchase agreement, dated as of April 28, 2016, between the Company and Hangzhou Lianluo, shall become a warrant to acquire 125,000 Class A common shares at a purchase price of $17.60 per share.

As a result of this conversion, the Company will not have any outstanding Class B common shares or securities convertible into Class B common shares. As a result, the special committee has determined that it is advisable and in the best interests of the Company and its shareholders that the Company's authorized shares be renamed and redesignated into 6,250,000 common shares of par value of $0.021848 each.

All of the issued and outstanding awards, including options and restricted shares, granted by the Company under the Company's currently effective share incentive plans, will entitle the grantees to such number of common shares equivalent to the number of Class A common shares that these grantees would be entitled to as originally set out in their relevant award agreement with the Company and the Company shall issue such common shares to the grantees of such awards granted pursuant to the applicable share incentive plan upon vesting and/or exercise of such awards, by the grantees.

The proposed redesignation will not affect in any way the validity or transferability of share certificates outstanding, the authorized shares of the Company or the trading of the Company's common shares on the NASDAQ Capital Market. If the redesignation proposal is approved by our shareholders, it will not be necessary for shareholders to surrender their existing share certificates. Instead, when certificates are presented for transfer, new certificates representing common shares will be issued.

If the redesignation proposal is approved, it would become effective upon the filing of amended and restated memorandum and articles of association with the Registrar of Corporate Affairs of the British Virgin Islands. See also "Proposal VII: Charter Amendment."

Vote Required

Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required to approve the redesignation proposal. In addition, assuming that a quorum is present, the affirmative vote of a majority of the issued and outstanding Class B common shares entitled to vote and voting on this proposal at the special meeting is required.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommends a vote "FOR" approval of the redesignation proposal.

PROPOSAL IV: SHARE COMBINATION

Purpose of Share Combination

The Company's Class A common shares are listed on the NASDAQ Capital Market under the trading symbol of "LLIT." It is recognized that, on April 8, 2020, the Company held a special shareholder meeting at which the Company's shareholders approved a proposal to combine the Company's issued and outstanding common shares at a ratio from one-for-two up to one-for-twenty to be determined by the board of directors, with a view to regaining compliance with NASDAQ Listing Rule 5550(a)(2) which requires listed shares to maintain a minimum bid price of $1.00 per share (which we refer to as the bid price rule). In order to regain compliance with the bid price rule, pursuant to NASDAQ Listing Rule 5810(c)(3)(A), the closing bid price of Class A common shares should be at least $1.00 for a minimum of ten consecutive business days. On October 21, 2020, we completed a share combination of our common shares at a ratio of one-for-eight and regained compliance with the bid price rule on November 10, 2020.

In connection with the merger, we believe that it is advisable and in the best interest of the Company and its shareholders to effectuate a share combination, for the purpose of enhancing our ability to meet NASDAQ's initial listing requirements following the completion of merger, including the requirement of a minimum bid price of $4.00 per share under NASDAQ Listing Rule 5505. NASDAQ rules require the post-merger entity to comply with the initial listing standards of the applicable NASDAQ market to continue to be listed on such market following a change of control transaction. As a result, the board is soliciting shareholders' approval of a share combination of the Company's common shares at a ratio of not less than one-for-two and not more than one-for-fifty at any time no later than June 30, 2021, with the exact ratio to be set at a whole number within this range, as determined by our board of directors in its sole discretion.

Our board intends to effect a share combination only if it believes that a decrease in the number of outstanding common shares is likely to improve the trading price of our common shares and is necessary to meet initial listing requirements of the NASDAQ Capital Market for the completion of the merger. If shareholders approve the proposed share combination, it will be effected, if at all, only upon a determination by the board that the share combination is in the best interests of the Company and its shareholders at that time. The board reserves its right to elect not to proceed and abandon the share combination if it later determines, in its sole discretion, that implementing this proposal is not in the best interests of the Company and its shareholders.

The board also believes that the delisting of our common shares from the NASDAQ Capital Market would likely result in decreased liquidity. Such decreased liquidity would result in the increase in the volatility of the trading price of our common shares, a loss of current or future coverage by certain analysts and a diminution of institutional investor interest. In addition, the board believes that such delisting could also cause a loss of confidence of corporate partners, customers and our employees, which could harm our business and future prospects.

In evaluating whether or not to conduct the share combination, the board also took into account various negative factors associated with such corporate action. These factors include: the negative perception of share combination held by some investors, analysts and other stock market participants; the fact that the share price of some companies that have effected share combinations has subsequently declined back to pre-combination levels; the adverse effect on liquidity that might be caused by a reduced number of shares outstanding; and the costs associated with implementing a share combination.

The board considered these factors, the potential harm of being delisted from the NASDAQ Capital Market and the prospective benefits resulting from the completion of the merger. The board determined that completion of the merger and continued listing on the NASDAQ Capital Market are in the best interests of the Company and its shareholders, and that the share combination is probably necessary to consummate the merger and maintain the listing of our common shares on the NASDAQ Capital Market. As noted above, even if shareholders approve the share combination, the board reserves the right not to effect the share combination if it no longer believes that a share combination is in the best interests of the Company and its shareholders.

In addition, there can be no assurance that after the share combination we would be able to consummate the merger or maintain the listing of our common shares on the NASDAQ Capital Market. Shareholders should recognize that if the share combination is effected, they will own a smaller number of common shares than they currently own. While we expect that the share combination will result in an increase in the market price of our common shares, it may

not increase the market price of our common shares in proportion to the reduction in the number of common shares outstanding or result in a permanent increase in the market price (which depends on many factors, including our performance, prospects and other factors that may be unrelated to the number of shares outstanding).

If the share combination is effected and the market price of our common shares declines, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would occur in the absence of the share combination. Furthermore, the liquidity of our common shares could be adversely affected by the reduced number of shares that would be outstanding after the share combination. Accordingly, the share combination may not achieve the desired results that have been outlined above.

Our board has requested that shareholders approve a combination ratio range, as opposed to approval of a specified combination ratio, in order to give our board maximum discretion and flexibility to determine the combination ratio based, among other factors, upon prevailing market, business and economic conditions at the time. No further action on the part of the shareholders will be required to either effect or abandon the share combination.

Effect of the Share Combination

The share combination will reduce the number of issued and outstanding common shares and the number of common shares that the Company is authorized to issue at the same combination ratio. In addition, the par value of the common shares will be increased by the same ratio.

For example, if our board implements a one-for-ten share combination of our common shares, then a shareholder holding 500 common shares, par value $0.021848 per share, before the share combination would hold 50 common shares, par value $0.21848 per share, after the share combination. However, each shareholder's proportionate ownership of the issued and outstanding common shares immediately following the effectiveness of the share combination would remain the same, with the exception of adjustments related to the treatment of fractional shares (see below).

Proportionate adjustments will also be made based on the ratio of the share combination to the per share exercise price and the number of shares issuable upon the exercise or conversion of all outstanding options, warrants, convertible or exchangeable securities entitling the holders to purchase, exchange for, or convert into, our common shares. This will result in approximately the same aggregate price being required to be paid under such options, warrants, convertible or exchangeable securities upon exercise, and approximately the same value of common shares being delivered upon such exercise, exchange or conversion, immediately following the share combination as was the case immediately preceding the share combination.

Fractional Shares

The Company does not currently intend to issue fractional shares in connection with the share combination to the shareholders. If this proposal is approved by the shareholders at the special meeting, according to Article 3.7 of the Company's amended and restated memorandum and articles of association, our board has discretionary authority to determine to compulsorily redeem any fractional shares arising under the share combination so that subsequent to such redemption, the shareholder holds a whole number of shares. If the board determines to compulsorily redeem such fractional shares, the Company will pay in cash the fair value of fractions of a share as of the time when such fractions are redeemed. Any shareholder whose fractional shares are redeemed will be entitled, upon surrendering to the transfer agent the certificates representing such common shares or, in the case of non-certificated common shares, such proof of ownership as required by the transfer agent, to receive cash (without interest or deduction) as a result of the redemption. The fair value of fractions will be determined by the board, based on the then prevailing traded price of the common shares of the Company.

Procedure for Implementing the Share Combination

As soon as practicable after the effective date of the share combination, shareholders will be notified that the share combination has been effected. The Company expects that its transfer agent, Computershare Limited, will act as transfer agent for purposes of implementing the exchange of share certificates. If needed, holders of pre-combination shares will be asked to surrender to the transfer agent certificates representing pre-combination common shares in exchange for certificates representing post-combination common shares or, in the case of holders of non-certificated

shares, such proof of ownership as required by the transfer agent, in accordance with the procedures to be set forth in a letter of transmittal that the Company will send to its registered shareholders. No new share certificates will be issued to a shareholder until such shareholder has surrendered such shareholder's outstanding share certificate(s) together with the properly completed and executed letter of transmittal to the transfer agent.

SHAREHOLDERS SHOULD NOT DESTROY ANY SHARE CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY CERTIFICATE(S) UNTIL REQUESTED TO DO SO.

Banks, brokers or other nominees will be instructed to effect the share combination for their beneficial holders holding shares in "street name." However, these banks, brokers or other nominees may have different procedures from those that apply to registered shareholders for processing the share combination. If a shareholder holds shares with a bank, broker or other nominee and has any questions in this regard, shareholders are encouraged to contact their bank, broker or other nominee.

Federal Income Tax Consequences of the Share Combination

The share combination should be a tax-free transaction under the Code. Therefore, a shareholder generally will not recognize gain or loss on the share combination, except to the extent of cash, if any, received in lieu of a fractional share interest in the post-combination shares. The holding period and tax basis of the pre-combination common shares will be transferred to the post-combination common shares (excluding any portion of the holder's basis allocated to fractional shares).

This discussion should not be considered as tax or investment advice, and the tax consequences of the share combination may not be the same for all shareholders. Shareholders should consult their own tax advisors to know their individual federal, state, local and foreign tax consequences.

If the proposed share combination is approved, it would become effective after the board determines the combination ratio and upon the filing of amended and restated memorandum and articles of association reflecting such share combination with the Registrar of Corporate Affairs of the British Virgin Islands. See also "Proposal VII: Charter Amendment."

Vote Required

Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required to approve the share combination proposal.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommends a vote "FOR" approval of the share combination proposal.

PROPOSAL V: SHARE INCREASE

Purpose and Effect of the Share Increase

After giving effect to the conversion of all outstanding Class B common shares and the redesignation, we will be authorized to issue 6,250,000 common shares and will have 4,854,571 common shares issued and outstanding, based on our capitalization as of March 30, 2021. Following the share combination, the number of common shares that we will be authorized to issue will be reduced, which makes it necessary and advisable to increase the number of common shares we are authorized to issue. Pursuant to the merger agreement, we will issue approximately 363,325,542 common shares to the stockholders of Newegg. At the same time, we intend to issue additional common shares in connection with a public offering. As a result, the proposed share increase will become effective prior to and is contingent upon the consummation of the merger.

In addition, the board considers that the increase in the number of shares we are authorized to issue will provide the Company with flexibility for other potential acquisitions and capital raising activities in the future, if any. The Company may seek to complete additional acquisitions or raise additional capital in the future through the issuance of equity securities, such as common shares or securities convertible into common shares.

As a result, the special committee considers it advisable and in the best interests of the Company to approve the share increase proposal which increases the number of common shares we are authorized to issue to an unlimited number of common shares.

Once authorized, the additional common shares may be issued with approval of the board, but without further approval of the shareholders, unless otherwise required by applicable laws.

If the proposed share increase is approved, it would become effective upon the filing of amended and restated memorandum and articles of association reflecting such share increase with the Registrar of Corporate Affairs of the British Virgin Islands. See also “Proposal VII: Charter Amendment.”

Vote Required

Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required to approve the share increase proposal.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommends a vote “FOR” approval of the share increase proposal.

PROPOSAL VI: NAME CHANGE

Purpose and Effect of the Name Change

The board believes that it is necessary and advisable to change the Company's corporate name to "Newegg Commerce, Inc." to better reflect the Company's business following the consummation of the merger.

The board has adopted resolutions approving, and recommends to the shareholders for approval, the name change proposal to change the Company's name to "Newegg Commerce, Inc."

If the proposed name change is approved, it would become effective upon the filing of amended and restated memorandum and articles of association reflecting such name change and the issuance of a Certificate of Incorporation on Change of Name by the Registrar of Corporate Affairs of the British Virgin Islands. See also "Proposal VII: Charter Amendment."

Vote Required

Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required to approve the name change proposal.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommends a vote "FOR" approval of the name change proposal.

PROPOSAL VII: CHARTER AMENDMENT

Purpose and Effect of Charter Amendment

Our board believes that it is necessary and advisable to adopt an amended and restated memorandum and articles of association to, among other things, give effect to the redesignation proposal, the share combination proposal, the share increase proposal and the name change proposal, as well as certain other amendments described below. A copy of the proposed amended and restated memorandum and articles of association is attached as Annex G to this proxy statement/prospectus.

In addition to the amendments to give effect to the proposals described above, the amended and restated memorandum and articles of association amend our current amended and restated memorandum and articles of association as follows:

- Article 8 will be amended to provide for the appointment of directors by Digital Grid and a representative (which we refer to as the minority representative) of certain legacy stockholders of Newegg (which we refer to as the legacy shareholders). Initially, four of the directors shall be appointed by Digital Grid, and three of the directors shall be appointed by the minority representative, with the number of directors appointed by Digital Grid and the minority representative declining proportionate to the percentage of shares or other equity interests held by Digital Grid and its affiliates and the legacy shareholders (in the case of the minority representative). Any director positions which neither Digital Grid nor the minority representative are entitled to appoint under the amended and restated memorandum and articles of association shall be nominated by the directors and appointed by the shareholders, or by any other means allowed under the amended and restated memorandum and articles of association and the BVI Act. See "Description of Securities — Amended and Restated Memorandum and Articles of Association — Appointment and Removal of Directors" for a complete description of the right to appoint directors.
- Article 9.10 will be amended to include certain reserved matters which may not be undertaken by the Company without the approval of the affirmative vote of not less than a majority of the number of votes represented by the directors, which majority must include the primary minority board appointee who will initially be Fred Chang. See "Description of Securities — Amended and Restated Memorandum and Articles of Association — Requirements of Board Approval on Certain Matters" for a complete description of these reserved matters.
- Article 10.5 will be amended to provide that a quorum of the board as to any action of the board shall consist of (i) at least a majority of the directors (excluding any vacancies), (ii) at least one director nominated by the minority representative, and (iii) at least one director nominated by Digital Grid.
- Article 10.9 will be amended to provide a mechanism for the selection of the minority representative. The initial minority representative will be Fred Chang.
- Article 23 will be deleted to remove the provisions regarding a business combination of the Company.

The board has adopted resolutions approving, and recommends to the shareholders for approval, the amended and restated memorandum and articles of association.

If the proposed amended and restated memorandum and articles of association are adopted, the amended and restated memorandum and articles of association would become effective upon the filing with the Registrar of Corporate Affairs of the British Virgin Islands.

Vote Required

Assuming that a quorum is present, the affirmative vote of both (i) a majority of the votes cast at the special meeting and (ii) a majority of votes cast at the special meeting which are not beneficially owned by Hangzhou Lianluo is required to approve the charter amendment proposal.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommends a vote "FOR" approval of the charter amendment proposal.

PROPOSAL VIII: ADJOURNMENT OF THE SPECIAL MEETING

Purpose of Adjournment Proposal

Shareholders are being asked to approve a proposal that will give the board of directors authority to adjourn the special meeting one or more times if necessary to solicit additional proxies if there are not sufficient votes to approve the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal or the charter amendment proposal at the time of the special meeting, or any adjournment or postponement thereof. If this proposal is approved, the special meeting could be adjourned to any date. Any determination of whether it is necessary to adjourn the special meeting (or any adjournment or postponement thereof) to solicit additional proxies will be made solely by the Company consistent with the terms of the merger agreement or with the consent of Newegg.

If the special meeting is adjourned, shareholders who have already submitted their proxies will be able to revoke them at any time prior to their use. If you sign and return a proxy and do not indicate how you wish to vote on any proposal, or if you indicate that you wish to vote in favor of the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal and the charter amendment proposal, but do not indicate a choice on the adjournment proposal, your shares will be voted in favor of the adjournment proposal. But if you indicate that you wish to vote against the merger proposal, the disposition proposal, the redesignation proposal, the share combination proposal, the share increase proposal, the name change proposal or the charter amendment proposal, your shares will only be voted in favor of the adjournment proposal if you indicate that you wish to vote in favor of that proposal.

Vote Required

The affirmative vote of a majority of the votes cast at the special meeting is required to approve the adjournment proposal.

Recommendation of the Board

Each of the special committee and our board of directors unanimously recommends a vote “FOR” approval of the adjournment proposal.

INFORMATION ABOUT THE COMPANY

History and Development of the Company

The Company was incorporated as an international business company under the International Business Companies Act, 1984, in the BVI on July 22, 2003 under the name "De-Haier Medical Systems Limited". We changed our name to "Dehaier Medical Systems Limited" on June 3, 2005, and to "Lianluo Smart Limited" on November 21, 2016. As a holding company, the Company does not conduct business in China and instead relies on Lianluo Connection, and prior to August 2020, Beijing Dehaier, to operate in China.

On September 24, 2003, we established our former subsidiary, Beijing Dehaier. Beijing Dehaier conducted a substantial portion of our operations in China and was responsible for generating a substantial portion of our revenues. Beijing Dehaier was formed as a joint venture between a Chinese entity, Beijing Dehaier Technology Company Limited, or BTL, and us, in order to allow foreign investments to be used to grow our business. Because Beijing Dehaier was engaged in an encouraged industry under the Foreign Investment Industrial Guidance Catalogue, it was allowed to accept foreign investments as a Chinese-foreign equity joint-venture. This structure allowed Beijing Dehaier access to foreign capital that would not have been available outside of this structure.

Beijing Dehaier was focused on the development and distribution of medical devices since its inception and began developing its respiratory and oxygen homecare business in 2006.

On April 22, 2010, we completed an initial public offering of 187,500 common shares. The offering was completed at an issuance price of $64.00 per share. Prior to the offering, the Company had 375,000 issued and outstanding shares, and after the offering, the Company had 562,500 issued and outstanding shares.

On February 21, 2014, we and certain institutional investors entered into a securities purchase agreement in connection with an offering, pursuant to which we agreed to sell an aggregate of 91,837 common shares and warrants to initially purchase an aggregate of 27,551 common shares. The purchase price was $72.96 per common share. The offering closed on February 26, 2014, and the aggregate gross proceeds from the sale of the common shares, before deducting fees to the placement agent and other estimated offering expenses payable by us was approximately $6.7 million, not including any proceeds from warrant exercises. The warrants were exercisable immediately as of the date of issuance at an exercise price of $94.88 per common share and were to expire forty-two months from the date of issuance. On April 21, 2016, we entered into warrant repurchase agreements with the holders of these warrants and the placement agent involved in the offering, pursuant to which we agreed to repurchase 36,735 warrants for cash payments equal to $30.4 per share underlying the warrants. We completed the repurchase of the warrants on June 2, 2016, and as of the date of this proxy statement/prospectus, all of such warrants have been cancelled.

On January 14, 2016, we completed an acquisition of 0.8% equity interest of Beijing Dehaier from BTL. As a result, Beijing Dehaier became our wholly owned subsidiary.

On February 1, 2016, our board of directors approved the formation of a wholly owned subsidiary, Lianluo Connection, in Beijing, and we finished the related registration procedures and established Lianluo Connection on June 20, 2016. Lianluo Connection aims at the development of wearable medical devices and mobile medical products, as well as the provision of relevant technical services.

On February 22, 2016, we discontinued part of our medical devices business, including assembly and sales of X-ray machines and anesthesia machines, monitoring devices, general medical products, and oxygen generators.

On April 28, 2016, we entered into a definitive securities purchase agreement with Hangzhou Lianluo to sell 1,388,888 of our common shares to Hangzhou Lianluo for an aggregate purchase price of $20 million. The purchase price was $14.4 per share, which represented a 35% premium to the closing price of our common shares of $10.64 on April 27, 2016. We completed our first closing under the securities purchase agreement on June 2, 2016, pursuant to which we sold 77,551 common shares for an aggregate purchase price of $1,116,744. On June 28, 2016, we entered into amendment no. 1 to the securities purchase agreement to extend the closing date from June 30, 2016 to September 30, 2016. On August 18, 2016, we completed the sale of an aggregate of $20 million of our common shares and warrants to purchase common shares.

On June 8, 2017, the Company held the annual general meeting to approve the Company's amended and restated memorandum and articles of association in order that the Company's authorized shares be re-classified and re-designated into 50,000,000 common shares of par value of $0.002731, of which 37,888,889 were designated as Class A common shares of par value of $0.002731 each and 12,111,111 were designated as Class B common shares of par value of $0.002731 each.

On February 14, 2020, we consummated a registered direct offering of 323,750 Class A common shares and a concurrent private placement of warrants to purchase up to 323,750 Class A common shares with certain accredited investors. The purchase price per Class A common share in the registered direct offering was $6.8. The warrants sold in the concurrent private placement are exercisable for a period of five and one-half years upon issuance, at an initial exercise price of $6.8 per share, which was thereafter adjusted to $4.9912, subject to full ratchet anti-dilution protection. On February 25, 2020, we consummated a second registered direct offering of 437,500 Class A common shares and a concurrent private placement of warrants to purchase up to 437,500 Class A common shares with the same accredited investors. The purchase price per Class A common share in the second registered direct offering was $5.6. The warrants sold in the second concurrent private placement are exercisable for a period of five and one-half years upon issuance, at an initial exercise price of $5.6 per share, subject to full ratchet anti-dilution protection. On March 2, 2020, we consummated a third registered direct offering of 612,500 Class A common shares and a concurrent private placement of warrants to purchase up to 612,500 Class A common shares with the same accredited investors. The purchase price per Class A common share in this registered direct offering was $5.6 per share. The warrants sold in the third concurrent private placement are exercisable for a period of five and one-half years upon issuance, at an initial exercise price of $5.6 per share, subject to full ratchet anti-dilution protection.

On August 13, 2020, Lianluo Connection entered into a share transfer agreement with China Mine United Investment Group Co., Ltd., or China Mine, pursuant to which Lianluo Connection transferred its 100% equity interests in Beijing Dehaier to China Mine for cash consideration of RMB 0. In exchange for all of the equity interests in Beijing Dehaier, China Mine agreed to assume all liabilities of Beijing Dehaier. The board of directors of the Company approved the transaction after it received a written opinion rendered by Benchmark, the independent financial advisor to the board, to the effect that, as of the date of such opinion, the consideration to be received by the Company in the sale of Beijing Dehaier is fair to the Company's shareholders from a financial point of view.

As a result of the transfer of Beijing Dehaier on August 13, 2020, the Company has one operating subsidiary, Lianluo Connection, which is wholly owned by the Company.

On October 21, 2020, we amended and restated our memorandum and articles of association to complete a share combination of our common shares at a ratio of one-for-eight, which decreased our outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and our outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares. This share combination also decreased our authorized shares to 6,250,000 common shares of par value of $0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares. Accordingly, except for the information related to reclassification of our common shares approved by the shareholders on June 8, 2017 as set forth above in this section "— History and Development of the Company" or as otherwise indicated, all share and per share information contained in this proxy statement/prospectus has been restated to retroactively show the effect of this share combination.

In late January 2021, the investors exercised 1,255,000 of the warrants that were originally issued in February and March of 2020. This exercise resulted in the issuance of 1,255,000 Class A common shares to these investors and aggregate cash proceeds to the Company of $6.8 million. As of March 30, 2021, warrants to purchase 118,750 Class A common shares remained outstanding. The amounts in this paragraph are expressed after giving effect to the one-for-eight share combination that occurred in October 2020.

Business Overview

In 2020, we continued to scale down our operations, and we have discontinued, as appropriate, our unprofitable traditional medical equipment business. We currently focus on the marketing and sale of our sleep respiratory analysis system and certain other medical devices.

We have developed and distributed medical devices, focusing primarily on sleep respiratory solutions to the Obstructive Sleep Apnea Syndrome, or OSAS, since 2010. We provide users with medical grade detection and monitoring, long-distance treatment and integration solution of professional rehabilitation. Since fiscal 2018, we have been providing

examination services to hospitals and medical centers through our developed medical wearable devices. Doctors are able to refer to examination results provided by the device in making diagnoses regarding OSAS. We have established cooperation with a number of medical check-up centers in China, such as Meinian Hospital, Ciming Hospital, to reach and serve their clients. The spread of COVID-19 has caused all hospitals and check-up centers that we have business relationships with to suspend business in February 2020 and, as a result, restricted our rendering of service. Since March 2020, these hospitals and check-up centers have gradually resumed operations and our service has been gradually recovering as well.

Our Products and Services

Our Proprietary Product

Our proprietary product is wearable sleep respiratory devices which are mainly used for hospitals, sleep centers, physical examination centers and for individuals used at-home. Our management believes that our proprietary products, which are generally more convenient and effective and less expensive than products from other competitors, tend to be more attractive to hospitals and healthcare facilities and other end-users for whom effectiveness and price are the significant factors in deciding whether to use our products.

Medical Devices (Including Related Supporting Products)

- **Sleep Apnea Diagnostic Products**. We have designed and provided two types of screening and diagnosis products which are portable sleep respiratory recording devices that can be used in a healthcare facility or in a patient's home to assist physicians in determining whether the patient has obstructive sleep apnea.

We ceased our abdominal pressure cardiopulmonary resuscitation, or CPR, instrument line business as a result of the disposition of our wholly-owned subsidiary, Beijing Dehaier, in August 2020.

Proprietary Rights for Our Proprietary Products

We own a portfolio of intellectual property rights in China in connection with our past and present product offerings. Under the Lianluo Connection brand, we have been awarded a total of 12 software copyrights for our continuous positive airway pressure devices. In addition, we have been granted two design patents relating to sleep respiratory analysis system. We have not filed for any patent protection outside of China.

Our success in the medical equipment industry depends in substantial part on effective management of both intellectual property assets and infringement risks. In particular, we must be able to protect our own intellectual property as well as minimize the risk that any of our proprietary products may infringe upon the intellectual property rights of others.

We enter into agreements with all our employees involved in research and development, under which all intellectual property generated during their employment belongs to us, and they waive all relevant rights or claims to such intellectual property. All our employees involved in research and development are also bound by a confidentiality obligation and have agreed to disclose and assign to us all inventions conceived by them during their term of employment.

Our Distributed Products

As of 2019, we have terminated the business of distributing products for international third parties, and instead, focused on our proprietary products.

Our agency agreement with Timesco Healthcare Ltd., pursuant to which we served as a distributor for it in China for laryngoscopes, terminated in February 2019.

Our Services

In the OSAS sector, starting from fiscal 2018, we provide technical services in relation to detection and analysis of OSAS. We focused on the promotion of sleep respiratory solutions and services in public hospitals. Our wearable sleep diagnostic products and cloud-based services are also available in the medical centers of private preventive healthcare companies in China.

We have partnered with 22 hospitals, 17 distributors and 16 check-up centers over 26 cities across China, such as Beijing, Tianjin, Nanjing, Jinan and Hangzhou, for the sales of medical equipment and for the provision of OSAS diagnostic services.

We sign service agreements with public hospitals usually for a period of 3 years, and check-up centers usually for a period of one year or less, with respect to the provision of wearable sleep diagnostic products and cloud-based services and we charge a fixed technical service fee on a per user basis when our OSAS diagnostic services are provided to the user at medical centers and public hospitals.

Customers

We have three categories of customers: (i) distributors, (ii) hospitals and physical examination centers, and (iii) others to whom we sell directly. Our customer base is widely dispersed on both a geographic and revenues basis.

Our distributors. Sales to our distributors make up the substantial majority of our revenues as over 89% of our total revenues are from distributors. We have established contractual distribution relationships with approximately 17 independent distributors. We do not own, employ or control these independent distributors.

Hospital and physical examination centers customers. Our hospital customers primarily consist of hospitals and private physical examination centers. We also refer to these customers as our "key accounts." Currently, we primarily provide sleep respiratory apnea analysis products and cloud-based services to hospital customers and we charge a fixed technical service fee on a per user basis. To obtain orders from such hospital customers, we sometimes enter into a bidding process where medical equipment companies compete through a state-owned bidding agent.

Dependence on Major Customers. For the years ended December 31, 2020, 2019 and 2018, approximately 91%, 36% and 29% of our total revenues, respectively, were received from two largest customers for continuing operations.

Dependence on Major Suppliers. For the years ended December 31, 2020, 2019 and 2018, purchases from two largest suppliers for continuing operations were approximately 100%, 100% and 48% of the total purchases, respectively.

Competition

The medical device industry is characterized by rapid product development, technological advances, intense competition and a strong emphasis on proprietary information. Across all product lines and product tiers, we face direct competition from both domestic and international competitors. We compete based on factors such as price, value, customer support, brand recognition, reputation, and product functionality, reliability and compatibility. Each of our proprietary products competes against functionally similar products from domestic and international companies.

Our competitors include publicly traded and privately held multinational companies. We believe that we can continue to compete in China because our established domestic distribution network and customer support and service network allows us significantly better access to China's small and medium-sized hospitals. In addition, our low-cost operating model, allows us to compete effectively for sales to large hospitals.

We believe our competitive position in China varies depending on the product in question. While we are a much smaller company overall than, for example, General Electric, Siemens or Philips and are unable to offer the range or depth of products each of those companies offers, we believe our market position is favorable in several segments.

Sales and Marketing

We always deliver our products after receiving payment from distributors and settle with our corporate customers pursuant to the term of contract, which generally ranges from 3 to 7 months. Additionally, we provide sleep respiratory apnea analysis services to hospitals and physical examination centers. We require settlement of these service fees on a monthly basis. We attend conferences held by hospitals and medical organizations in various regions. We also set booths to display and promote our products and services to ensure and improve effectiveness of our sales and marketing activities.

China's medical device market features a significant number of small distributors. For example, China is currently investing heavily in health care nationwide; however, money for healthcare is currently unevenly distributed. There are a number of large hospitals that have significant resources and a number of rural clinics that have extremely limited budgets. We are also able to supply our proprietary products and serve clinics with limited budgets at affordable prices.

We have confidence on our well-established distribution channels and market presence. We have partnered with 17 dealers and distributors, 22 hospitals, 16 check-up centers over 26 cities across China. We compete with other companies by offering effective, convenient and most competitively priced products and services to customers. Furthermore, being a NASDAQ-listed company has helped to build our brand image and reputation with potential customer and business partners.

Seasonality

We generally experience an increase in revenues and tests during March through May and September through December. This is in part because people tend to have physical check-ups during these months. Our first quarter performance generally declines as a result of fewer business activities during the Chinese New Year Holiday.

Regulations

Regulations Relating to Foreign Ownership in the Medical Device Industry

Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (2017 revision), or the Catalog, which was promulgated jointly by the Ministry of Commerce and the National Development and Reform Commission, or the NDRC, on June 28, 2017 and entered into force on July 28, 2017. The Catalog divides industries into four categories in terms of foreign investment, which are "encouraged," "restricted," and "prohibited," and all industries that are not listed under one of these categories are deemed to be "permitted." Establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, foreign investment in restricted category projects is subject to government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Catalogue are generally open to foreign investment unless specifically restricted by other PRC regulations.

In June 2019, the Ministry of Commerce and NDRC promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the Negative List, effective July 30, 2019. Foreign investment in the business of manufacturing or import of medical devices falls outside the Negative List but needs to obtain certain permits.

On March 15, 2019, the Standing Committee of the National People's Congress passed the Foreign Investment Law of PRC, which took effect on January 1, 2020, replacing the Law of the People's Republic of China on China-Foreign Equity Joint Ventures, the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises, and the Law of the People's Republic of China on China-Foreign Contractual Joint Ventures. On December 26, 2019, the Regulation on the Implementation of the Foreign Investment Law of the PRC, was issued by the State Council and came into force on January 1, 2020. The new Foreign Investment Law of PRC, by legislation, officially adopted the administration model of the negative list for foreign investment. A foreign investor can invest in a field where foreign

investment is not prohibited according to the Negative List, as amended. To invest in a field that requires certain licenses to enter (the License Entry Class), a foreign investor shall apply to relevant administrative agencies and such agencies shall make a decision whether to grant entry according to laws and regulations.

Our PRC subsidiary, Lianluo Connection, has been granted necessary permits and licenses by relevant agencies to sell its medical devices.

Regulations Related to Intellectual Property

The Standing Committee of the National People's Congress and the State Council have promulgated comprehensive laws and regulations to protect trademarks. The *Trademark Law of the PRC* (2019 revision, effective November 1, 2019) promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019 respectively, and the *Implementation Regulation of the PRC Trademark Law* (2014 revision) issued by the State Council on August 3, 2002 and amended on April 29, 2014, are the main regulations protecting registered trademarks. The Trademark Office under the State Administration for Industry and Commerce administrates the registration of trademarks on a "first-to-file" basis and grants a term of ten years to registered trademarks.

The *PRC Copyright Law*, adopted in 1990 and revised in 2001 and 2010 respectively, with its implementation rules adopted on August 8, 2002 and revised in 2011 and 2013 respectively, and the *Regulations for the Protection of Computer Software* as promulgated on December 20, 2001 and amended in 2011 and 2013 provide protection for copyright of computer software in the PRC. Under these rules and regulations, software owners, licensees and transferees may register their rights in software with the National Copyright Administration Center or its local branches to obtain software copyright registration certificates.

The Patent Law of the PRC was adopted by the Standing Committee of the National People's Congress in 1984 and amended in 1992, 2000 and 2008, respectively. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a term of twenty years for an invention and a term of ten years for a utility model or design, commencing on the application date. Subject to limited exceptions provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or otherwise the use will constitute an infringement of the rights of the patent holder.

The Ministry of Industry and Information Technology promulgated the *Administrative Measures on Internet Domain Name*, or the Domain Name Measures, on August 24, 2017 to protect domain names. According to the Domain Name Measures, domain name applicants are required to duly register their domain names with domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

We have adopted necessary mechanisms to register, maintain and enforce intellectual property rights in China. However, we cannot assure you that we can prevent our intellectual property from all the unauthorized use by any third party, neither can we promise that none of our intellectual property rights would be challenged any third party.

Regulations Related to Employment

The *PRC Labor Law* and the *Labor Contract Law* require that employers execute written employment contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. Violations of the PRC Labor Law and the Labor Contract Law may result in the imposition of fines and other administrative sanctions, and serious violations may constitute criminal offences.

On December 28, 2012, the *PRC Labor Contract Law* was amended, effective since July 1, 2013 to impose more stringent requirements on labor dispatch. Under such law, dispatched workers are entitled to pay equal to that of full-time employees for equal work, but the number of dispatched workers that an employer hires may not exceed a certain percentage of its total number of employees as determined by the Ministry of Human Resources and Social Security. Additionally, dispatched workers are only permitted to engage in temporary, auxiliary or substitute work.

According to the *Interim Provisions on Labor Dispatch* promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched workers). The *Interim Provisions on Labor Dispatch* require employers not in compliance with the *PRC Labor Contract Law* in this regard to reduce the number of its dispatched workers to below 10% of the total number of its employees prior to March 1, 2016.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located.

According to the *Interim Regulations on the Collection and Payment of Social Insurance Premiums*, the *Regulations on Work Injury Insurance*, the *Regulations on Unemployment Insurance* and the *Trial Measures on Employee Maternity Insurance of Enterprises*, enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by making social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for and on behalf of employees. The *Law on Social Insurance of the PRC*, which was promulgated by the Standing Committee of the National People's Congress on October 28, 2010, became effective on July 1, 2011, and was most recently updated on December 29, 2018, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with laws and regulations on social insurance.

According to the *Regulations on the Administration of Housing Provident Fund*, which was promulgated by the State Counsel and became effective on April 3, 1999, and was amended on March 24, 2002 and was partially revised on March 24, 2019 by the *Decision of the State Council on Revising Some Administrative Regulations* (Decree No. 710 of the State Council), housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee. Registration by PRC companies with the applicable housing provident fund management center is compulsory, and a special housing provident fund account for each of the employees shall be opened at an entrusted bank.

The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments of such contributions are unlawful. The employer shall make the housing provident fund payment and deposit registrations with the housing provident fund administration center. With respect to companies which violate the above regulations and fail to complete housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees, such companies shall be ordered by the housing provident fund administration center to complete such procedures within a designated time limit. Those who fail to complete their registrations within the designated period shall be levied a fine ranging from RMB 10,000 to RMB 50,000. When companies breach these regulations and fail to pay housing provident fund contributions in full amount that are due, the housing provident fund administration center shall order such companies to pay up within a designated period, and may further petition a People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

Regulations on Foreign Currency Exchange

Under the *PRC Foreign Currency Administration Rules* promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by SAFE and other relevant PRC government authorities, payment of current account items in foreign currencies, such as trade and service payments, payment of interest and dividends can be made without prior approval from SAFE by following the appropriate procedural requirements. By contrast, the conversion of RMB into foreign currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office.

On February 13, 2015, SAFE promulgated the *Circular on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment*, effective from June 1, 2015, which cancels the requirement for obtaining approvals of foreign exchange registration of inbound foreign direct investment and outbound overseas direct investment from SAFE. The application for the registration of foreign exchange for the purpose of inbound foreign direct investment and outbound overseas direct investment may be filed with qualified banks, which, under the supervision of SAFE, may review the application and process the registration.

The Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or SAFE Circular 19, was promulgated on March 30, 2015 and became effective on June 1, 2015. According to SAFE Circular 19, a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. *The Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts,* or SAFE Circular 16, was promulgated and became effective on June 9, 2016. According to SAFE Circular 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi at the enterprise's discretion. SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) at the enterprise's discretion, which applies to all enterprises registered in the PRC. SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

On January 26, 2017, SAFE promulgated the *Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification,* or SAFE Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) banks must check whether the transaction is genuine by reviewing board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements, and (ii) domestic entities must retain income to account for previous years' losses before remitting any profits. Moreover, pursuant to SAFE Circular 3, domestic entities must explain in detail the sources of capital and how the capital will be used, and provide board resolutions, contracts and other proof as a part of the registration procedure for outbound investment.

On October 25, 2019, SAFE promulgated the *Notice on Further Facilitating Cross-Board Trade and Investment*, which became effective on the same date (except for Article 8.2 thereof). The notice removed restrictions on the capital equity investment in China by non-investment foreign-invested enterprises. In addition, restrictions on the use of funds for foreign exchange settlement of domestic accounts for the realization of assets have been removed and restrictions on the use and foreign exchange settlement of foreign investors' security deposits have been relaxed. Eligible enterprises in the pilot areas are also allowed to use revenues under capital accounts, such as capital funds, foreign debts and overseas listing revenues for domestic payments without providing materials to the bank in advance for authenticity verification on an item by item basis, while the use of funds should be true, in compliance with applicable rules and conforming to the current capital revenue management regulations.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

SAFE issued *the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles*, or SAFE Circular 37, which became effective in July 2014, to replace the *Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Roundtrip Investments by Domestic Residents through Offshore Special Purpose Vehicles*, to regulate foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. SAFE Circular 37 defines a SPV as an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" is defined as direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 stipulates that, prior to making contributions into an SPV, PRC residents or entities be required to complete foreign exchange registration with SAFE or its local branch. In addition, SAFE promulgated the *Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015*, which amended SAFE Circular 37 and became effective on June 1, 2015, requiring PRC residents or entities to register with qualified banks rather than SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to SPVs but had not obtained registration as required before the implementation of the SAFE Circular 37 must register their ownership interests or control in the SPVs with qualified banks. An amendment to the registration is required if there is a material change with respect to the SPV registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentation on or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

Regulations on Stock Incentive Plans

SAFE promulgated the *Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company*, or the Stock Incentive Plan Notice, in February 2012, replacing the previous rules issued by SAFE in March 2007. Pursuant to the Stock Incentive Plan Notice and other relevant rules and regulations, PRC residents participating in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and follow certain other procedures. Participants of a stock incentive plan who are PRC residents must conduct the SAFE registration and other procedures with respect to the stock incentive plan through a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution appointed by the PRC subsidiary. In addition, the PRC agent is required to update the relevant SAFE registration should there be any material change to the stock incentive plan, the PRC agent or other material changes. The PRC agent must, on behalf of the PRC residents who have the right to exercise the employee stock options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee stock options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents prior to distribution to such PRC residents.

We have established a series of share incentive programs under which we issued share options to our PRC directors, officers, and employees. In 2014, we created the 2014 Share Incentive Plan, which provides that the maximum number of shares authorized for issuance under this plan shall not exceed ten percent of the number of issued and outstanding shares of company stock as of December 31 of the immediately preceding fiscal year, and an additional number of shares may be added automatically annually to the shares issuable under the Plan on and after January 1 of each year, from January 1, 2015 through January 1, 2024. The 2014 Share Incentive Plan shall terminate on the tenth anniversary of its effective date of July 28, 2014, the date when the plan was approved by the shareholders of

the Company. We have advised the recipients of awards under our share incentive plan to handle relevant foreign exchange matters in accordance with the Stock Incentive Plan Notice. However, we cannot guarantee that all employees awarded equity-based incentives can successfully register with SAFE in full compliance with the Stock Incentive Plan Notice. See "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Doing Business in China — Any failure to comply with PRC regulations regarding employee share incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions."

Regulations on Dividend Distribution

Distribution of dividends of foreign investment enterprises are mainly governed by the *Foreign Investment Enterprise Law*, issued in 1986 and amended in 2000 and 2016 respectively, and the *Implementation Rules* under the *Foreign Investment Enterprise Law*, issued in 1990 and amended in 2001 and 2014 respectively. Under these regulations, foreign investment enterprises in the PRC may distribute dividends only out of their accumulative profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, no less than 10% of the accumulated profits of the foreign investment enterprises in the PRC are required to be allocated to fund certain reserve funds each year unless these reserves have reached 50% of the registered capital of the enterprises. A PRC company is not permitted to distribute any profits until any losses from previous fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year. Under our current corporate structure, the Company may rely on dividend payments from Lianluo Connection, which is a wholly foreign-owned enterprise incorporated in China, to fund any cash and financing requirements we may have. Limitation on the ability of Lianluo Connection to pay dividends to us could limit our ability to access cash generated by the operations of those entities. See "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Doing Business in China — Restrictions under PRC law on our PRC subsidiary's ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our business."

Regulations on Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the CSRC and SAFE, jointly issued the *Regulations on mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules, among other things, require that (i) PRC entities or individuals obtain Ministry of Commerce approval before they establish or control a SPV overseas, provided that they intend to use the SPV to acquire their equity interests in a PRC company at the consideration of newly issued share of the SPV, or Share Swap, and list their equity interests in the PRC company overseas by listing the SPV in an overseas market; (ii) the SPV obtains the Ministry of Commerce's approval before it acquires the equity interests held by the PRC entities or PRC individual in the PRC company by Share Swap; and (iii) the SPV obtains CSRC approval before it lists overseas. See "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Doing Business in China — We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations which first became effective on September 8, 2006."

Dividend Withholding Tax

In March 2007, the National People's Congress enacted the *Enterprise Income Tax Law* which became effective on January 1, 2008 and last amended on December 29, 2018. The PRC State Council promulgated the *Implementation Rules of the Enterprise Income Tax Law* on December 6, 2007, which became effective on January 1, 2008 and was partially amended on April 23, 2019. According to *Enterprise Income Tax Law* and its Implementation Rules, dividends payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the *Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates*, issued on January 29, 2008 and supplemented and revised on February 29, 2008, and the *Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income*, which became effective on December 8, 2006 and applicable to income derived in any year of assessment commencing on or after April 1, 2007 in Hong Kong and in any year commencing on or after January 1, 2007 in the PRC (as well as four conventions implemented as of June 11, 2008, December 20, 2010, December 29, 2015

and December 6, 2019 between the China mainland and Hong Kong), such withholding tax rate may be lowered to 5% if a Hong Kong enterprise is deemed the beneficial owner of any dividend paid by a PRC subsidiary by PRC tax authorities and holds at least 25% of the equity interest in that particular PRC subsidiary at all times within the 12-month period immediately prior to the distribution of the dividends. Furthermore, pursuant to the *Announcement on Issues concerning "Beneficial Owners" in Tax Treaties* issued on February 3, 2018 by the State Administration of Taxation, when determining the status of "beneficial owners," a comprehensive analysis may be conducted through materials such as articles of association, financial statements, records of capital flows, minutes of board of directors, resolutions of board of directors, allocation of manpower and material resources, the relevant expenses, functions and risk assumption, loan contracts, royalty contracts or transfer contracts, patent registration certificates and copyright certificates, etc. However, even if an applicant has the status as a "beneficiary owner," if the competent tax authority finds necessity to apply the principal purpose test clause in the tax treaties or the general anti-tax avoidance rules stipulated in domestic tax laws, the general anti-tax avoidance provisions shall apply.

Enterprise Income Tax

In December 2007, the State Council promulgated the *Implementing Rules of the Enterprise Income Tax Law*, or the Implementing Rules, which became effective on January 1, 2008. The *Enterprise Income Tax Law* and its relevant Implementing Rules (i) impose a uniform 25% enterprise income tax rate, which is applicable to both foreign invested enterprises and domestic enterprises (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules and (iii) introduces new tax incentives, subject to various qualification criteria.

The *Enterprise Income Tax Law* also provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules further define the term "de facto management body" as the management body that exercises substantial and overall management and control over the production and operations, personnel, accounts and properties of an enterprise. If an enterprise organized under the laws of jurisdiction outside China is considered a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, it would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. Second, a 10% withholding tax would be imposed on dividends it pays to its non-PRC enterprise shareholders and with respect to gains derived by its non-PRC enterprise shareholders from transfer of its shares. Dividends paid to non-PRC individual shareholders and any gain realized on the transfer of equity by such shareholders may be subject to PRC tax at a rate of 20%, if such income is deemed to be from PRC sources. See "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Doing Business in China — Under the Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders."

On October 17, 2017, the State Administration of Taxation issued the *Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source,* or Bulletin 37, which replaced the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises* issued by the State Administration of Taxation on December 10, 2009, and partially replaced and supplemented rules under the *Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises,* or Bulletin 7, issued by the State Administration of Taxation on February 3, 2015. Under Bulletin 7, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immoveable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding party shall declare and pay the

withheld tax to the competent tax authority in the place where such withholding party is located within 7 days from the date of occurrence of the withholding obligation. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange. See "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Doing Business in China — We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies."

Value-Added Tax

Pursuant to the *Provisional Regulations on Value-Added Tax of the PRC*, or the VAT Regulations, which were promulgated by the State Council on December 13, 1993, and took effect on January 1, 1994, and were amended on November 10, 2008, February 6, 2016, and November 19, 2017, respectively, and the *Rules for the Implementation of the Provisional Regulations on Value Added Tax of the PRC*, which were promulgated by the Ministry of Finance, on December 25, 1993, and were amended on December 15, 2008, and October 28, 2011, respectively, entities and individuals that sell goods or labor services of processing, repair or replacement, sell services, intangible assets, or immovables, or import goods within the territory of the People's Republic of China are taxpayers of value-added tax, or VAT. The VAT rate is 17% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods, except otherwise specified; 11% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods, except otherwise specified; 6% for taxpayers selling services or intangible assets.

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the *Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax*, or the Pilot Plan. The *Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Plan of Replacing Business Tax with Value-Added Tax in an All-round Manner*, issued on March 23, 2016, took effect on May 1, 2016. Pursuant to the Pilot Plan and the subsequent Notice, VAT at a rate of 6% is applied nationwide to revenue generated from the provision of certain modern services in lieu of the prior Business Tax.

According to *Provisions in the Notice on Adjusting the Value Added Tax Rates*, or the Notice, issued by the State Administration of Taxation and the Ministry of Finance, where taxpayers make VAT taxable sales or import goods, the applicable tax rates shall be adjusted from 17% to 16% and from 11% to 10%, respectively. The Notice took effect on May 1, 2018, and the adjusted VAT rates took effect at the same time. Pursuant to the *Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of the PRC on Relevant Policies for Deepening the Value-Added Tax Reform*, which was promulgated on March 20, 2019 and became effective on April 1, 2019, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%.

Other National and Sub-National Level Laws and Regulations in China

Beyond those laws and regulations, we consider material to our business, we are subject to other regulations and laws administered by governmental authorities at the national, provincial and city levels, some of which are, or may be, applicable to our business. Our hospital customers are also subject to a wide variety of laws and regulations that could affect the nature and scope of their relationships with us.

Laws regulating the conduct of business in our industry cover a broad array of subjects. We must comply with numerous additional state and local laws relating to matters such as safe working conditions, environmental protection and fire hazard control, which affect all companies doing business in China. We believe we are currently in compliance with these laws and regulations in all material respects. We may be required to incur significant costs to comply with these laws and regulations in the future. Unanticipated changes in existing regulatory requirements or adoption of new requirements could have a material adverse effect on our business, financial condition and results of operations.

Property, Plant and Equipment

We are headquartered and our executive offices are located at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, People's Republic of China. The following is a description of our properties, which we lease from third-parties:

Use	Address	Space
Principal Executive Office	Lianluo Smart Limited Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, China	675 square feet
Storage Facility	Lianluo Connection Room 10, Negative Level 1, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing, China	323 square feet
Offices	Lianluo Connection Room 202, 2nd Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing, China	1,269 square feet

We are using these facilities for free without written lease agreements. We believe that our current facilities are adequate to meet our ongoing needs and that, and we will be able to obtain additional facilities on commercially reasonable terms, if additional space is required.

Legal Proceedings

We may be subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. Other than the legal proceedings set forth below, we are currently not aware of any legal proceedings or claims that we believe will have an adverse effect on our business, financial condition or operating results. None of our directors or members of senior management or any of our subsidiaries is engaged in any proceeding materially adverse to the Company or any of its subsidiaries.

In 2019, Beijing Dehaier and Lianluo Connection terminated employment of over 50 employees due to business restructuring. As of December 31, 2019, 34 of these laid-off employees filed complaints with Beijing Changping District Employment Dispute Arbitration Commission and Beijing Shijingshan District Employment Dispute Arbitration Commission, claiming that Beijing Dehaier and Lianluo Connection failed to pay them, among others, certain salaries, overtime fees and compensation. As regards the total expenses pertaining to this lay-off, the Company recorded liabilities of RMB979,716 (approximately $140,393) in employment termination compensations and RMB2.99 million (approximately $428,467) in unpaid salaries in 2019. As of December 31, 2020, the Company has paid off all the termination compensations and salaries of Beijing Dehaier and all the salaries of Lianluo Connection. There was about RMB91,623 (approximately $14,046) termination compensations of Lianluo Connection that has not been paid.

In 2020, Beijing Dehaier and Lianluo Connection terminated the employment of additional 25 employees due to the business downturn. Most of these former employees filed complaints with Beijing Changping District Employment Dispute Arbitration Commission and Beijing Shijingshan District Employment Dispute Arbitration Commission, respectively, claiming that Beijing Dehaier and Lianluo Connection failed to pay them, among others, certain salaries, overtime fees and compensation upon termination. As of December 31, 2020, Beijing Dehaier and Lianluo Connection have entered into settlement agreements with 15 of these former employees and settled disputes through negotiations with the rest of these employees. The total settlement amount for the 25 employees was RMB3,354,405 (approximately $486,389). All of the settlement amount relating to Beijing Dehaier's former employees has been paid off and Lianluo Connection has not paid the remaining amount of RMB1,182,098 (approximately $181,216).

On May 9, 2019, Tianjin Wuqing Bohai Printing Co., Ltd., or Wuqing Bohai, filed an arbitration application with Beijing Arbitration Commission against Beijing Dehaier, claiming that Beijing Dehaier failed to pay for goods in accordance with purchase contracts entered into with Wuqing Bohai in 2017 and 2018 and requested Beijing Dehaier to pay Wuqing Bohai an amount of RMB119,770 (approximately $17,450), plus RMB10,000 (approximately $1,457) to cover the expenses of keeping goods that Beijing Dehaier failed to accept. On June 5, 2019, Beijing Dehaier submitted an answer to compliant, noting that it had not received some of the goods under the contracts and Wuqing Bohai failed to provide invoices for some of the goods allegedly received by Beijing Dehaier. Beijing Dehaier submitted that it should only be responsible for the purchase value of RMB48,450 (approximately $7,059). On March 6, 2020, the Beijing Arbitration Commission entered an award, ordering that Beijing Dehaier pay Wuqing Bohai the disputed amount of RMB119,770 (approximately $17,203) and an arbitration fee of RMB10,443 (approximately $1,500) by March 24, 2020 and dismissed other claims of Wuqing Bohai. In May 2020, Beijing Dehaier paid off the disputed amount and the arbitration fee and the case was closed.

INFORMATION ABOUT NEWEGG

Overview

Newegg is a tech-focused e-commerce company in North America, and ranked second after Best Buy as the global top electronics online marketplace according to Web Retailer's report, as measured by 32.4 million visits per month in 2019. Through newegg.com and other online platforms, Newegg operates a direct sales and marketplace models for IT computer components, consumer electronics, entertainment, smart home and gaming products and provides certain third party logistics services globally. Newegg has received numerous awards and accolades for its services since its inception, among which, it was ranked No. 5 on Newsweek's 2020 List of Best Online Shops — Consumer Electronics.

The Newegg Ecosystem

Newegg takes pride in connecting customers to a wide and increasing selection of tech products and a massive pool of brands, sellers, suppliers, manufacturers, distributors and third-party service providers. Founded in 2001, Newegg has developed a tech-focused e-commerce ecosystem that enables all of its participants to discover, engage and transact with each other.

At the nexus of this e-commerce ecosystem, Newegg takes stewardship in continuously growing it and delivering compelling value propositions to its participants over the long run. On the one hand, Newegg provides customers with access to vast, yet curated tech products sourced globally; on the other hand, Newegg creates value for Newegg's brand partners, Marketplace sellers and suppliers by connecting them to a wide audience with life-time value. Additionally, Newegg's platforms offer a comprehensive suite of e-commerce solutions, including product listing, fulfillment, marketing, customer service and other value-added tools and services.

Key Ecosystem Participants and How Newegg Create Value for Them

There are three key participants of Newegg's ecosystem: the customers, the Marketplace sellers, and the brand partners.

Customers

Newegg has built a large, highly engaged and loyal customer base. As of December 31, 2020, Newegg had 4.7 million active customers (defined as customers who purchased at least one item on out platform in the past 12 months).

Newegg's core customers include both its business-to-consumer, or B2C, customers and Newegg's business-to-business, or B2B, customers. See "— Newegg's Business Models" below for more information about Newegg's B2C and B2B businesses.

Newegg believes that it offers the following compelling value propositions to Newegg's customers:

- *Wide range of tech-focused products*. With approximately 40.5 million SKUs and 1,748 categories as of December 31, 2020, Newegg is a truly one-stop shop for a vast selection of tech products, ranging from brand-name information technology/consumer electronics, or IT/CE, products and in-house brands of computer hardware to peripherals under its private labels. Newegg's extensive product offerings enable it to meet the diverse needs of a group of sophisticated customers, which is difficult for brick-and-mortar retailers to match due to shelf space constraints.

- *Easy and enjoyable shopping experience.*
  - *Content-rich, user-friendly interface*. Newegg's platforms are user-friendly and easy to navigate, with features enabling customers to easily discover new products and trends, such as intelligent product recommendations and curated, personalized content supported by its data and analytics capabilities. Newegg also empowers customers to make informed purchasing decisions by offering detailed product information, customer opinions, peer reviews, product tutorials and the opportunity to network with other members of the Newegg community. Newegg has in-house video production capabilities that generate original content to engage and inform customers, and Newegg continues to enhance such capabilities in order to produce more and better content. Newegg's platforms also provide an extensive portfolio of user-generated content, including over 4.58 million product reviews and approximately 32,000 testimonials about people's shopping experience with Newegg as of December 31, 2020.
  - *Flexible payment options*. Newegg accepts a variety of payment options and has sought to add new payment methods to cater to the needs of its customers. Newegg also offers open terms accounts for business and public sector customers. For example, in response to increasing customer demand, Newegg introduced the Bitcoin payment solution and Apple Pay in 2014. See also "— Payment."
  - *Timely, secure and reliable fulfillment*. Leveraging its reliable logistics network and infrastructure, Newegg is able to maintain a high level of shipping accuracy and reliability and timely delivery. See also "— Logistics and Fulfillment." As of December 31, 2020, Newegg achieved, for orders directly fulfilled by it, an over 99.8% average accuracy rate, an over 97.7% 1-business day fulfillment rate in the United States and Canada if ordered prior to Newegg's 3PM local time order cut-off, and a 99.6% 2-business day fulfillment rate in the United States and Canada.
- *Vibrant community of tech-savvy customers*. While expanding its range of product offering, Newegg continues to maintain a large and vibrant community of tech-savvy customers, providing inspiration for visitors to discover new tech trends and products and valuable decision-making intelligence typically not found at traditional retailers. Newegg has continued to offer additional functionalities to foster this community by, for example, launching its YouTube channel, where like-minded tech enthusiasts can get information about Newegg and tech products.
- *Attractive pricing*. Newegg is able to offer competitive pricing across a broad range of categories because of Newegg's scale and strong supplier and Marketplace seller relationships and the ability to maintain a cost-efficient infrastructure. Newegg's experienced product management team cost-effectively matches demand with supply, minimizing inventory and allowing it to save infrastructure costs associated with brick-and-mortar retailers. Newegg is also able to find optimized pricing points by leveraging its data and analytics capability and by monitoring its major competitors' pricing trends.

Marketplace Sellers

On the Newegg Marketplace, third-party sellers offer their products to Newegg's customers through its platforms and pay it commissions on their sales. See "— Newegg's Business Models — How Newegg Delivers Its Services — Marketplace" for more details. The Newegg Marketplace had 16,618 (both active and inactive) sellers, approximately 40.5 million SKUs and 1,748 categories as of December 31, 2020.

Newegg is a business enabler for the Newegg Marketplace sellers in many ways. Newegg believes the Marketplace sellers choose its platforms not just because Newegg offers a forum for them to build online presence, but also because Newegg delivers the following additional value:

- *Centralized location of tech-focused customers*. The Newegg Marketplace connects sellers, whether wholesalers or retailers, to a growing customer base, the majority of whom are tech-savvy, in more than 20 countries and regions as of December 31, 2020, without expanding their physical footprint. In particular, the Newegg Marketplace provides smaller vendors and retailers with access to profitable B2B opportunities that would otherwise be difficult to reach due to their lack of ability to provide specialized support for organizational purchasing needs.

- *Access to premium e-commerce solutions*. Sellers, particularly retailers, generally face high barriers entering the global market, including logistics and scalable economics. The Newegg Marketplace addresses these challenges by providing sellers with a comprehensive suite of e-commerce solutions, including an API-enabled portal, on-site promotions, a curated marketing program, and fulfillment and delivery services. Particularly, Newegg provides Marketplace sellers with valuable data insights, which help them to market their products more effectively, generate additional traffic and increase conversion.

- *Human touch.* The Newegg Marketplace is a key component of Newegg's ecosystem. Since Newegg launched the Newegg Marketplace model, Newegg has carefully nurtured Newegg's relationships with the Newegg Marketplace sellers and has invested in their success, which Newegg believes drives Newegg's continued growth in the long run. For example, Newegg assigns dedicated account managers to qualified sellers to help them tackle all sorts of challenges associated with operating a virtual storefront.

Brand Partners

Newegg is a trusted partner and the go-to channel for many leading tech product brands and is increasingly establishing relationships with brands in a growing number of other product categories. As of December 31, 2020, Newegg sourced merchandise from over 2,000 brand partners, and the Newegg Marketplace featured the official online stores of a number of brand partners, including some of the most well-known brands.

Newegg believes it provides the following benefits for Newegg's brand partners:

- *Access to a targeted customer base*. Enabling brands cost-effectively reach target audiences, its existing, loyal customer base is highly valued by companies targeting ready-to-buy, tech-savvy customers and foreign brands seeking to sell products and build brand awareness in markets in Asia and the Middle East region.

- *Cost-efficient distribution channel.* Leveraging Newegg's customer friendly online platforms, established logistics network and infrastructure and extensive e-commerce experience and expertise, Newegg offers to its brand partners efficient and cost-efficient distribution channels and comprehensive supply chain capabilities, including marketing, warehousing, fulfillment and customer service;

- *Brand building and promotion solutions.* Newegg offers its brand partners solutions and support to run special promotions and targeted marketing and brand-building campaigns through its platforms utilizing data and interactive media in ways that cannot be achieved through traditional media. See "— Newegg's Business Models — Other Services — Marketing Services."

- *Data insights*. Newegg collects insights from its customers' interactions with it through Newegg's analytics and algorithms. Newegg uses these insights, coupled with customer feedback and Newegg's knowledge of the e-commerce market, to facilitate its brand partners' marketing decision-making.

Newegg's Competitive Strengths

Newegg believes that it maintains its market leading position through the following continual refinement of key competitive advantages.

Strong brand recognition. Newegg has operated for over twenty years and built an excellent reputation among technology enthusiasts. Newegg has earned consistent recognition as one of the strongest brands in IT/CE ecommerce. Our operating history has given us strong brand equity and authority in this segment. Many consumers consider us the best retailer for PC components and high end PC systems.

Robust platform of marketplace sellers. Newegg's large customer base allows the platform to attract top tier marketplace sellers. These sellers provide their product assortment, competitive pricing, fulfillment and marketing thus increasing the value of the Newegg platform to its customers. Marketplace sellers are responsible for the vast majority of the SKUs available for sale on Newegg. Additionally, Newegg offers its Sponsored Product Ads (SPA) Program to its sellers' partners which strengthens visibility and sales of key seller items.

Vendor Relationships. Newegg has built robust, long term relationships with many of the most important brands in IT/CE including Nvidia, AMD and Intel. These relationships allow Newegg to secure inventory at competitive pricing. As a trusted partner to top manufacturers, Newegg is able to match supply to consumer demands.

Excellence in supply chain management. Newegg has adopted cost-effective, automated solutions which provide accuracy and speed in fulfillment including Bastian's OPEX Perfect Pick and Pick to Light. These warehouse automation systems allow Newegg to achieve 99+ percent same-day e-commerce fulfillment (defined in this prospectus as the processing of an order for shipment) and inventory accuracy rates. Newegg's highly efficient logistics allow the Company to offer its capabilities to many of its marketplace sellers and vendors via Newegg Logistics. Newegg Logistics has expanded its third-party logistics ("3PL") portfolio over time to include a variety of services including Shipped by Newegg (SBN.) In 2020, Newegg added two additional service offerings as part of its portfolio including Newegg Bridge, a turnkey customer service outsourcing solution and Newegg Staffing, a seasonal and direct placement employment firm.

Industry leading customer service. Newegg's customer service is well known, consistently earning industry accolades. Its proven track record of delivering excellent customer service for nearly two decades particularly qualifies Newegg to serve as the customer service gateway for its 3PL clients via its new Newegg Bridge service.

Newegg's Growth Strategies

Newegg's goal is to enhance its position as a leading tech-focused e-commerce company and to continue to expand globally and into new related business. Newegg plans to achieve this through the following:

Further strengthen its position as a leading tech-focused e-commerce company

Newegg has cultivated a strong and loyal customer base. Newegg intends to further expand and engage with its customer base by increasing the efficiency of its platforms and implementing new features to augment its platforms' mobile functionality. Newegg also plans to continue enhancing its award-winning customer service function.

Newegg intends to engage in brand promotion campaigns and other marketing activities across online and offline channels to further drive its growth and enhance its brand recognition worldwide. Newegg plans to continue engaging its existing customers and reaching out to new customers utilizing social media, customer interactions on its platforms and offline marketing events in both domestic and overseas markets.

Increase Newegg's product assortment and introduce new product categories

Newegg will continue to grow its direct sales and Marketplace business by increasing its product assortment and introducing new product categories.

Newegg is confident that its suppliers and Marketplace sellers will increase their offerings on its platforms if it continues to offer a compelling value proposition and further develop its data-led insights, real-time visibility of customer preference shifts and fulfillment and logistics capabilities. Newegg also intends to attract new third-party sellers to its Marketplace, with a focus in China, by providing them with access to its growing customer base, the majority of whom are tech-savvy, and its ancillary e-commerce solutions. This will enable Newegg to further enhance its sourcing capabilities, expand the diversity and availability of its merchandise and penetrate into additional IT/CE related categories, such as lifestyle electronics, health tech, tech toys, maker components and kits and Internet of Things ("IoT") products.

Expand private label business

Newegg intends to further expand its *Rosewill* and *ABS* private label assortment by continuing to offer high quality, feature rich, value priced products. As of December 31, 2020, private label products (consisting of *Rosewill* and *ABS* products) across all Newegg platforms (Newegg.com, Newegg.ca and NeweggBusiness.com) constituted collectively approximately 0.002% of Newegg's total active SKU count, while products offered by Newegg's Marketplace sellers constituted 99.670% of Newegg's total active SKU count.

Newegg plans to further expand its offerings under its *Rosewill* brand in targeted categories which it believes provide strong growth potential and higher margins, including DIY components, gaming accessories, gaming chairs, headsets, home automation and IoT connected devices. Under its *ABS* brand, its goal is to continue to drive significant growth in its line of gaming and business grade PCs' by leveraging its large audience of gamers and business customers who seek a high quality, high powered PC. Both brands are offered globally through its cross border initiative and are expected to be included in future cross border expansion.

Grow its small and medium sized business and public sector segments

Newegg seeks to expand its B2B business by further penetrating into small- and mid-sized businesses and public sector institutions and continuously enhancing its value proposition tailored to meet the needs of its target verticals. Newegg plans to offer additional electronic tools and content that allow B2B customers to troubleshoot issues on their own without having to wait for a customer representative. Newegg is also expanding its broad assortment of business class products from top brands at competitive prices, which it offers with rapid delivery options and seamless customer and technical services.

Newegg aims to continue to attract new customers and increase existing customers' retention and repeat purchase rates by emphasizing its personal touch in customer relationships and focusing on comprehensive online and offline marketing campaigns, effective customer engagement via social media and referrals, deals and promotions and efficient conversion of high-value accounts from *Newegg.com*.

Further develop its IT infrastructure and expand globally and into new businesses

Newegg plans to capitalize on its leading technology and infrastructure to enter into new markets and new businesses. Newegg expects to further develop its IT infrastructure, and mobile e-commerce platform to include big data applications, supply chain management systems and AI-driven analytical capabilities by integrating commercial software packages and open-source components into its software and systems. Newegg also aims to build on its success in select countries, such as Canada, and apply its model to expand into fast-growing markets where there are attractive opportunities, like Gulf Cooperation Council (GCC) countries.

Pursue selective strategic partnership, investments and acquisition opportunities

Newegg intends to selectively pursue strategic alliances and strategic partnerships that are complementary to its business and operations, including opportunities that can help Newegg further promote its brand to new customers, increase its product offerings, improve its technology and fulfillment infrastructure, and expand its presence to more markets with a focus on Southeast Asia.

Increase service offerings

Newegg aims to expand its offering of a variety of value-added D2C platform services and solutions. It believes by providing these services, Newegg creates additional value for its business partners and customers and ultimately benefits the Newegg ecosystem and all its participants. Currently, Newegg offers 3PL, including Shipped by Newegg® Service, Newegg Logistics, Newegg Staffing, Pure Facility Solutions, Inc., Newegg Bridge, a PC Builder tool, and expects to launch a Newegg personal computer assembly service in the near future.

Newegg's Business Models

Newegg's primary business model is to help customers find and purchase their desired products through its platforms. From a customer base and target audience perspective, Newegg categorizes its business model into B2C and B2B operations. Newegg strives to offer a compelling online shopping experience, reliable and timely order fulfilment and superior customer service across its B2C and B2B operations through its direct sales, market place and D2C platform services.

The following chart sets forth Newegg's business models:

B2C

Newegg's B2C business model features selling products directly to consumers. Newegg started as a B2C business since launching Newegg's e-commerce platform in 2001. As of December 31, 2020, Newegg had approximately 36 million registered B2C customers.

With a focus on selling IT/CE products, Newegg's B2C business has expanded to include an increasingly wide range of products, including small home appliances, health & fitness, home living, sports, personal grooming, drones, auto electronics & parts, etc.

Newegg's B2C customers consist primarily of sophisticated IT professionals, gamers, do-it-yourself tech enthusiasts and early tech adopters who generally occupy a well-educated, affluent, and IT trendsetting demographic with relatively high purchase frequency and strong willingness to embrace tech trends and try new products. Newegg believes its success is built upon its ability to cater to the preferences, tastes and habits of this demographic. As of December 31, 2020, through Newegg's three major platforms, namely *Newegg.com*, *Newegg.ca* and *Newegg Global*, Newegg served customers in over 20 countries and regions, mostly in Asia and the Middle East region. For details of these platforms, see "— The Newegg Platforms — B2C Platforms." Newegg's B2C operations generated GMV of $2.3 billion and $1.5 billion for the years ended December 31, 2020 and 2019, respectively.

B2B

Although business customers have been able to shop on its *Newegg.com* platform since its launching in 2001, Newegg did not begin focusing on building its B2B operations until 2009 when Newegg launched *NeweggBusiness.com*, a dedicated B2B e-commerce platform, to tap into the burgeoning B2B opportunity. With a focus on providing office and IT equipment, *NeweggBusiness.com* offers an increasingly extensive assortment, including access to account executives with expertise in sourcing technology for business and processing industry specific requirements. Newegg's B2B operations generated GMV of approximately $349.9 million and $409.8 million for the year ended December 31, 2020 and 2019, respectively.

Newegg's B2B customers span across a range of verticals, including healthcare providers, K12 and educational institutions, government agencies, and businesses of all sizes, and its B2B operations have been focused on providing specialized support for their industry- and business-specific needs. As a major business development strategy, Newegg focuses its B2B efforts on serving small office / home office, or SOHO, small- and medium-sized businesses, or SMBs, and private and public sector markets which Newegg believes are underserved by other B2B retailers. As of December 31, 2020, Newegg had over 610,000 registered accounts on *NeweggBusiness.com*.

Currently, while Newegg positions *NeweggBusiness.com* as its dedicated B2B website, a significant number of its B2B customers also shop via Newegg's account managers, or on its flagship retail platform, *Newegg.com*. See "— The Newegg Platforms — B2B Platforms" for more information about these platforms.

How Newegg Delivers Its Service

Newegg sells products to its B2C and B2B businesses through direct sales and the Marketplace.

For years since it commenced operations, Newegg operated primarily as a direct sales e-commerce platform and built a well-recognized brand, a massive, loyal tech-focused customer base, a reliable logistics network and strong supplier relationships. Leveraging these existing competitive advantages, the know-how and expertise from its direct sales business, in 2010, Newegg launched Newegg Marketplace to complement its direct sales operations. Newegg Marketplace has allowed Newegg to significantly expand its global reach and product assortment that it otherwise couldn't offer efficiently, while incurring minimal inventory risk and costs associated with building additional supplier relationships. The products sourced by it, together with those offered on the Marketplace, provide Newegg's customers access to an unparalleled product assortment. Newegg's online platforms (direct and Marketplace) offered approximately 40.5 million SKUs as of December 31, 2020.

Newegg believes that the integration of its direct sales and Marketplace operations have created a virtuous, self-reinforcing cycle. The Newegg Marketplace is built on the success of its direct sales business, and Newegg believes that many sellers are attracted to the Newegg Marketplace by its direct sales credentials. On the other hand, as the number of sellers and brands on the Newegg Marketplace continues to grow, the choices available to customers also should increase, generating a strong momentum for Newegg's continued growth. Newegg believes that this self-reinforcement, coupled with its reliable logistics network, has made it a strong player in the e-commerce industry.

Direct Sales

Newegg acquires products directly from its partners that consist of manufacturers, distributors and wholesalers, and sells them directly to its B2C and B2B customers. For its direct sales, Newegg sources the products, takes inventory risk, processes customer payments, prepares packages for shipment and delivery, and provides customer service and support. Newegg stocks and ships from its own warehouses, and also drop ship directly to customers from its partners' warehouses.

The success of Newegg's direct sales business depends largely upon its ability to secure a broad selection of products from suppliers at competitive costs. Since the commencement of its operations, Newegg has sought and cultivated deep, longstanding relationships with some of the biggest IT brands in the world and many of the largest, most important IT distributors. Newegg continuously seeks to build similar relationships with suppliers in new and emerging categories and in new geographies. Due to Newegg's strong supplier relationships and Newegg's purchasing volume, Newegg is able to obtain favorable pricing, early allocation of new products, preferential allocation of products in shortage, and funding for product promotion and cooperative marketing. Newegg also enjoys exclusive arrangements with certain suppliers where it is able to offer highly demanded products exclusively on Newegg's platforms. For more information about merchandise sourced for direct sales, see "— Merchandise Sourcing."

Direct sales is the basis of Newegg's business, generating approximately 74% of its GMV for the year ended December 31, 2020. Newegg leverages the traffic, customers, infrastructure, brand promise and overall goodwill generated by its direct sales relationships to enable entry into new models, businesses and geographies. This has allowed Newegg to continuously improve its value proposition to its customers and reach new customers and geographies, while improving its relationships with its partners.

Marketplace

The Newegg Marketplace operations enable customers to discover and purchase products from qualified third-party sellers from 35 countries and regions globally as of December 31, 2020. The Newegg Marketplace operations consist of the Newegg Marketplace launched in 2010, the Newegg B2B Marketplace, the Newegg Canada Marketplace launched in 2014 and the International Seller Program launched in 2011, a cross-border selling program designed to allow qualified international sellers to list products on Newegg's platforms for sale across at least 20 countries

and regions. As of December 31, 2020, the Newegg Marketplace connected B2C and B2B customers to 16,618 third-party sellers offering approximately 40.3 million SKUs. The Newegg Marketplace offers a wide and increasing portfolio of categories, including emerging smart home automation, VR, and lifestyle electronics, health and beauty technology products, and houses online stores of some of the most well-known brands in the tech industry, such as HP, Dyson, and Lenovo.

The Newegg Marketplace sellers can use the Newegg Marketplace Seller Portal, a unified application programming interface enabled system, which enables sellers to manage items, orders, accounts and reports, for the day-to-day operations of their online stores, including product listings, inventory management, order fulfillment, customer service, promotional content and service reviews and returns. Newegg also offers the following additional features and tools to help Marketplace sellers drive traffic and maximize sales:

- *Curated Marketing programs*. Newegg has a dedicated marketing team specializing in providing sellers with both highly effective marketing tools as well as curated marketing programs, including sponsored product ads, A+ content, email communication program, social media campaigns, video creation, and more.
- *On-site promotion*. Newegg offers Marketplace sellers numerous on-site promotion options, such as homepage banners, placements to showcase flash sales and featured products, as well as personalized post-purchase emails.
- *Shipped by Newegg (SBN) fulfillment*. Newegg gives sellers the option to use Shipped by Newegg (SBN), an efficient and price-conscious fulfillment service to have Newegg house inventory and pick, pack, and ship their products.
- *Shipping Label Service*. Newegg gives sellers the ability to fulfill their own orders and print a shipping label on their own network or in the office.
- *Integration Providers*. Newegg partners with a variety of qualified integration service providers to help Marketplace sellers fill the gaps in the integration process with item creation, inventory management, order processing, as well as returns and refunds.
- *Newegg Elite Seller program*. Newegg offers the *Newegg Elite Seller program*, a membership program designed to give qualified sellers premium access to post-purchase customer engagement, Seller Store, and other numerous value-added operational services with significant discounts.

While Newegg encourages Marketplace sellers to offer the most attractive prices, they have the flexibility to price the products sold through the Newegg Marketplace. Due to Newegg's scale and large visitor traffic, some of the Marketplace sellers also set aside exclusive product supplies for it and offer the most competitive pricing for its customers.

Newegg has a rigorous process in place to assess the Newegg Marketplace sellers. Newegg selects Marketplace sellers based on a number of factors, including service level, logistics capability, operation efficiency, category focus, sales volume, brand assortment, customer rating and market reputation. Newegg also requires third-party sellers to meet its strict standards and protocols in terms of product authenticity, customer services, and delivery and fulfillment so that customers are confident that they receive the same level of buying experience and customer service that they expect when buying directly from Newegg. See also "Customer Service and Support — Marketplace monitoring." Only those sellers that meet its criteria are selected, and any that fall below its standards will not continue to sell on the Newegg Marketplace.

The Newegg Marketplace sellers pay Newegg commissions on their sales, with published commission rates varying according to the product category from 8% to 15%. Newegg also charges membership fees for the additional value-added services and tools that it provides to sellers based on their enrollment.

Merchandise Sourcing

As of December 31, 2020, Newegg offered over 40.5 million SKUs, consisting of 133,366 direct sales SKUs sourced from at least 405 suppliers globally and 40.3 million SKUs on the Newegg Marketplace from 16,618 third-party sellers globally. As of December 31, 2020, approximately 36.8% of Newegg's direct sales inventory was purchased from distributors, 61.0% directly from manufacturers and 2.2% from other sources. As of December 31, 2020, the 10 largest suppliers accounted for 70.6% of the merchandise Newegg purchased for direct sales.

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The table below shows Newegg's product categories offered through its platforms and their selected featured brands and the number of SKUs in each category:

Category	Products	Selected Featured Brands	SKUs as of December 31, 2020
Computer System	Desktops, laptops, gaming laptops, peripherals and accessories	Asus, MSI, HP, Lenovo, Dell, Acer, Microsoft, Samsung, LG, Gigabyte, Westinghouse	Approx. 6.7 million
Components	CPU/processors, Graphic Cards, Motherboards, storage devices and computer accessories	Intel, AMD, Asus, MSI, Corsair, Gigabyte, ASRock, EVGA, Western Digital, Seagate, Samsung, G.Skill	Approx. 2.5 million
Electronics	Home Video, Home Audio, Headphones, Pro Audio/Video, Cellphones, Wearables, Digital Cameras	Samsung, LG, Sony, Denon, Yamaha, Beyerdynamic	Approx. 10.3 million
Gaming	Xbox, PlayStation, legacy gaming, gaming titles	Nintendo, Sony Playstation, Microsoft Xbox	Approx. 0.2 million
Networking & Smart Home	Home networking, commercial networking, server & components and smart home products	Asus, TP-Link, Netgear, Linksys, SonicWall, Polycom, Plantronics, Jabra, Yealink, Cisco, Ruckus, Ubiquiti	Approx. 2.8 million
Office Solutions	Display & printing, office technology furniture, office supplies and mailing & inventory supplies	HP, Brother, Epson, Xerox, Lexmark, Zebra, Honeywell, ELO Touch, Sony, Sharp, Asus, Acer, Samsung, Eureka Ergonomic, COUGAR	Approx. 2.5 million
Software & Services	Software, Digital Downloads, Warranty & Services, 3rd Party Gift Cards, and Entertainment Products	Microsoft, Adobe, Norton, Intuit, SquareTrade	Approx. 0.1 million
Automotive & Industrial	Car electronics, Marine and Aviation, Motorcycles and ATV, Performance Parts, Tools and Equipment, Wheels and Tires	Alpine, Kenwood, 3M, Garmin, Pioneer, Boss Audio, BFGoodrich, Continental Tires, Firestone, Goodyear, Hankook, Michelin, Toyo	Approx. 1.4 million
Home & Tools	Home improvement tools, home appliances, kitchen utensils, outdoor & garden furniture, and pet supplies, Generators	Dyson, Cuisinart, Frigidaire, iRobot, Hoover, Ninja, Shark, Keurig, Caterpillar, DEWALT, Makita, Bosch, Milwaukee	Approx. 7.3 million
Health & Sports	Fitness, sports and health and beauty supplies	Huffy, Vilano, Razor, Garmin, Barska, Tactical Scorpion Gear, Intex, GoPowerBike, Callaway Golf, BestMassage	Approx. 1.3 million
Apparel & Accessories	Clothing, Costumes, Maternity, Shoes, Socks, Men & Women Clothing	Adidas, Converse, Levis, Skechers, Timberland, UGG, Under Armour, Crocs, DC Shoes	Approx. 2.7 million
Hobbies & Toys	Drones, learning & educational materials, Action Figures, Collectibles, Board Games,	Disney, Funko, Lego, Bandai, Banzai, Hasbro, Razor, Spin Master, Little	Approx. 2.4 million

To ensure a steady supply of products and optimized pricing and allocation, Newegg maintains multiple sourcing arrangements for most of its products. Newegg deploys a flexible sourcing model, utilizing different distribution channels when economically and logistically beneficial while maintaining its reseller authorizations and relationships with its brand partners. As Newegg increases in scale in new or emerging product categories, it endeavors to increase its purchases directly from manufacturers and, where appropriate, to become an authorized reseller, which Newegg believes provides improved product pricing and better access to preferred product allocation.

Newegg's tech savvy customer base, its online marketing and merchandising expertise and its ability to quickly and efficiently launch new products make it the go-to channel for many manufacturers and distributors. Newegg is particularly strong in the components categories where Newegg is one of the largest channels online or offline and it continues to gain significant traction with suppliers in other categories, such as desktop PCs, laptops, and input/output devices.

Newegg maintains extensive and longstanding relationships with many of the biggest tech product brands and distributors globally. Newegg employs a team of merchandising professionals consisting of 53 employees as of December 31, 2020, specifically trained to cultivate and manage relationships with large international IT brands, such as Gigabyte, MSI, Asus, G.Skill, Acer, Corsair, Coolermaster, AMD, Intel, WD, Seagate, Samsung, Nvidia, HP, Lenovo, Microsoft and EVGA. Its merchandising professionals review Newegg's product categories and brands on a regular basis to assess demand and trends so that Newegg offers its customers access to the most current and desirable products. Newegg purchases its inventory from vendors on trade accounts typically requiring payment between 15 and 45 days after the date the inventory is shipped to it.

Leveraging its scale, brand and global footprint, Newegg seeks to enter into exclusive agreements with selected suppliers and third-party distributors for some or all of their products with favorable terms. Newegg has created a manufacturer portal where its suppliers can access reports regarding inventory and purchase history of the manufacturers' products, view Newegg's vast record of customer reviews, and analyze information about its customer purchases of their products. Newegg's suppliers can access this information to assist in their marketing and product development effort.

Private Labels

In 2004, Newegg began to offer its private label products by launching *Rosewill*, its first private label brand on *Newegg.com*. The private label assortment is primarily focused around categories where Newegg believes that it can compete at higher than average margins while delivering lower cost, high quality options to its customers. Newegg offers its private label products both across its platforms and on other e-commerce platforms, such as Walmart, Amazon, and eBay.

Newegg's major private labels currently include *Rosewill* which is focused on offering feature rich computer components, gaming peripherals and home electronics, and *ABS,* a private label launched in 2014 that offers high-end gaming PCs for consumers and custom configured computers for business applications requiring the performance of a gaming GPU.

Other Services and Solutions

In addition to online retail sales, Newegg also generates revenues from a range of ancillary value-added D2C platform services and solutions. Newegg believes by providing these services, Newegg creates additional value for its business partners and customers and ultimately benefits the Newegg ecosystem and all its participants.

Supply Chain Third-party (3PL) Services

- *Shipped by Newegg® Service*. Newegg began to offer *Shipped by Newegg*, a comprehensive suite of warehousing and fulfillment services, to the Newegg Marketplace sellers in 2013. Enrolled Newegg Marketplace sellers deliver their products to one of Newegg's fulfillment centers, and Newegg handles the fulfillment of orders placed in the sellers' online stores and charges service fees based on the size of the products and the shipping methods requested.

- *Newegg Logistics*. Newegg launched *Newegg Logistics* in 2014, a division dedicated to providing end-to-end e-commerce logistics and supply chain solutions covering warehousing, inventory management, order processing, packing and shipping, designed to reduce inventory costs and

streamline supply chain efficiencies, to Newegg's other business partners, manufacturers, wholesellers, Marketplace sellers and B2B clients. Newegg typically enters into a master service agreement with its *Newegg Logistics* customers and charge service fees at a fixed rate.

- *Newegg Staffing*. Newegg launched Newegg Staffing in 2020 with a focus on providing both direct placement and seasonal placement of employees to help its partners, offering clerical, manufacturing and logistics employee placement. Offices have been launched in Southern California, Indiana, New Jersey and Texas.

- *Newegg Bridge*. Newegg launched Newegg Bridge in 2020 offering turnkey customer service outsourcing solutions with 24/7 support. The outsourcing solutions include Phone, Chat, and Email support, as well as Social Media monitoring. Newegg Bridge is a scalable solution that can assist "small, medium, and larger" customers year round or seasonally.

- *Pure Facility Solutions*. Newegg launched a cleaning service business named Pure Facility Solutions in 2020 offering commercial facilities cleaning and sanitizing services to businesses.

- *Newegg PC Assembly Service*. Newegg has launched a PC building service which offers professional assembly service, custom skins, and liquid cooling loops assembly service. This service primarily will operate in two kind of builds, BTS (Build To Stock) & BTO (Build To Order).

Marketing Services

Newegg offers flexible marketing packages consisting of advertising sales, event organization and other marketing campaigns to its brand partners. Newegg helps brands reach a potential audience by leveraging its online portals, marketing affiliates and promotional emails. Newegg has a global professional marketing team consisting of 60 people as of December 31, 2020, who help its brand partners and Marketplace sellers design marketing activities with highly effective cost of sales. In addition, Newegg also utilizes social media to market its brand partners to over three million social fans across various internet platforms, including Facebook, Twitter, YouTube and Instagram, by offering promotions, sweepstakes, and reviews in order to maximize Newegg's brand partners' exposure.

The Newegg Platforms

Newegg's websites and mobile applications, which it refers to as the Newegg platforms, are the foundation of the Newegg ecosystem. While each Newegg platform is strategically focused on differential market segments, customers and/or product categories, the platforms share a common Newegg brand and are supported by its integrated logistics and fulfillment capability, operational expertise and technology infrastructure, and Newegg offers the same level of customer service and dedication across all these platforms.

B2C Platforms

- *Newegg.com*. Launched in 2001 in the United States, *Newegg.com* is its first online platform and currently its flagship e-commerce platform. *Newegg.com* offers a typical range of IT/CE categories with the continuous addition of emerging categories across the internet of things (IoT) home automation, robotics, drones, auto electronics and more. While *Newegg.com* operates predominantly as a B2C e-commerce platform, *Newegg.com* supports both direct sales where Newegg sells merchandise directly to customers and the Marketplace model where third-party sellers offer their inventory to Newegg's customers. As of December 31, 2020, *Newegg.com* fulfilled orders originating from various countries, mostly in Asia and the Middle East region.

- *Newegg.ca*. Newegg launched *Newegg.ca* in 2008 to sell IT/CE products in Canada with a business model similar to that of *Newegg.com*. *Newegg.ca* is a leading e-commerce platform focusing on IT and CE products in Canada, with approximately 1.5 million customers as of December 31, 2020, and GMV of $181.1 million for the year ended December 31, 2020. Currently, nearly half of orders on *Newegg.ca* are fulfilled from Newegg warehouses. Newegg also delivers to its Canadian customers via *Shipped by Newegg* or other third-party shipping companies. Orders for merchandise offered by Canada-based Marketplace sellers are fulfilled locally by such sellers in Canada as well.

- *Newegg Global*. Newegg launched *Newegg Global* in 2017 as an expansion of its footprint in the global ecommerce market. *Newegg Global* can automatically detect a customer's IP address and offer the customer an option to go to their local website or to use the U.S. website. *Newegg Global* currently fulfills orders originated from 20 countries or regions and offers five payment methods and one to seven business day door-to-door delivery services. *Newegg Global* had approximately 0.8 million registered customers outside North America as of December 31, 2020, and had a GMV of $63.9 million for the year ended December 31, 2020.

- *Mobile apps*. Since the launch of Newegg's first mobile app in 2008, Newegg has accumulated millions of downloads of its mobile apps. Newegg currently has a mobile app for Apple devices and for Android devices, and Newegg launches updated versions of its apps periodically. As of March 31, 2021, Newegg's mobile app for Apple devices has a customer rating of 4.8 out of 5.0, and a customer rating for its Android mobile app of 4.6. For more details, see "— Technology — Newegg's IT Capability — Mobile Apps."

B2B Platforms

In 2009, Newegg launched *NeweggBusiness.com*, a site that currently supports substantially all of its B2B operations. Over the years, Newegg has built *NeweggBusiness.com* into a dedicated B2B e-commerce platform offering a full range of IT, office and industrial products and solutions with a wide customer base ranging from government agencies, healthcare institutions, and education institutions to other businesses of all sizes. *NeweggBusiness.com* supports both direct sales and a B2B marketplace that connects its B2B customers with over 2,000 third-party sellers globally.

Other Platforms

In addition to the major Newegg platforms discussed above, Newegg also operates *Newegglogistics.com*, a platform dedicated to providing reliable logistics and supply chain solutions through 3PL operations. For details of Newegg's 3PL services, see "— Newegg's Business Models — Other Services — Third-party Logistics (3PL) Services."

Logistics and Fulfillment

Newegg has a reliable logistics network and infrastructure designed to ensure timely and accurate shipment of a massive amount of orders. This has allowed it to handle seamless delivery of over 32,956 parcels per day on average, with an average accuracy rate of over 99.8%, an over 97.7% 1-business day fulfillment rate in the United States and Canada if ordered prior to Newegg's 3PM local time order cut-off and a 99.6% 2-business day fulfillment rate in the United States and Canada, as of December 31, 2020.

Newegg stocks and ships the vast majority of its direct sales products. Fulfillment of orders from the Newegg Marketplace is executed by the sellers except for orders shipped through its Shipped by Newegg (SBN) services, where the items will be shipped from one of Newegg's warehouses.

Newegg's logistics and fulfillment infrastructure and capabilities include:

- ***Warehouses***. Newegg believes the best approach in serving its customers is to maintain reasonable inventory levels and to ship directly from its own inventory. As of December 31, 2020, Newegg operated eight strategically-located fulfillment centers, including seven warehouses located in North America and one in China, covering more than 1.5 million square feet in total. Each of Newegg's warehouses is able to process 13,000 inbound pieces and 10,000 outbound pieces on average per day. Newegg also maintains regional warehouses in Southern California, New Jersey and Indiana and Ontario, Canada to fulfill customer orders in the United States and Canada. The geographical placement of its warehouses and its warehouses in North America enable it to reach approximately 95% of the North American population in two business days.

- ***Cooperation with reliable logistics service providers***. Newegg capitalizes on a robust transportation framework that connects international air and sea transport, domestic over-the-road carriers, and last mile delivery to residential consumers such as United States Postal Service, Purolator, OnTrac and UPS. Newegg has also engaged and is working with multiple logistics partners to offer a wide array of flexible delivery options.

- ***Virtual fulfillment***. Newegg ships certain products to customers directly from vendors and distributors who meet its quality fulfillment standards without going through its warehouses, a practice which Newegg refers to as virtual fulfillment. Virtual fulfillment is fully utilized to broaden Newegg's product assortment and avoid loss of sales when SKUs are out of stock. In the United States, virtual fulfillment accounted for approximately 7.7% of direct sales for the year ended December 31, 2020.

Its logistics and fulfillment focus on reliable, efficient and flexible delivery.

- ***Reliability***. Newegg has a reliable technology platform and order process flows for its fulfillment operation. Each order is verified at least twice before being shipped. Customers can track the shipping status of their purchases through links to Newegg e-mail and/or its websites and mobile applications. Newegg's inventory management and tracking also have redundant capabilities to enable each facility, if necessary, to fulfill most U.S. orders. This redundancy could allow it to continually fulfill most orders, albeit less efficiently, as long as a single warehouse is operational.
- ***Efficiency***. Newegg has a well-designed, fully-customized warehousing management software system that is adopted by all warehouses, featuring smart categorization of inventory assortment in various warehouse locations to maximize logistics efficiency. When Newegg orders product from a supplier, it tracks the receipt of the merchandise and can "material optimize," or direct, the inventory to a specific warehouse to match customer demand in a geographical area; when a purchase order is received, Newegg matches the order to its inventory, and distributes a specific order fulfillment assignment to one or more warehouses for processing. Newegg uses advanced, "pick-to-light" conveyer systems to allow its warehouse staff to fulfill orders quickly.
- ***Flexibility***. Newegg's customers may choose various shipping methods including basic ground delivery and expedited overnight shipping, and Newegg has continuously optimized its delivery options available to upgrade the shopping experience of its customers. For example, in 2019, in collaboration with UPS, Newegg introduced an option allowing customers to pick up the products they purchase at a nearby UPS location instead of having them delivered at their own addresses. This is a safe and convenient shipping option and reduces the waiting time customers would otherwise experience between the time an order is placed and their products are received.

Customer Service and Support

Newegg has built its brand on the principle of superior customer service. Newegg provides high-quality customer service and support throughout its customers' entire engagement with it, from purchase to returns.

- ***Customer service***. Newegg's in-house customer service staff are trained to resolve customers' inquiries as quickly as possible. Newegg currently operates multilingual customer service centers in California and has customer service representatives working remotely in California, Indiana, Nevada, New Jersey and Texas, focusing on serving North American buyers, and a multilingual customer service centers in China that is available 24 hours a day, seven days a week via e-mail and instant messaging. As of December 31, 2020, Newegg employed over 212 experienced customer service representatives responsible for handling general customer inquiries, taking orders and investigating the status of orders, shipments and payments. Newegg's multilingual customer service representatives are available by phone, live-chat, chatbot or email. During Christmas and other peak sales periods, Newegg also hires part-time personnel to meet increased sales and customer inquiries.
- ***Marketplace monitoring***. When customers purchase items from the Newegg Marketplace sellers, Newegg wants them to be confident that they receive the same level of customer service they expect from Newegg direct sales. With that in mind, Newegg closely monitors the performance of the Newegg Marketplace sellers to ensure they abide by the Newegg Marketplace rules, provide customers with quality customer support, ship orders on time, and respond to customer queries in a timely fashion. Newegg has adopted a zero-tolerance policy on counterfeit products and has rules in place to take down allegedly counterfeit or pirated products and disqualify sellers selling counterfeit or pirated products.
- ***Newegg Marketplace Guarantee service***. Newegg also offers a special customer service program, Newegg Marketplace Guarantee, for Marketplace orders. With Newegg Marketplace Guarantee, if a Marketplace seller fails to reimburse the customer for products that are damaged, defective or materially different from what was displayed on the Newegg platform by that seller, the customer can submit a claim directly to Newegg and may be eligible for reimbursement of the purchase price of any product they purchase from a Newegg Marketplace seller, up to $1,000.
- ***Return policy***. Newegg's standard return policy generally allows certain items that are directly sold and shipped by it to be returned within 30 days of the original invoice date for a full refund or for a replacement, with restocking fees charged in both cases.

From a customer service perspective, in addition to customers, Newegg broadly defines its customers to also include the Newegg Marketplace sellers, from whom Newegg earns commissions, and purchasers of its 3PL services and other ancillary e-commerce solutions and services. See "— The Newegg Ecosystem — Key Ecosystem Participants and How Newegg Creates Value for Them — Marketplace Sellers" and "— Newegg's Business Models — Other Services — Third-party logistics (3PL) services" for more information about Newegg's engagement with these customers.

Payment

Newegg provides its customers with the flexibility to choose from a number of traditional online payment options, along with certain creative payment solutions that are popular with tech enthusiasts.

- ***B2C payment options***. Newegg offers various mainstream online payment options to customers on its B2C platform, including credit cards, debit cards and pre-paid gift cards. Newegg offers customers the opportunity to pay for items purchased on its platforms with *Newegg Store Credit Card*, a private label credit card that Newegg launched in partnership with Synchrony Financial, a U.S. consumer financial services company. *Newegg Store Credit Card* has a revolving credit line and offers numerous attractive financing options, including, for example, zero interest for everyday purchases for up to 12 months, and up to 36 months on purchases of certain items on its platforms, which Newegg believes improves customer loyalty and purchase frequency and results in increased sales. In addition, Newegg allows customers to use Bitcoin and Bitcoin cash to pay for purchases made on its platforms.
- ***B2B payment options***. B2B customers can make payment during checkout or request credit and pay on terms via the above-mentioned online payment options or via ACH, wire transfer or bank check. Newegg also offers open terms accounts for business and public sector customers. In most cases, the payment term that Newegg grants to its B2B customers is 30 days.

Sales and Marketing

Newegg's marketing strategy includes generating customer traffic, increasing its brand recognition, acquiring customers cost-efficiently, building customer loyalty and maximizing repeat purchases. Newegg's integrated marketing framework represents a core competency that it regards as essential to the success of its platform. Newegg is focused on continuing to enhance Newegg's brand awareness through a variety of online and offline marketing and brand promotion activities, meanwhile leveraging technology to drive scalability and sustainability and eventually achieve optimal return on investment and highly effective cost of traffic as well as sales.

Referral

Newegg benefits significantly from word-of-mouth referrals and positive product reviews, and Newegg believes its reputation as a one-stop-tech-shop has led to strong word-of-mouth promotion, especially among the tech-savvy. Newegg also provides live-streaming product reviews on its platforms, through which its customers can see other people's thoughts on the product in a more straightforward way. As of December 31, 2020, Newegg attracted 53% of its visitors without incurring a referral, click-through or advertising fee.

Online Marketing

Newegg conducts the majority of its marketing efforts online through targeted marketing via affiliates, search engines, promotional emails, social media traffic, targeting and personalization and online promotion campaigns.

- *Paid search engine marketing.* Search engine marketing is a major driver of its traffic and customer acquisition. For the year ended December 31, 2020, its spending on paid search engine marketing represented approximately 59% of its total marketing spending. Newegg bids for specific keywords and products on search engine sites, such as Google, Yahoo! and Microsoft Bing, for optimum visibility in the displayed results. Newegg's broad and evolving product selection enables it to utilize a large quantity of keywords that Newegg frequently tests and measure for their effectiveness. Newegg also uses sophisticated software to strategically manage its keyword and SKU level bids to maximize marketing performance at an efficient rate.

- *Affiliate Marketing*. Newegg also engages in affiliate marketing programs where Newegg offers affiliated websites commissions for sales resulting from directing customer traffic to its websites through embedded hyperlinks. Such affiliates are typically deal sites that advertise retailer deals to their audiences. Affiliate marketing is Newegg's second largest paid marketing channel and represents approximately 20% of Newegg's total marketing expense for the year ended December 31, 2020.

- *Targeting and personalization Marketing*. Targeting and personalization have proved to be highly effective in terms of conversion and customer acquisition. Newegg's CRM Marketing Team run various and highly diversified marketing programs through personalization and segmentation on multiple channels including website, email, social, paid search engine, and more. Based on customers' onsite behavioral data and purchase history data, Newegg is able to identify prospect customers (that is, visitors sharing a same shopping pattern with Newegg customers) as well as existing customers and display its brand and product advertising ads to them when they are on social media or Google search or other affiliate sites.

- *Others*. Other online marketing channels include click-through based advertising on shopping comparison engines, targeted messages, email distribution, banner advertisements on high-traffic portals, social networking via major social media sites and Newegg's own branded portal, and onsite promotions and cross-selling opportunities on its websites, such as *Daily Deals* and *Marketplace Spotlight*. Newegg had approximately 18 million email subscribers as of December 31, 2020 and successfully delivered over 1.7 billion emails to targeted customers, which is way ahead of industry benchmarks.

Offline Marketing

Newegg also devotes marketing resources to various offline formats, including displaying offline advertisement through multiple channels and sponsoring or organizing offline events.

Newegg leverages offline events as a way to engage its customers, vendors and brand partners to extend its brand recognition. Newegg has launched various offline events to enhance the interaction among IT enthusiasts and to promote its products and brands, including the Newegg Triple Crown Royal at HyperX Esports Arena in Las Vegas, Intel Extreme Masters in Chicago and the CLG Fortnite Challenge in New York. For example, Newegg held its 15th annual Eggie Awards gala in January 2019 at the Hakkasan, a renowned Asian-fusion eatery & club in Las Vegas, honoring key partner companies and individuals that are important to Newegg's success. Other events included the Newegg Triple Crown Royal at HyperX Esports Arena Las Vegas, Caltopia at UC Berkeley, Intel Extreme Masters at Chicago, CLG Fortnite Challenge event in New York, and CLG Tailgate event in West Hollywood.

Technology

Newegg's technology systems are a critical component of its success and are designed to enhance efficiency and scalability. Newegg's research and development team, coupled with its proprietary technology infrastructure and the large volume of data generated and collected on its platforms, have created opportunities for continuous improvements in Newegg's technology capabilities, empowering reliability, scalability and flexibility. Newegg's technology strategy is to develop Newegg's own proprietary software and license technologies from third parties as appropriate in order to simplify and improve the shopping experience, as well as facilitate Newegg's fulfillment, financial and customer service operations.

IT Infrastructure

Newegg has built its technology platform relying primarily on software and systems that Newegg has developed in-house and to a lesser extent on third-party software. Its global research and development team consists of more than 450 IT professionals and engineers as of December 31, 2020, working to design and maintain Newegg's IT infrastructure to support its growth. Newegg's technology infrastructure is designed for scalability and reliability to support business growth. It utilizes high-availability clusters comprising groups of servers to provide sufficient redundancy and ensure continued service in the event of single point server failure due to hostile attacks, systematic errors or other reasons. Newegg's high-availability data system ensures that back-up servers are connected to its network instantly once master servers experience technical difficulties.

Newegg currently has two self-owned data centers in City of Industry, California and two co-located data centers at facilities in Los Angeles, California, and New Jersey to provide redundancy for its e-commerce data. Newegg maintains over 1,500 servers stored in its data centers and 300 network devices. Newegg's IT infrastructure enables it to support 54 million page views and with the capability to process up to 0.75 million orders per day. Newegg's platform obtained PCI Level 1 certification in 2010.

Newegg's IT Capability

- *Websites*. Newegg's website incorporates proprietary technology internally developed on a primarily Microsoft.NET platform. It provides product descriptions, search and ordering functionalities and product reviews.

- *Mobile site and apps*. Customer activity on mobile devices is growing, and Newegg is investing significantly in mobile technology to increase sales to customers using mobile devices. Newegg's mobile app aims to create a convenient shopping experience for its customers by, for example, enabling users to save their profiles and payment information for future purchases, and to provide helpful tools to Marketplace sellers by, for example, offering a mobile dashboard allowing them to better manage their inventory and orders on the go. As of December 31, 2020, the orders placed on its mobile site and apps accounted for approximately 24.5% of its total B2C orders.

- *Data and analytics.* Data collected from Newegg's operations, including inventory data, behavioral and transactional data and pricing data, are housed in Newegg's data centers. Newegg has deployed commercial business intelligence software to analyze this data and improve the shopping experience. Newegg applies various AI capabilities and deep learning technologies across its platforms to enhance the shopping experience. Newegg's sophisticated user behavior analysis system leverages its large customer database to create customized product recommendations, allowing it to efficiently acquire new customers and increase sales. Also, Newegg has leveraged its AI capabilities to do category extraction for different products based on the unstructured content and images, the results of which have been used to do miscategorization correction and site search relevancy improvement.

- *Inventory management*. Newegg's supply chain management system includes price optimization, inventory balancing, and inventory forecasting and other subsystems. It enables effective sales forecasting and inventory management that increase the efficiency of Newegg's supply chain and help it control costs. Newegg's inventory availability is coordinated through Newegg's technology platform. Newegg has added functionality to update Newegg's platforms on a real-time basis when items become out of stock in Newegg's fulfillment centers. This feature limits the number of orders placed for out-of-stock items, allowing it to better manage aging inventory and minimize customer dissatisfaction by eliminating backorder merchandise.

- *Transaction management*. Newegg has developed and deployed a scalable back office platform that allows it to monitor transactions and changes to financial data as well as provide Newegg's management with daily updates. Newegg utilizes both proprietary and third-party applications for accepting and validating purchase orders, placing and tracking orders with suppliers, managing inventory and assigning it to purchase orders and ensuring proper shipment of products to customers.

- *Fulfillment management.* Newegg has software for its fulfillment operations that tracks customer orders from placement through packing and shipping. Newegg has installed sophisticated, "pick-to-light" conveyor systems and associated software. Newegg has also developed software modules that efficiently manage the sorting and picking process of its products. Newegg's systems are integrated with those from its primary U.S. shipping vendor to facilitate tracking of the orders after shipment.

- *Anti-fraud monitoring*. Online fraud is a constant threat to the security and reliability of e-commerce retailers. Newegg works with third-party vendors to monitor its network security devices and to secure its online payment systems. Newegg has developed proprietary tools in-house to monitor its online traffic for suspicious activities. Newegg's websites have earned certifications from organizations and agencies like Tevora, based on its meeting their information protection and fraud prevention standards.

Research & Development Team

Newegg's global research and development team, consisting of more than 450 IT professionals and engineers as of December 31, 2020, is focused on innovation through software development, algorithm design and development and IT infrastructure design and maintenance. Newegg's research and development personnel constantly upgrade its platforms and continuously test new features to improve its customer experience. Newegg's research and development team also develops custom-built proprietary and engages third-party solutions to support its specific customer, vendor and Newegg Marketplace seller requirements, including handling heavy traffic on its platforms and providing quick and efficient fulfillment services to meet customer expectations. In 2010, Newegg was granted a CMMI Level 4 maturity certification from the Capability Maturity Model Integration Institute for its research center in China.

Security and Privacy Policy

Newegg is committed to protecting information security across all Newegg platforms. Newegg uses a variety of techniques to protect the integrity of its networks and the confidential data it collects and stores. Confidential information concerning Newegg's customers, sellers and suppliers is encrypted and is protected using SSL encryption software. In addition, Newegg uses multiple layers of network segregation and hierarchical levels of firewall technology to protect against attacks or unauthorized access to its networks, servers and databases. Newegg also continues to build new procedural safeguards as part of its comprehensive privacy program. Newegg operates in a secured and locked facility that requires all of its employees to check in and wear valid ID badges.

Newegg has adopted a detailed privacy policy that describes in plain language its data use practices and how privacy is protected at Newegg, including the extent to which other Newegg users may have access to this information. Newegg requires users to acknowledge and expressly agree to this policy when registering with its platforms.

Intellectual Property

Newegg relies on a combination of trademark, trade secret and other intellectual property laws as well as confidentiality agreements with its employees and suppliers for the purpose of protecting the proprietary rights associated with the products branded under Newegg's private labels. Newegg controls access to use and distribution of its intellectual property through license agreements, confidentiality procedures, non-disclosure agreements with third parties and its employment and contractor agreements.

Newegg's intellectual property portfolio includes numerous domain names for websites that it uses in its business. Newegg has registered the domain names newegg.com, newegg.ca and neweggbusiness.com and their variations. Newegg's "Newegg" trademark and logo have also been registered with the relevant authorities in the United States, Canada and China (as well as in other regions, such as the European Union and Brazil. Furthermore, Newegg has also registered the trademarks and logos of its major private labels, such as Ros*ewill* and *ABS*.

In addition to the protection of its intellectual property, Newegg is focusing on ensuring that its product offerings (especially its private label products) do not infringe on the intellectual property of others. Generally, its agreements with suppliers contain provisions to safeguard it against potential intellectual property infringement by its suppliers and impose penalties in the event of any infringement. Newegg reserves the right to refuse to work with or terminate its relationship with suppliers where it comes to its attention that they are violating the intellectual property rights of a third party.

Competition

The worldwide market in which Newegg competes is evolving rapidly and intensely competitive, and Newegg faces a broad array of competitors from many different industry sectors around the world. Newegg's current and potential competitors include: (i) online, offline and multichannel retailers, publishers, vendors, distributors, manufacturers, and producers of the products Newegg offers and sells to customers; (ii) companies that provide ancillary D2C platform services and solutions, including website development, advertising, customer service and payment processing; (iii) companies that provide fulfillment and logistics services for themselves or for third parties, whether online or offline; and (iv) companies that design, manufacture, market, or sell consumer electronics, telecommunication, and electronic devices.

Newegg believe the principal competitive factors in Newegg's market are:

- breadth and quality of product offerings;
- pricing;
- fulfillment capabilities;
- brand recognition and reputation;
- customer service;
- ability to respond more quickly to changing consumer preferences;
- ability to reach a geographically broader set of customers; and
- ability to be more flexible in marketing to a specific set of potential customers.

Some of Newegg's current and potential competitors have greater resources, longer histories, more customers, greater brand recognition, and greater control over inputs critical to Newegg's various businesses. They may secure better terms from suppliers, adopt more aggressive pricing, pursue restrictive distribution agreements that restrict Newegg's access to supply, direct consumers to their own offerings instead of its, lock-in potential customers with restrictive terms, and devote more resources to technology, infrastructure, fulfillment, and marketing. Each of Newegg's businesses is also subject to rapid change and the development of new business models and the entry of new and well-funded competitors. Other companies also may enter into business combinations or alliances that strengthen their competitive positions.

In the United States, Newegg competes with retail stores and resellers, including superstores such as Best Buy, Costco and Walmart, hardware and software vendors that sell directly to end users, online retailers such as Amazon, and other marketers and resellers of IT and CE products. Newegg also faces competition in the international markets Newegg participates in, such as Mongkok Computer Centre (HK), Umart (Australia) Best Bargain Computer (Singapore), and Noon in the Middle East, or may enter in the future.

Awards and Accolades

Since Newegg first launched its business, its customers have submitted a large number of positive reviews relating to their shopping experiences with it, many of which are posted on popular consumer review sites such as ResellerRatings. Newegg has also been rated a number of times as a top e-commerce site for IT and electronics products. For example, Newegg's overall customer satisfaction rating is 9.3 out of 10 on Internet retail rating site *www.ResellerRatings.com*. Newegg's success in pleasing its customers has also been validated in third-party survey. Newegg has been recognized as a "Google Trusted Store" with a rating of 4.5 out of 5. Newegg also became a Better Business Bureau Accredited business since September 2011 with a rating of A+.

In 2019 and 2020, Newegg received a number of national awards and ratings for its excellent customer service, including:

- No. 4 on Forrester's 2019 Net Promoter Score for Digital Retailers;
- No. 8 on 2019 Twice Top 100 CE Retailers;
- No. 7 on the Multiorders 2019 Most Popular Online Marketplaces;
- No. 26 on the Digital Commerce 360 2020 Top 1000 E-retailers;
- No. 33 on the Digital Commerce 360 2020 Online Marketplaces Report;
- No. 5 on Newsweek's 2020 List of Best Online Shops — Consumer Electronics;
- Included in Multichannel Merchant's 2020 Top 3PL Providers; and
- Included in Supply & Demand Chain Executive 2020 Green Supply Chain Awards

Employees

As of December 31, 2018, 2019 and 2020, Newegg employed a total of 2,081, 1,561 and 1,789 full-time employees. The following tables give breakdowns of its full-time employees as of December 31, 2020 by function and by region.

Function	Number of Employees
ABS	7
Capital Markets and Investment	7
CEO Office	6
Customer Service	212
Facilities	14
Fulfillment	304
Global BSA	9
Global IT	27
Global MIS	48
Global Marketing	60
Global Platform	124
North Am Internal Audit	4
North Am Info. Security	2
3PL Operations	23
North Am B2B	25
North Am Finance	46
North Am Human Resources	12
North Am Legal	5
Newegg Canada	18
Newegg Logistics	19
Operations & Other Services	42
Planning & Analytics	2
Private Label	12
Tech	1
APAC Human Resources	14
APAC Business	106
APAC Finance	21
APAC Facilities	9
APAC Operations	194
APAC Tech	397
APAC Fulfillment	2
APAC Private Label	7
APAC Management Office	5
APAC Legal	1
APAC Internal Audit	4
	1,789

Region	Number of Employees
United States	982

China	654
Taiwan	123
Canada	30
Total	1,789

During the holiday season, Newegg has historically added temporary workers to augment its full-time work force.

Facilities

As of December 31, 2020, Newegg leased the following principal facilities:

Description of Use	Approximate Square Footage	Geographic Location	Lease Expirations
	(in thousands)		
Corporate office facilities	149,057	North America	12/31/2022 through 11/30/2029
Fulfillment and warehouse operations	1,578,999	North America	10/31/2021 through 11/30/2029

As of December 31, 2020, Newegg owned the following principal facilities:

Description of Use	Approximate Square Footage	Geographic Location
Corporate office facilities	362,044	China
Corporate office facilities	3,369	Taiwan
Fulfillment and warehouse operations	109,473	China

Newegg's corporate headquarters is located in City of Industry, California. Newegg also leases additional corporate office facilities and fulfillment and warehouse operations throughout North America, principally in California, Indiana and New Jersey in the United States and Toronto in Canada. Outside of North America, Newegg also owns or leases corporate office facilities and fulfillment and warehouse operations, principally in China, Taiwan and the United Kingdom. Newegg's Asia headquarters is in Shanghai. Newegg periodically evaluates its facility requirements as necessary and believes its existing and planned facilities will be sufficient for its needs for at least the next twelve months.

Seasonality

Newegg's business performance is subject to seasonal fluctuations. It has undergone and expects to continue to undergo an increase in activity during the year-end holiday period. These seasonal effects cause differences in revenues and expenses among the various quarters of any financial year, which means that the individual quarters should not be directly compared with each other or be used to predict annual financial results. This intra-year seasonal fluctuation in demand is in accord with historic experience in the retail and e-commerce industries, with increased volumes during the fourth calendar quarter of the year.

Government Regulations

Newegg is subject to U.S. federal and state consumer protection laws, including laws protecting the privacy of customer personal information and regulations prohibiting unfair and deceptive trade practices. Other existing and future laws cover issues such as user privacy, spyware and the tracking of consumer activities, marketing e-mails and communications, other advertising and promotional practices, money transfers, pricing, content and quality of products and services, taxation, electronic contracts and other communications and information security.

Particularly, under applicable federal and state laws and regulations addressing privacy and data security, Newegg must provide notice to consumers of its policies with respect to the collection and use of personal information, and its sharing of personal information with third parties, and notice of changes to its data handling practices. In some instances, Newegg may be obligated to give customers the right to prevent sharing of their personal information with third parties. Under applicable federal and state laws, Newegg also is required to comply with a number of requirements when sending commercial email to consumers, including identifying advertising and promotional emails as such, ensuring that subject lines are not deceptive, giving consumers an opportunity to opt-out of further communications and clearly disclosing its name and physical address in each commercial email. Regulation of privacy and data security matters is an evolving area, with new laws and regulations enacted frequently. For example, California recently enacted legislation that, among other things, requires new disclosures to California consumers, and affords such consumers new abilities to opt out of certain sales of personal information, effective January 1, 2020. In addition, under applicable federal and state unfair

competition laws, including the California Consumer Legal Remedies Act, and U.S. Federal Trade Commission, or FTC, regulations, Newegg must accurately identify product offerings, not make misleading claims on its platforms, and use qualifying disclosures where and when appropriate.

There is also great uncertainty over whether or how existing laws governing issues such as property ownership, sales and other taxes, auctions, libel and personal privacy apply to the Internet and commercial online services. For example, tax authorities in a number of states are currently reviewing the appropriate tax treatment of companies engaged in online commerce, and new state tax regulations may subject Newegg to additional state sales and income taxes. Additionally, new state legislation may also subject it to other types of taxes. New legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to its business or the application of existing laws and regulations to the Internet and commercial online services could result in significant additional taxes or regulatory restrictions on its business or may necessitate changes to its business practices. These obligations or changes could have an adverse effect on Newegg's financial position and results of operations.

Newegg's international operations are subject to foreign laws and regulations addressing topics such as customs duties and taxes, advertising and marketing practices, privacy, data protection and information security and consumer rights, as well as additional laws and regulations, including restrictions on imports from, exports to, and services provided to persons located in certain countries and territories, any of which might apply by virtue of Newegg's operations in foreign countries and territories or its contacts with consumers in such foreign countries and territories. For example, in Canada, Newegg is subject to labor and employment laws, laws governing advertising, privacy and data security laws, safety regulations and other laws, including consumer protection regulations that apply to online retailers and/or the promotion and sale of merchandise and the operation of stores and warehouse facilities. Newegg monitors changes in these laws, regulations, treaties and agreements, and believes that Newegg is in material compliance with applicable laws.

Legal Proceedings

From time to time, Newegg may be involved in legal proceedings in the ordinary course of its business. Except as disclosed below, Newegg is currently not a party to any material legal or administrative proceedings.

In February 2018, the Commonwealth of Massachusetts Department of Revenue issued a notice of intent to assess sales/use taxes on Newegg for the period from October 1, 2017 through October 31, 2017 for a total assessment of $652,254.68 including penalties and interest. The Department of Revenue subsequently reduced this amount to $295,910.68. In May 2020, Newegg received from the Commonwealth of Massachusetts Department of Revenue another notice of assessment for sales and use taxes for the months of November 2017 through September 2018 in the amount of $2,721,369.77, including penalties and interest. Newegg has appealed these assessments and Newegg intends to vigorously protest them. The outcome of this matter or the timing of such payments, if any, cannot be predicted at this time.

In 2017, Newegg, along with two of its subsidiaries and various third parties, were named as defendants in a case brought by four South Korean banks in U.S. District Court for the Central District of California. The complaint alleged claims for intentional and negligent misrepresentation, negligent supervision and unfair competition, and sought damages against, among other entities, Newegg and two of its subsidiaries. In April 2018, the Court dismissed all claims against Newegg Trading Limited without prejudice. In October 2018, the court granted Newegg's motion to dismiss all claims against Newegg and its remaining subsidiary without leave to amend.

In December 2014, an individual plaintiff sued Newegg's subsidiary, Newegg.com Americas Inc. in Superior Court in Los Angeles County, California, alleging that Newegg.com Americas Inc. had engaged in deceptive advertising practices and seeking to certify a class action. In 2016, the trial court sustained Newegg.com Americas Inc.' demurrer to the plaintiff's claims without leave to amend. The plaintiff appealed, and in July 2018 an appellate court reversed the decision of the trial court, thus allowing the case to proceed. The matter is now pending in the trial court, with Newegg having been added as a defendant. Newegg does not believe that a loss is probable and intends to vigorously defend itself and its subsidiaries. Depending on the amount and timing, an unfavorable result could materially affect Newegg's business, consolidated results of operations, financial position or cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE COMPANY

The following discussion should be read together with the audited financial statements and the related notes thereto of the Company for the fiscal years ended December 31, 2020, 2019 and 2018 included elsewhere in this proxy statement/prospectus. This discussion contains certain forward-looking statements that reflect plans, estimates and beliefs and involve numerous risks and uncertainties, including but not limited to those described in the "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" sections of this proxy statement/prospectus. Actual results may differ materially from those contained in any forward-looking statements. You should carefully read "Cautionary Statement Regarding Forward-Looking Statements" in this proxy statement/prospectus.

Overview

Our business of product sales is divided into two parts: (i) medical products; and (ii) mobile medicine, primarily wearable sleep respiratory solution for OSAS. For the years ended December 31, 2020, 2019 and 2018, our total revenues from product sales from continuing operations amounted to approximately $0.32 million, $0.21 million, and $0.34 million, respectively.

Since 2018, we started to earn service revenue from provision of technical services in relation to detection and analysis of OSAS. We focused on the promotion of sleep respiratory solutions and service in public hospitals. Our wearable sleep diagnostic products and cloud-based service are also available in medical centers of private preventive healthcare companies in China. For the years ended December 31, 2020, 2019 and 2018, our total service revenues generated from provision of OSAS diagnostic services amounted to approximately $0.04 million, $0.17 million and 0.22 million, respectively.

Our revenues are subject to value added tax ("VAT") and sales returns. We deduct these amounts from our gross revenue to arrive at our total revenue. Our net loss attributable to the Company for the years ended December 31, 2020, 2019 and 2018 were approximately $3.24 million, $4.45 million, and $8.91 million, respectively.

In 2017 we discontinued the unprofitable medical device businesses, including assembly and sales of X-ray machines, laryngoscope, anesthesia machines, the first-generation ventilator, monitoring devices, general medical products, oxygen therapy, oxygen generator and telemedicine. In 2018, we stopped selling compressors and laryngoscope. Only a few potentially profitable businesses such as sales of CPR instruments continued. In August 2020, we ceased our CPR instrument line business as a result of the disposition of our wholly-owned subsidiary, Beijing Dehaier. Our corporate and business restructuring plan aims to concentrate resources on developing our mobile health business, including the wearable sleep respiratory device business. We believe these changes are crucial to improve our competitive advantages in the industry.

Recent Developments

COVID-19

The ongoing COVID-19 pandemic that first surfaced in China and has spread throughout the world has had a material adverse effect on our business. All of our operating subsidiaries are located in China, and substantially all of our employees and all of our customers and suppliers are located in China. From January to February 2020, our service revenue plunged, as the number of patient users decreased sharply; and our revenue from the sale of products also dropped, because our distributors and sales personnel were trapped at home and our contract manufacturers shut down production during this period. Constrained by the epidemic, management and employees have been working from home to mitigate the impacts of operation disruptions caused by COVID-19. As of the date of this proxy statement/prospectus, we have resumed operations but at below normal levels. Medical check-up centers and hospitals in China that we have business relationships with have partially resumed operations since March 2020, including the medical check-up centers in Wuhan that focus on physical examinations.

The COVID-19 has a relatively limited impact on our results of operations for the fiscal year ended December 31, 2020. Our total revenue decreased by 6% from approximately $0.38 million for the year ended December 31, 2019 to approximately $0.36 million for the year ended December 31, 2020, mainly due to a decrease of approximately

$0.14 million in service revenue from the provision of OSAS diagnostic services, as COVID-19 caused patient users to decrease in the hospitals and medicals centers we cooperate with, partially offset by an increase in product sales of $0.11 million.

The outbreak has been evolving rapidly. We will continue to monitor and mitigate developments affecting our workforce, our customers, and the public at large. See "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Our Business — The outbreak of coronavirus may have a material adverse effect on our business and the trading price of our common shares."

Management Changes

On April 1, 2020, Mr. Ping Chen resigned from his positions as Chief Executive Officer and director of the Company. Mr. Chen's resignation was not a result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices. On the same date, Mr. Zhitao He was appointed as Chief Executive Officer of the Company. On the same date, the Company's Interim Chief Financial Officer, Ms. Yingmei Yang, was appointed as a director to fill the vacancy created by Mr. Chen's resignation.

On April 24, 2020, Mr. Xiaogang Tong resigned from his positions as an independent director and member of each committee of the board of directors. Mr. Tong's resignation was not a result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices. On the same date, the board of directors appointed Mr. Fuya Zheng as a director and member of each committee of the board of directors, and chair of audit committee.

On August 12, 2020, Mr. He resigned from his positions as Chief Executive Officer, Chairman and director of the Company. Mr. He's resignation was not a result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices. On August 25, 2020, the board of directors appointed Mr. Bin Lin as Chief Executive Officer and Chairman of the Company to fill the vacancies created by Mr. He's resignation.

Disposition of Beijing Dehaier

On August 13, 2020, Lianluo Connection entered into a share transfer Agreement with China Mine United Investment Group Co., Ltd., or China Mine, pursuant to which Lianluo Connection transferred its 100% equity interests in Beijing Dehaier to China Mine for cash consideration of RMB 0. In exchange for all of the equity interests in Beijing Dehaier, China Mine agreed to assume all liabilities of Beijing Dehaier. The board of directors of the Company approved the transaction after it received a written opinion rendered by Benchmark, the independent financial advisor to the board, to the effect that, as of the date of such opinion, the consideration to be received by the Company in the sale of Beijing Dehaier is fair to the Company's shareholders from a financial point of view.

Share Combination

On October 21, 2020, we amended and restated our memorandum and articles of association to complete a share combination of our common shares at a ratio of one-for-eight, which decreased our outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and our outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares. This share combination also decreased our authorized shares to 6,250,000 common shares of par value of $0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares. Accordingly, except as otherwise indicated, all share and per share information contained in this proxy statement/prospectus has been restated to retroactively show the effect of this share combination.

Factors Affecting Our Results of Operations Generally

We believe the most significant factors that directly or indirectly affect our revenues and net income are:

- our ability to position our products and services in different market segments, including our efforts to sell our products and services to hospitals and other healthcare facilities nationwide;
- our ability to price our products and services at levels that provide favorable and acceptable margins amidst increasing pressure from our competitors who also seek better pricing strategy for their own benefit;

- new products and services introduced by us as well as our competitors. The introduction of new products and services by our competitors may lead to a decrease in sales and market share of our products and services, or force us to sell our products and services at reduced prices or margins;
- our ability to attract and retain distributors and key customers;
- our capability of gathering and analyzing market data, such as market capacity, new market trends, market share, and competitive landscape;
- our ability to establish, promote, and maintain the public relations image of the Company and product brands; and
- changes in macro-economic environment, both global and domestic, as well as healthcare-related government policies and legislation.

Our business is primarily conducted in China and all of our revenues are denominated in RMB. The conversion of RMB into U.S. dollars for our financial data during the fiscal years ended December 31, 2020 and 2019 is based on the middle exchange rate in China for cable transfers of RMB as certified for customs purposes promulgated by the People's Bank of China. Our income statements are translated into U.S. dollars at the average exchange rates in each applicable period. The conversion of RMB into U.S. dollars for our financial data during the fiscal year ended December 31, 2018 is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. To the extent the U.S. dollar strengthens against RMB, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses and net income for our non-U.S. operations. Similarly, to the extent the U.S. dollar weakens against RMB, the translation of RMB transactions results in increased revenues, operating expenses and net income for our non-U.S. operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements into U.S. dollars in consolidation. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The government of the People's Republic of China imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. The Company does not currently engage in currency hedging transactions.

For a detailed discussion of other factors that may cause our net revenues to fluctuate, see "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Our Business."

Components of Results of Operations

Revenues

Our total revenues are derived from our medical devices and sleep respiratory businesses. In 2020, our total revenues from continuing operations decreased by 6%, mainly due to the decrease in service revenue from the provision of OSAS diagnostic services by $0.14 million, partially offset by an increase in product sales by $0.11 million. Starting in 2018, we redirected our operations from unprofitable product sales of medical products and mobile medicines to marketing and expanding OSAS diagnosis services in hospitals and physical examination centers.

Medical Products (Including Related Supporting Products) — Our Proprietary and Distributed Products

We derive revenues in our medical equipment product line from the sale of general hospital products and related supporting products and medical compressor. We continue to strategically reduce our sales of traditional medical devices, and to fully realize our business focus shift from traditional medical equipment distribution to the market exploration of medical products and services based on the technology of the mobile internet, including delivering comprehensive sleep respiratory solution for OSAS patient care management other medical products. Our sale of proprietary and distributed products accounted for approximately 90% and 55% of the total revenue for the fiscal year 2020 and 2019, respectively.

We discontinued, as appropriate, the unprofitable medical device business, including assembly and sales of C-arm X-ray machines, laryngoscope, anesthesia machines, the first-generation ventilator, monitoring devices, general medical products, oxygen therapy, oxygen generator and telemedicine. We plan to maintain only a few profitable businesses on sales of our patented products including medical air compressors and the second-generation ventilator.

OSAS service (analysis and detection)

We derive revenues in our sleep respiratory line from sales of OSAS test and service. Our wearable sleep diagnostic products and cloud-based service are also available in medical centers of Chinese leading private preventive healthcare companies in China. Our portable sleep diagnostic devices business accounted for approximately 10% of the total revenue for the year 2020 and 45% of the total revenue for the year 2019.

The following represents the revenues by product lines, all derived from China:

(In U.S. dollars)

	For the years ended December 31,		
	2020	**2019**	**2018**
Sale of medical equipment			
Abdominal CPR Compression	$ 301,549	$ 58,750	$ 221,414
Mobile Medicine (sleep apnea diagnostic products)	21,776	153,644	120,930
OSAS service (analysis and detection)	35,211	171,064	217,042
Total revenues	358,536	383,458	559,386

Cost of Revenues

For the years ended December 31, 2020, 2019 and 2018, cost of revenues primarily includes costs of materials, wages, depreciation on our production plant and equipment and depreciation expenses of fixed assets for the provision of services and other expenses associated with the distribution of product.

Selling Expenses

Selling expenses consist primarily of salaries and related expenses for personnel engaged in sales, marketing and customer support functions, and costs associated with advertising and other marketing activities, and depreciation expenses related to equipment used for sales and marketing activities. As our growth strategies shift, we believe selling expenses will be lower than the current level which would improve profitability of our operations.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries and benefits and related costs for our administrative personnel and management, stock-based compensation, expenses associated with our research and development, registration of patents and intellectual property rights in China and abroad, fees and expenses of our outside advisers, including legal, audit and register expenses, expenses associated with our administrative offices, and the depreciation of equipment used for administrative purposes. We expect that in the near future, our general and administrative expenses will be lower than the current level which would improve profitability of our operations.

Results of Operations

Starting from 2018, we redirected our operations from unprofitable product sales of medical products and mobile medicines to marketing and expanding OSAS diagnosis services in hospitals and physical examination centers. However, the provision of these OSAS diagnosis services is still in its early stage and we may need to invest more marketing efforts in order to build up and consolidate our partnership with hospitals and physical examination centers in China.

Years Ended December 31, 2020, 2019 and 2018

The following table sets forth the components of our results of operations both in U.S. dollar amounts (in thousands) and as a percentage of total revenues for the years indicated.

	For the years ended December 31,						Changes		Changes	
	2020		2019		2018		2020 vs. 2019		2019 vs. 2018	
	USD ('000)	%	USD ('000)	%	USD ('000)	%	USD ('000)	%	USD ('000)	%
Revenues	359	100	383	100	559	100	(24)	(6)	(176)	(31)
Cost of revenues	(647)	(180)	(744)	(194)	(758)	(136)	(97)	(13)	(14)	(2)
Gross loss	(288)	(80)	(361)	(94)	(199)	(36)	73	20	(162)	(81)
Selling expenses	(92)	(26)	(835)	(218)	(2,083)	(373)	(743)	(89)	(1,248)	(60)
General and administrative expenses	(2,482)	(691)	(2,594)	(677)	(3,675)	(657)	(112)	(4)	(1,081)	(29)
Provision for doubtful accounts and inventories	(113)	(31)	(13)	(3)	(22)	(4)	100	769	(9)	(41)
Impairment loss for intangible assets	—	—	—	—	(3,282)	(587)	—		(3,282)	(100)
Operating loss	(2,975)	(829)	(3,803)	(993)	(9,261)	(1,657)	828	22	5,458	59
Financial income (expenses)	1	—	1	—	(38)	(7)	—		39	103
Other expense, net	(23)	(6)	(32)	(8)	(211)	(38)	(9)	(28)	(179)	(85)
Unrealized gain (loss) on marketable securities	130	36	(1,357)	(354)	—	—	(1,487)	(110)	1,357	—
Change in fair value of warrants liability	(129)	(36)	740	193	600	107	(869)	(117)	140	23
Loss on disposal of a subsidiary	(245)	(68)	—	—	—	—	245	100	—	—
Net loss	(3,241)	(903)	(4,451)	(1,162)	(8,910)	(1,594)	1,210	27	4,459	50

Fiscal Year Ended December 31, 2020 Compared to Fiscal Year Ended December 31, 2019

Revenues. Our total revenues from continuing operations decreased by 6% from $0.38 million for the fiscal year ended December 31, 2019 to $0.36 million for the fiscal year ended December 31, 2020. The decrease in revenue was caused by a reduction of approximately $0.14 million in OSAS diagnostic services, as COVID-19 caused patient users to decrease in the hospitals and medicals centers we cooperate with, partially offset by an increase in product sales of $0.11 million.

Cost of Revenues. Our cost of revenues from continuing operations decreased by 13% from $0.74 million for the fiscal year ended December 31, 2019 to $0.65 million for the fiscal year ended December 31, 2020. The decrease in cost of revenues was more than the decrease in revenue, mainly because the depreciation of our long-lived assets related to our service revenues decreased about $0.25 million compared with 2019, partially offset by an increase in product sales.

Gross Loss. Our gross loss from continuing operations decreased from $0.36 million in 2019 to $0.29 million in 2020. Gross loss as a percentage of income decreased from 94% in 2019 to 89% in 2020. We incurred significant amounts of relatively fixed costs of revenues, in particular depreciation of our long-lived assets

related to our product and service revenues, in 2019, resulting in a high gross loss both in dollar terms and in percentage terms. In 2020, the long-lived assets have reached the depreciation period and accordingly the corresponding percentage has decreased.

Selling Expenses. Our selling expenses from continuing operations decreased by 89% from $0.84 million for the year ended December 31, 2019 to $0.09 million for the year ended December 31, 2020. The decrease in selling expenses was mainly due to dismissal of certain sales personnel, as the Company disposed of Beijing Dehaier in August 2020, and laid off many staff of Lianluo Connection, resulting in a lower salary and travelling expenses during 2020.

General and Administrative Expenses. Our general and administration expenses from continuing operations decreased by 4% from $2.59 million for the year ended December 31, 2019 to $2.48 million for the year ended December 31, 2020. The decrease is mainly because we dismissed some of our employees in 2020, resulting in approximately $0.56 million reduced expenses. In addition, our office rental payment and property costs have been reduced by about $0.19 million. We incurred approximately $0.70 million in 2020 for expenses relating to merger and acquisition activities, while we did not expend in any on similar activities in 2019.

Provision for Doubtful Accounts and Inventories. Our provision for doubtful accounts and inventories was $113,000 for the year ended December 31, 2020, as compared to a provision for doubtful accounts and inventories of $13,011 for the year ended December 31, 2019. The increase is mainly due to the increase in accounts receivable that we determined their collectability is remote and the increase of inventories that are obsolete.

Operating Loss. As a result of the foregoing, we incurred an operating loss of approximately $3.00 million in 2020, compared to approximately $3.80 million in 2019, representing a decrease of 22%.

Change in Fair Value of Warrants Liability. For the year ended December 31, 2020, the fair value loss on warrants issued to our major shareholder, Hangzhou Lianluo was $0.13 million, compared to a fair value gain of $0.74 million in 2019, relating to the warrants issued to Hangzhou Lianluo and other investors and placement agents in 2016. The warrants, together with restricted common shares, were issued pursuant to a securities purchase agreement with Hangzhou Lianluo in August 2016. The change in fair value of warrants liability is mainly due to the share price decline.

Taxation. We had no income tax expense in 2020 and 2019 as we incurred taxable losses in both years. We made full valuation allowance on deferred tax asset resulting from losses because it is more likely than not, we will not be able to utilize the tax benefits in the foreseeable future.

Net Loss. As a result of the foregoing, we had net loss of approximately $3.24 million in 2020, compared to approximately $4.45 million in 2019.

Fiscal Year Ended December 31, 2019 Compared to Fiscal Year Ended December 31, 2018

Revenues. Our total revenues from continuing operations decreased by 31% from $0.56 million for the fiscal year ended December 31, 2018 to $0.38 million for the fiscal year ended December 31, 2019. The decrease in revenue was caused by a reduction of product sales by $0.13 million. Starting from 2018, we redirected our operations from unprofitable product sales of medical products and mobile medicines to marketing and expanding OSAS diagnosis services in hospitals and physical examination centers.

Cost of Revenues. Our cost of revenues from continuing operations decreased by 2% from $0.76 million for the fiscal year ended December 31, 2018 to $0.74 million for the fiscal year ended December 31, 2019. The decrease in cost of revenues was less than the decrease in revenue, mainly because a significant part of cost of revenues is relatively fixed, such as the depreciation and amortization of our long-lived assets related to our service revenues.

Gross Loss. Our gross loss from continuing operations increased from $0.20 million in 2018 to $0.36 million in 2019. Gross loss as a percentage of income increased from 36% in 2018 to 94% in 2019. We incurred significant amounts of relatively fixed costs of revenues, in particular depreciation and amortization of our long-lived assets related to our product and service revenues, in 2019 and 2018, resulting in a high gross loss both in dollar terms and in percentage terms.

Selling Expenses. Our selling expenses from continuing operations decreased by 60% from $2.08 million for the year ended December 31, 2018 to $0.84 million for the year ended December 31, 2019. The decrease in selling expenses was mainly due to dismissal of certain sales personnel and reducing participation in medical device exhibitions during 2019.

General and Administrative Expenses. Our general and administration expenses from continuing operations decreased by 29% from $3.68 million for the year ended December 31, 2018 to $2.59 million for the year ended December 31, 2019. The decrease is mainly because we incurred $0.94 million in 2018 for expenses relating to merger and acquisition activities, while we did not expend any on similar activities in 2019. In addition, we dismissed some of our employees in 2019, resulting in reduced expenses. Research and development expenses from continuing operations were $0 and $301,713 for the years ended December 31, 2019 and 2018, respectively. We expect that in the near future, our general and administrative expenses will be lower than the current level in order to improve profitability of our operations.

(Provision for) Recovery from Doubtful Accounts. Our provision for doubtful accounts was $13,011 for the year ended December 31, 2019, as compared to a provision from doubtful accounts from continuing operations of $22,229 for the year ended December 31, 2018. A reserve for doubtful accounts on our accounts receivable, if required, is based on a combination of historical experience, aging analysis, and an evaluation of the collectability of specific accounts. Management considers that receivables over 1 year to be past due. Accounts receivable balances are charged off against the reserve after all means of collection have been exhausted and the potential for recovery is considered remote.

Impairment Loss for Intangible Assets. We recorded impairment on our intangible assets from our continuing operations of $0 and $3,281,779 for the years ended December 31, 2019 and 2018, respectively. These intangible assets related to the software copyright of new-type ventilators. In 2018, we suspended the research and development due to lower-than-expected product marketability and profitability, and we determined not to further update and maintain its software copyright and patent. The unamortized intangibles were fully impaired in 2018.

Operating Loss. As a result of the foregoing, we incurred an operating loss of approximately $3.80 million in 2019, compared to approximately $9.26 million in 2018, representing a decrease of 59%.

Change in Fair Value of Warrants Liability. For the year ended December 31, 2019, the fair value gain on warrants issued to our major shareholder, Hangzhou Lianluo was $0.74 million, compared to a fair value gain of $0.60 million in 2018, relating to the warrants issued to Hangzhou Lianluo and other investors and placement agents in 2016. The warrants, together with restricted common shares, were issued pursuant to a securities purchase agreement with Hangzhou Lianluo in August 2016. The change in fair value of warrants liability is mainly due to the share price decline since August 2016.

Taxation. We had no income tax expense in 2019 and 2018 as we incurred taxable loss in both years. And we made full valuation allowance on deferred tax asset resulting from losses because it is more likely than not, we will not be able to utilize the tax benefits in the foreseeable future.

Net Loss and Net Loss Attributable to Company. As a result of the foregoing, we had net loss and net loss attributable to the Company of approximately $4.45 million in 2019, compared to approximately $8.91 million in 2018.

Liquidity and Capital Resources

Cash Flows and Working Capital

As of December 31, 2020, we had $1.82 million in cash and cash equivalents, increased from $0.02 million at December 31, 2019. As reflected in the consolidated financial statements, we had a net loss of $3.24 million and used $2.34 million of cash in operation activities for the year ended December 31, 2020. The ability to continue as a going concern is dependent upon our profit generating operations in the future and/or obtaining the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they become due. Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Our consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should we be unable to continue as going concern.

Our principal sources of liquidity have been proceeds from issuances of equity securities and loans from related parties. We had a working capital of $3.26 million as of December 31, 2020. In February and March 2020, we obtained approximately $7.2 million from equity financings, net of placement agent's commissions and other expenses. In late January 2021, 1,255,000 of warrants were exercised resulting in aggregate cash proceeds to the Company of $6.8 million. Considering the equity financings and our cost cutting activities, we believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements for the next 12 months.

On January 30, 2020, the World Health Organization declared a public health emergency of international concern due to the COVID-19 outbreak and the risks to the international community as the virus spreads globally. In March 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

Our service was suspended due to restrictions and hospital closures except for essential services in February 2020 and recovered gradually in March 2020 as hospitals gradually resumed business. The outbreak of COVID-19 and the business downturn since 2019 have had an adverse effect on our operations. The full impact of the COVID-19 outbreak continues to evolve as of the date of this proxy statement/prospectus.

The following table sets forth a summary of our cash flows for the periods indicated:

(In U.S. dollars)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Net cash used in operating activities	(2,336,325)	(1,670,903)	(3,629,567)
Net cash (used in) provided by investing activities	(2,354)	23,016	(6,225,827)
Net cash provided by financing activities	7,657,550	1,362,681	3,700,493
Cash, cash equivalents and restricted cash at beginning of year	22,834	477,309	6,809,485
Cash, cash equivalents and restricted cash at end of year	5,316,177	22,834	477,309

Operating Activities

Net cash used in operating activities was $2,336,325 for the year ended December 31, 2020, compared to $1,670,903 for the year ended December 31, 2019. The reasons for this change are mainly as follows:

(i) Net loss from operations was $3,241,697 in 2020, a decrease of approximately $1.2 million from net loss of $4,450,994 for 2019.

(ii) The value of non-cash items, including stock-based compensation, depreciation, change in fair value of warrants liability, unrealized loss on investments and loss on disposal of a subsidiary, decreased to approximately $0.9 million in 2020, from $1.6 million in 2019.

(iii) Accrued expenses and other current liabilities from operations increased by $124,786 in 2020, compared with an increase of $553,354 in 2019.

(iv) Advance to suppliers increased by $539 in 2020, while it decreased by $145,024 in 2019.

(v) Contract liability decreased by $117,476 in 2020, compared with an increase of $34,799 in 2019.

Net cash used in operating activities was $1,670,903 for the year ended December 31, 2019, compared to $3,629,567 for the year ended December 31, 2018. The reasons for this change are mainly as follows: (i) net loss from operations was $4,450,994 in 2019, a decrease of approximately $4.4 million from net loss of $8,910,002 for 2018; (ii) inventory decreased by $255,592 in 2019, while it increased by $137,464 in 2018; (iii) accrued expenses and other current liabilities from operations increased by $553,354 in 2019, compared with an increase of $214,245 in 2018; and (iv) the value of non-cash items, including stock-based compensation, impairment loss and unrealized loss on investments, decreased to approximately $1.6 million in 2019, from $4.7 million in 2018.

Investing Activities

Net cash used in investing activities for the fiscal year 2020 was $2,354 compared to net cash of $23,016 provided by investing activities for the fiscal year 2019. The cash used in investing activities in 2020 was attributable to the disposal of the subsidiary. The cash provided by investing activities in 2019 was all attributable to proceeds from disposal of equipment.

Net cash provided by investing activities for the fiscal year 2019 was $23,016 compared to net cash of $6,225,827 used in investing activities for the fiscal year 2018. The cash provided by investing activities in 2019 was all attributable to proceeds from disposal of equipment. The cash used in investing activities in 2018 was mainly attributable to our capital expenditures of $0.8 million and a loan of $5.4 million, net of repayment, to a related party.

Financing Activities

Net cash provided by financing activities in 2020 was $7,657,550, which was mainly a result of obtaining approximately $7.2 million from equity financings and short-term loans of $0.50 million from Mr. Ping Chen. The Company has placed $3.5 million into a U.S. bank account designated by a third-party escrow agent mutually selected by the Company and Newegg. The escrow amount will be used solely to (i) defend, indemnify and hold harmless Newegg, the Company and each of their respective affiliates and representatives against, and satisfy any liabilities relating to, any actions relating to the securities purchase agreements dated February 12, 2020, February 21, 2020 and February 27, 2020 between the Company and certain investors or the Class A common share purchase warrants issued on February 14, 2020, February 25, 2020, and March 2, 2020, in each case as amended or restated and (ii) pay the termination fee that may become payable by the Company to Newegg in accordance with the terms of the Merger Agreement.

Net cash provided by financing activities in 2019 was $1,362,681, which was mainly a result of obtaining short-term loans of $0.94 million from Hangzhou Lianluo, and $0.24 million from Mr. Ping Chen. Net cash provided by financing activities in 2018 was $3,700,493, which was mainly a result of obtaining short-term loans of $3.7 million from Hangzhou Lianluo.

As of December 31, 2019, the Company has borrowings of $931,450 due to Hangzhou Lianluo. The loans were extended, interest-free and without specific repayment date, which is based upon both parties' agreement.

Capital Expenditures

We made capital expenditures of approximately $0 million, $0 million and $0.78 million in 2020, 2019 and 2018, respectively.

Holding Company Structure

The Company is a holding company with no material operations of its own. We conduct all of our operations through our PRC subsidiary. We are permitted under PRC laws and regulations to provide funds to our PRC subsidiary through capital contributions or loans, subject to applicable government registration and approval requirements. The ability of our PRC subsidiary to make dividends or other cash payments to us is subject to various restrictions under PRC laws and regulations. For more details regarding restrictions and limitations on liquidity and capital resources as a result of our holding company structure, see "Risk Factors — Risks Related to the Business of the Company — Risks Relating to Doing Business in China" of this proxy statement/prospectus. If the Company requires material amounts of cash being transferred to it in the future, we will assess the feasibility and plan cash transfers in accordance with foreign exchange regulations, taking into account of tax consequences.

Research and Development

Our research and development capabilities have allowed us to introduce new and more advanced products at competitive prices. Research and development costs from continuing operations were $0, $0 and $301,713 for the years ended December 31, 2020, 2019 and 2018, respectively.

Off-Balance Sheet Arrangements

We have not entered into any 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 shareholder's 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.

Tabular Disclosure of Contractual Obligations

None.

Critical Accounting Policies

We prepare consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. For further information on our significant accounting policies, see Note 3 to our consolidated financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances are eliminated in consolidation.

Accounts Receivable

Accounts receivable are initially recorded at invoiced amount. Accounts receivable terms typically are net 60–180 days from the end of the month in which the services were provided, or when goods were delivered. The Company generally does not require collateral or other security to support accounts receivable. A reserve, if required, is based on a combination of historical experience, current conditions, and reasonable and supportable forecasts. Management considers that receivables over 1 year to be past due. Accounts receivable balances are charged off against the reserve after all means of collection have been exhausted and the potential for recovery is considered remote.

Warrant Liability

For warrants that are not indexed to the Company's stock, the Company records the fair value of the issued warrants as a liability at each balance sheet date and records changes in the estimated fair value as a non-cash gain or loss in the consolidated statement of operations and comprehensive income. The warrant liability is recognized in the balance sheet at the fair value (level 3). The fair value of these warrants has been determined using the Black-Scholes pricing mode. The Black-Scholes pricing model provides for assumptions regarding volatility, call and put features and risk-free interest rates within the total period to maturity.

Inventories

Inventories are stated at the lower of cost or net realizable value and consist of assembled and unassembled parts relating to medical devices. Cost is determined on a weighted-average basis. Management compares the cost of inventories with the net realizable value and writes down their inventories to net realizable value, if lower. Net realizable value is based on estimated selling prices in the ordinary course of business less cost to sell. These estimates are based on the current market and economic condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to any industry downturn. The management of the Company reassesses the estimations at the end of each reporting period.

Impairment of Long-Lived Assets

The Company reviews the long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company compares the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the asset and eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable.

Intangible Assets

Intangible assets subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. These intangible assets include the trade mark registered in the PRC and purchased software which are amortized on a straight-line basis over a useful life of ten year. An impairment loss would be recognized if the sum of the long-term undiscounted cash flows is less than the carrying amount of the long-lived asset being evaluated. Any write-downs are treated as permanent reductions in the carrying amount of the assets.

Based on its review, the Company determined that, as of December 31, 2018, impairment loss for intangible assets was $3,281,779.

Equity Securities

The Company's equity securities represent equity investments in Guardion Health Sciences, Inc., or GHSI, made in November 2017. The Company holds less than 5% of the GHSI's total shares. For additional details, see Note 9 to our consolidated financial statements. The equity securities were accounted for as non-marketable securities in 2018 on the balance sheets and as marketable securities in 2019 when GHSI went public in April 5, 2019.

Prior to January 1, 2018, the Company accounted for the equity securities at cost and only adjusted for other-than-temporary declines in fair value and distributions of earnings. An impairment loss was recognized in the consolidated statements of operations equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment was made. The fair value would then become the new cost basis of investments.

On January 1, 2018, the Company adopted Accounting Standards Update, or ASU, 2016-01 which changed the way it accounts for equity securities. Non-marketable equity securities do not have readily determinable fair value and are accounted for under the measurement alternative method of accounting. These non-marketable investments are measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Any cash or stock dividends paid to us on such investments are reported as noninterest income. Marketable equity securities have readily determinable fair value and are accounted at fair value, with changes in fair value recorded through earnings.

As of December 31, 2020, the investment was accounted at fair value with changes recorded through earnings.

Revenue Recognition

Revenue is recognized when control of the promised goods or services, through performance obligations by the Company, is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for the performance obligations.

The Company recognizes revenue when a sales arrangement with a customer exists, transaction price is fixed or determinable and the Company has satisfied its performance obligation per the sales arrangement. The majority of Company revenue originates from contracts with a single performance obligation to deliver products or service. The Company's performance obligations are satisfied when control of the product is transferred to the customer.

The Company also records a contract liability when customers prepay but the Company has not yet satisfied its performance obligation.

The new revenue standards became effective for the Company on January 1, 2018, and were adopted using the modified retrospective method. The adoption of the new revenue standards as of January 1, 2018 did not change the Company's revenue recognition as the majority of its revenues continue to be recognized when the customer takes control of its product or services. As the Company did not identify any accounting changes that impacted the amount of reported revenues with respect to its product revenues, no adjustment to accumulated deficit was required upon adoption.

The Company has two reportable segments, which are sales of medical equipment and provision of sleep diagnostic services.

The following is a description of principal activities from which the Company generates revenue and related revenue recognition policies:

1. Sale of Medical Equipment

Sale of medical equipment includes both mobile medicine products (sleep apnea diagnostic products) and abdominal CPR Compression.

The Company recognized revenue after it distributes products to customers and the control of products sold transfers to customers upon shipment from the Company's facilities, and the Company's performance obligations are satisfied at that time. Shipping and handling activities are performed before the customer obtains control of the goods and therefore represent a fulfillment activity rather than a promised service to the customer.

The Company evaluates its arrangements with distributors and determines that it is primarily obligated in the sales of distributed products, is subject to inventory risk, has latitude in establishing prices, and assumes credit risk for the amount billed to the customer, or has several but not all of these indicators. In accordance with ASC 606, the Company determines that it is appropriate to record the gross amount of product sales and related costs. As the Company is a principal and it obtains control of the specified goods before they are transferred to the customers, the revenues should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods transferred.

2. Provision of Sleep Diagnostic Services

During 2018, the Company started to earn service revenue from provision of technical services in relation to detection and analysis of OSAS. The Company is focused on the promotion of sleep respiratory solutions and service in public hospitals. Its wearable sleep diagnostic products and cloud-based service are also available in medical centers of Chinese private preventive healthcare companies in China. Revenue is recognized when all of the revenue recognition criteria are met, which is generally when the Company's diagnostic services are provided to the user at medical centers and public hospitals.

In the PRC, VAT of 13% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

Foreign Currency Transaction

The accounts of the Company, Beijing Dehaier, and Lianluo Connection are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The accompanying consolidated financial statements are presented in US dollars.

Foreign currency transactions are translated into the functional currency using exchange rates in effect at the time of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statements of operations and comprehensive loss. The financial statements of the Company's foreign operations are translated USD in accordance with ASC 830-10, "Foreign Currency Matters". Assets and liabilities are translated at applicable exchange rates quoted by the People's Bank of China at the balance sheet dates and revenues, expenses and cash flow items are translated at average exchange rates in effect during the periods. Equity is translated at the historical exchange rates. Resulting translation adjustments are recorded as other comprehensive income (loss) and accumulated as a separate component of equity.

Stock-Based Compensation

The Company accounts for stock-based share-based compensation awards to employees at fair value on the grant date and recognizes the expense over the employee's requisite service period. The Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend is based on the Company's current and expected dividend policy.

Share-based compensation expenses for stock-based share-based compensation awards granted to non-employees are measured at fair value at the earlier of the performance commitment date or the date service is completed, and recognized over the period during which the service is provided. The Company applies the guidance in ASC 718 to measure share options and restricted shares granted to non-employees based on the then-current fair value at each reporting date.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR NEWEGG

The following discussion should be read together with the audited financial statements and the related notes thereto of Newegg for the fiscal years ended December 31, 2019, 2018 and 2017 included elsewhere in this proxy statement/prospectus. This discussion contains certain forward-looking statements that reflect plans, estimates and beliefs and involve numerous risks and uncertainties, including but not limited to those described in the "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" sections of this proxy statement/prospectus. Actual results may differ materially from those contained in any forward-looking statements. You should carefully read "Cautionary Statement Regarding Forward-Looking Statements" in this proxy statement/prospectus.

Newegg's Business Overview and COVID-19 Update

Newegg is a tech-focused e-commerce company in North America, and ranked second after Best Buy as the global top electronics online marketplace according to Web Retailer's report, as measured by 32.4 million visits per month in 2019. Through Newegg.com, its flagship retail site, and other online platforms, Newegg connects its global customer base to a wide and increasing assortment of tech products and a massive pool of brands, sellers, suppliers, manufacturers, distributors and third-party service providers.

Headquartered in California, Newegg's reach is global. Leveraging its extensive fulfillment and warehousing network and the global footprint of its suppliers and sellers, Newegg is able to offer merchandise sourced from over 30 countries and regions to customers located in over 20 countries and regions, and deliver customer services in multiple languages.

Newegg has built a massive base of loyal and highly engaged customers. As of December 31, 2020, Newegg had 4.7 million active customers (defined as unique email addresses with at least one item purchased on its platforms in the past 12 months), with a 32.5% repeat purchase rate, as measured by the percentage of customers who made at least two purchases in the preceding year, and an average order value of $301, as calculated by dividing sales by transactions during the relevant 12-month measurement period. Newegg achieves this through its deep understanding of its customers' needs, preferences and tastes and its ability to offer an extensive product assortment, superior customer service, flexible payment options, and speedy, reliable and efficient shipping and fulfilment. As of December 31, 2020, Newegg offered 40.5 million SKUs across over 1,748 categories, which Newegg believes makes it one of the top online shopping destinations for tech consumers. Newegg also maintains a global fulfilment network that ensures speedy and reliable delivery, supported by its seven strategically located warehouses in the United States and Canada. Newegg has the capacity to deliver goods to essentially 100% of the population in the United States and to approximately 84% of the population in Canada within just two business days using multiple service level offerings.

Newegg maintains longstanding and extensive relationships with its suppliers, sellers and business partners to source merchandise at competitive pricing with early or preferential access to the latest, highly sought-after tech products, fulfilling its promise to provide its customers with all things tech. Newegg is a trusted partner and the go-to channel for many leading tech product brands and is increasingly establishing relationships with brands in a growing number of other product categories. As of December 31, 2020, Newegg sourced merchandise from at least 2,501 brand partners for its direct sales business, and Newegg featured the official online stores of various brand partners, including some of the most well-known IT/CE brands, such as Intel, AMD, HP, Asus, Acer, Lenovo, MSI, Nvidia, and Samsung.

Newegg strategically employs a dynamic mix of its established direct sales business and a scalable marketplace model. Built upon its success in direct sales, Newegg Marketplace has grown in recent years and significantly complements its direct sales business. As the number of sellers and brands on its Marketplace continues to grow, the choices available to customers should also increase, generating a strong momentum for its continued growth. As of December 31, 2020, the Newegg Marketplace connected its customers to over 16,618 third-party sellers from over 30 countries and regions offering approximately 40.3 million SKUs.

For the year ended December 31, 2020, Newegg's total GMV was approximately $2.6 billion, an increase of approximately $0.7 billion or 36% when compared with GMV for the year ended December 31, 2019.

For the years ended December 31, 2018, 2019 and 2020, Newegg recorded net sales of $2.0 billion, $1.5 billion, and $2.1 billion, respectively. For the same periods, its total GMV was approximately $2.4 billion, $1.9 billion, and $2.6 billion, respectively. Newegg recorded net loss of $33.6 million and $17.0 million for the years ended December 31, 2018 and 2019, and net income of $30.4 million for the year ended December 31, 2020. For the same periods, its adjusted EBITDA was $(17.8) million, $1.4 million, and $39.3 million, respectively. See "— Non-GAAP Financial Measures."

The spread of COVID-19, which was declared a pandemic by the World Health Organization in March 2020, has caused different countries and cities to mandate curfews, including "shelter-in-place" orders and closures of most non-essential businesses as well as other measures to mitigate the spread of the virus.

Newegg's online business and warehouse operations have remained active to serve its customers during the COVID-19 outbreak, and to-date, it has seen increased demand for its products and services during the outbreak. By contrast, some of Newegg's brick-and-mortar competitors have been forced to close down at least some of their retail locations temporarily, while some competitors have de-emphasized certain lines of business, such as computers and electronics, which represent Newegg's core business. However, the course of the outbreak remains uncertain, and a prolonged global economic slowdown and increased unemployment could have a material adverse impact on economic conditions, which in turn could lead to a reduced demand for Newegg's products and services.

As a consequence of the COVID-19 outbreak, Newegg has experienced occasional supply constraints, primarily in the form of delays in shipment of inventory. Newegg has also experienced some increases in the cost of certain products, as well as a drop in promotions by some manufacturers. While Newegg considers such events to be relatively minor and temporary, continued supply chain disruptions could lead to delayed receipt of, or shortages in, inventory and higher costs, and negatively impact sales in fiscal year 2020.

COVID-19 impacted the supply chain of Newegg's brand partners and Marketplace sellers, and its ability to timely fulfill orders and deliver such orders to its customers, particularly as a result of mandatory shutdowns in different countries and cities to mitigate the spread of the virus.

Although Newegg cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on Newegg's results of future operations. The potential impact of COVID-19 on its operations remain uncertain and potentially wide-spread.

Newegg's Business Model

GMV is the primary driver of Newegg's net sales, as it derives a significant majority of net sales from the GMV transacted on its online platforms, net of cancellations and returns. Newegg defines GMV as the total dollar value of products sold on Newegg's websites, directly to customers and by its Marketplace sellers through Newegg Marketplace, net of returns, discounts, taxes, and cancellations. Newegg generates GMV and net sales primarily from the following sources:

- Direct sales, where Newegg controls inventories sourced from suppliers and directly sells goods to its customers on Newegg platforms or certain other third-party platforms. Newegg's direct sales revenues include net sales generated from sales of products directly by it to customers on its Newegg platforms (including wholesale where Newegg sells inventories in bulk and mostly at a discount), sales through third-party websites of products Newegg sources from suppliers, and freight revenues from fees Newegg charges for delivery of goods that Newegg directly sells to customers.

- Newegg Marketplace, where third-party sellers sell products through the Newegg Marketplace, and Newegg recognizes commission and service fees from such third-party sellers in its net sales. The published commission rates are based on a percentage of the GMV transacted, exclusive of the shipping fees charged, which commission rates range from 8% to 15%, depending on the product category. Newegg refers to the net sales generated from Newegg Marketplace as Marketplace revenues.

- D2C Platform Services, where Newegg generates net sales primarily by charging service fees for a range of e-commerce services and solutions rendered to its vendor partners, Marketplace sellers and various types of customers and businesses, including third-party logistics (3PL) and other fulfilment and logistics services, advertising services, and online marketing services. Newegg refers to such net sales as services revenues.

Factors Affecting Newegg's Results of Operations

Newegg's financial condition and results of operations have been, and will continue to be, affected by a number of important factors, including the following:

Newegg's ability to grow its customer base and increase their engagement level

Newegg believes the principal factors necessary to maintain and grow its GMV and net sales include the number of visits to its online platforms, its ability to convert those visits to orders, and the level of its customers' engagement with its platforms.

Newegg monitors the following key operating metrics to evaluate its user traffic, its ability to convert visits into orders, and the size and engagement of its customer base:

	For the Year Ended As of December 31,		
Key Operating Data:	**2020**	**2019**	**2018**
Total visits[(1)]	382.2 million	262.8 million	261.6 million
Number of customers[(2)]	37.3 million	34.4 million	32.7 million
Number of active customers[(3)]	4.7 million	3.2 million	3.9 million
Conversion rate[(4)]	2.4%	2.4%	3.2%
Repeat purchase rate[(5)]	32.5%	30.0%	30.9%
Average Order Value[(6)]	301	310	299

Note:

(1) Measured by total traffic across all Newegg platforms, excluding search bots from competitors by filtering visits of less than three seconds.

(2) Calculated by the total number of registered accounts on all Newegg platforms.

(3) Active customers as of a given date are calculated by unique customer ID with at least one transaction purchased on Newegg platforms during the relevant 12-month measurement period.

(4) Calculated by dividing transactions over the total number of visits across all Newegg platforms, excluding visits less than three seconds.

(5) Measured by the percentage of customers who made at least two purchases on Newegg platforms during the relevant 12-month measurement period.

(6) Calculated by dividing sales volume by number of transactions during the relevant 12-month measurement period.

Newegg uses conversion rates to measure its ability to convert visits to orders. Newegg's conversion rates have varied from time to time, and there are a number of factors that may affect conversion rates, including overall economic trends, product mix, new product releases, the level of competition Newegg faces, its merchandise sourcing ability and the purchasing patterns of consumers. The numbers of customers and active customers and repeat purchase rates are indicators of the size and engagement of its customer base. Total active customers have been relatively stable over the last two years.

Newegg's product mix

While Newegg is a tech-focused e-retailer, Newegg also offers merchandise in a broad and increasing number of product categories, including apparel and accessories, home furnishings, personal goods and certain other products of IT — adjacent categories. As of December 31, 2020, Newegg offered a total of 40.5 million SKUs across over 1,748 categories. Products are offered on its online platforms across a range of types, brands and price points. Newegg believes that customers are attracted to its online platforms primarily by the breadth and depth of its product offerings, a critical component of its ability to increase sales and drive long-term profitability.

Newegg's results of operations are affected by its merchandise mix, as products of different categories, brands and price points have a range of margin and profitability profiles. For example, categories where the company holds lower market share and the company strives to grow at an accelerated rate over market may offer relatively lower margins. Newegg's merchandise mix may shift over time due to the combination of a variety of factors, including consumer demands and preferences, average selling prices, its ability to maintain and expand

its supplier relationships, its ability to forecast market trends, and its marketing and promotional efforts. Newegg continuously monitors the GMV and margin mix of its product offerings and Newegg seeks to increase the percentage of GMV and net sales from categories and brands with attractive margin profiles.

Expansion of Newegg Marketplace

A key component of Newegg's long-term strategy is to continue to grow its Newegg Marketplace, which Newegg believes is an important driver of future profitable growth.

The Newegg Marketplace has grown in recent years with an increasing contribution to Newegg's total sales. In 2018, 2019, and 2020, the Newegg Marketplace generated GMV of $472.1 million, $495.2 million, and $663.7 million, respectively, representing a compound annual growth rate of 12% for the years 2018 to 2020, and accounted for approximately 19.6%, 25.6%, and 25.2%, respectively, of its total GMV. During the same periods, the Newegg Marketplace generated net sales of $43.2 million, $46.0 million, and $58.1 million, respectively, representing a compound annual growth rate of 10% for the years 2018 to 2020, and accounted for 2.2%, 3.0%, and 2.7%, respectively, of its total net sales. Over time, Newegg expects its Marketplace GMV, both in absolute amount and as a percentage of total GMV, to continue to grow.

Newegg believes the Marketplace model provides it with a number of benefits. As compared with direct sales, the use of the marketplace model contributes to its working capital and cash flow as there is no need to maintain inventory. Additionally, as the number of sellers and brands on the Newegg Marketplace continues to expand, the choices available to customers also should grow, generating strong momentum for its continued growth. Newegg believes that the integration of its direct sales and Marketplace operations has created a virtuous, self-reinforcing cycle.

Newegg's results of operations have been, and will continue to be, influenced by shifts over time in the GMV mix between direct sales and Marketplace. This is primarily due to the difference in revenue recognition - Newegg recognizes revenues from direct sales on a gross basis, while Newegg recognizes revenues from the Newegg Marketplace on a net basis. See "— Key Components of Results of Operations" for details. Accordingly, for the same amount of GMV, direct sales generates more net sales than Marketplace and, therefore, an increase in the GMV contribution of Marketplace as a portion of the total GMV would have a negative impact on its net sales.

Newegg's ability to forecast consumer needs and preferences

The IT/CE e-commerce market in North America and globally is characterized by rapidly evolving technologies, fast-changing consumer requirements and preferences and frequent releases of new products and introductions of updated industry standards and practices. Newegg must effectively respond to these changes to remain competitive. Newegg may have difficulty anticipating consumer demand and preferences, and the goods offered on its online platforms may not be accepted by the market or may be rendered obsolete or uneconomical. Newegg's inability to adapt to these developments may lead to excessive or deficient inventories or a failure to attract new customers and retain existing customers, which could materially and adversely affect its financial condition and results of operations.

Newegg's ability to source products from key suppliers on favorable terms

As of December 31, 2020, Newegg offered over 133,000 direct sales SKUs sourced from at least 405 suppliers globally. Newegg maintains extensive, long-standing and mutually beneficial relationships with many of the biggest tech product brands and distributors globally. However, its contracts or arrangements with such suppliers generally do not guarantee the availability of merchandise, or provide for the continuation of particular pricing or other practices. Newegg's suppliers may not continue to sell their inventory to it on current terms or at all, and, if the terms are changed, Newegg may not be able to establish new supply relationships on similar or better terms.

Newegg competes with other retailers and direct marketers for favorable product allocations and vendor incentive programs from product manufacturers and distributors. Some of its competitors could enter into exclusive or favorable distribution arrangements for certain products with its vendors, which would deny it complete or partial access to those products and marketing and promotional resources. In addition, some vendors whose products are offered on its online platforms also sell their products directly to customers. If Newegg is unable to develop and maintain relationships with suppliers that permit it to obtain sufficient quantities of desirable merchandise on favorable terms, its results of operations could be adversely impacted.

Segment Information

Newegg's chief operating decision maker (i.e. chief executive officer) reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenue by countries or regions for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Based on qualitative and quantitative criteria established by Accounting Standards Codification, or ASC, 280, "Segment Reporting", Newegg considers itself to be operating within one reportable segment.

Key Components of Results of Operations

Net Sales

Newegg's net sales consist of direct sales revenues, Marketplace revenues and services revenues. See "— Newegg's Business Model" for more information about these sources of net sales.

Newegg's net sales are reported net of anticipated discounts, returns, allowances, sales tax and credit card chargebacks, which are all estimated from historical experience. Newegg also offers customer promotional programs, which Newegg records as reductions in sales based on anticipated redemption rates estimated from historical experience.

The following table sets forth the components of its net sales in absolute amounts and as percentages of total net sales, for the periods indicated.

	For the Year Ended December 31,					
	2020		2019		2018	
	(in millions, except for percentages)					
Net sales	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Direct sales revenues	$ 1,974.9	93.4	$ 1,476.7	96.3	$ 1,966.3	97.2
Marketplace revenues	58.1	2.7	46.0	3.0	43.2	2.1
Services revenues	81.9	3.9	11.2	0.7	12.9	0.7
Total	**2,114.9**	**100.0**	**1,533.9**	**100.0**	**2,022.4**	**100.0**

Cost of Sales

The largest component of its cost of sales is the purchase price of goods that Newegg directly sells to customers. Cost of sales also includes (i) costs relating to its service revenues, which include personnel expenses and other costs relating to its third-party logistics services; (ii) inbound and outbound freight costs; and (iii) inventory write-offs relating to refurbished, slow-moving and obsolete inventories and adjustments for vendor incentives related to inventory still on hand at the reporting date.

Cost of sales is partially offset by payments Newegg earns under vendor incentive programs, or VIPs, such as purchase rebates, marketing development funds that vendors give it to advertise their products, cooperative marketing programs jointly funded with vendors, and price protection refunds to offset reductions in the manufacturer's suggested retail price. These VIPs are sometimes tied to the volume of its purchases or sales and represent a reduction of the selling price of the suppliers' products. Therefore, Newegg treats these program payments as reductions to cost of sales.

The following table sets forth the components of its cost of sales, in absolute amounts and as percentages of total net sales, for the periods indicated.

	For the Year Ended December 31,					
	2020		2019		2018	
	(in millions, except for percentages)					
Cost of sales	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Purchase price of goods sold by it directly	$ 1,678.3	91.2	$ 1,300.4	95.0	$ 1,739.5	95.8
Costs related to marketplace & service revenues	69.9	3.8	1.0	0.1	1.7	0.1
Inbound and outbound freight costs	84.8	4.6	67.2	4.9	71.7	3.9
Inventory write-downs & reserves	8.2	0.4	0.4	0.0	3.9	0.2
Total	**$ 1,841.2**	**100.0**	**$ 1,369.0**	**100.0**	**$ 1,816.8**	**100.0**

Other Operating Income/(Expense)

During 2019, Newegg entered into a sale leaseback transaction for one of its real estate properties in the United States. Newegg sold the property for a gross proceed of $38.5 million, and recognized a gain of $28.8 million from the transaction, which is included as other operating income in its consolidated statement of operations.

Selling, General and Administrative Expenses

The largest component of its selling, general and administrative expenses, or SG&A expenses, is salary and other compensation costs, consisting of expenses relating to the employment of its employees, as well as temporary personnel to meet its needs in areas such as customer service and fulfillment during seasonal peaks in orders.

Other significant components of SG&A expenses include advertising and marketing expenses, payment and credit card processing fees, depreciation, rent expenses, warehouse costs, office expenses, legal expenses and other general corporate costs.

The following table sets forth the components of its SG&A expenses, in absolute amounts and as percentages of net sales, for the periods indicated.

	For the Year Ended December 31,					
	2020		2019		2018	
	(in millions, except for percentages)					
Selling, general and administrative expenses	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Salary and other compensation costs	$ 107.1	42.8	$ 107.2	46.8	$ 103.5	41.9
Payment and credit card processing fees	51.5	20.6	37.6	16.4	44.2	17.9
Advertising and marketing	29.0	11.6	25.8	11.3	34.8	14.1
Depreciation and amortization	9.1	3.6	10.7	4.7	10.2	4.1
Others	53.5	21.4	47.9	20.8	54.5	22.0
Total	**$ 250.2**	**100.0**	**$ 229.2**	**100.0**	**$ 247.2**	**100.0**

Interest Income and Expense

Interest income is earned on (i) its loans to affiliates; and (ii) cash invested in money market accounts or certificates of deposit. See “Transactions with Related Persons” for more information about its loans to affiliates. Interest expense represents the interest Newegg is charged on its borrowings, including term loan, line of credit and capital leases.

Other income, net

Newegg recorded other income, net of $5.3 million, $4.2 million, and $1.6 million for the years ended December 31, 2020, 2019, and 2018, respectively. For the year ended December 31, 2020, other income, net, primarily consisted of sales tax rebates and discounts, insurance proceeds, partnership incentives, and property rental income in China. In 2019, its other income mainly consisted of insurance proceeds primarily related to the fire loss in one of Newegg's warehouses in the U.S., and property rental income in China. Other income, net of $1.6 million in 2018 primarily consisted of property rental income in China.

Gain from Sale of and Equity Income from Equity Method Investments

Newegg accounts for investment under the equity method for investees over which Newegg has the ability to exercise significant influence but does not have a controlling interest. Newegg recorded a gain on equity method investment of $ $9.6 million, $21.8 million and $3.2 million, respectively, in 2018, 2019 and 2020. Newegg's gain on equity method investment in 2018 was attributed to the equity income from its equity method investment in Mountain Capital Fund L.P., or Mountain Capital. The gain in 2019 primarily included gains from the partial sale of its investment in Mountain Capital. Mountain Capital sold a portion of its investment in One97 Communication Limited, or One97, a leading Indian e-wallet provider and one of Mountain Capital's portfolio companies, to various third-party buyers. Newegg's ownership percentage in Mountain Capital was approximately 11% as of December 31, 2020 and 8% as of December 31, 2019.

Results of Operations

The following table summarizes Newegg's consolidated results of operations in absolute amounts and as percentages of its net sales for the periods indicated. Period-to-period comparisons of historical results of operations should not be relied upon as indicative of future performance.

	For the Year Ended December 31,					
	2020		2019		2018	
	(in millions, except for percentages, net loss per share, and average number of share)					
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	**$ 2,114.9**	**100.0**	**$ 1,533.9**	**100.0**	**$ 2,022.4**	**100.0**
Cost of sales	1,841.2	87.1	1,369.0	89.3	1,816.8	89.8
Gross profit	273.7	12.9	164.9	10.7	205.6	10.2
Other operating Income/(expense)	—	—	28.3	1.8	(1.6)	(0.1)
Selling, general and administrative expenses[(1)]	250.2	11.8	229.2	14.9	247.2	12.2
Gain (Loss) from operations	23.5	1.1	(36.0)	(2.4)	(43.1)	(2.0)
Interest income	1.1	0.1	0.6	0.0	1.5	0.1
Interest expense	(0.7)	(0.0)	(2.9)	(0.2)	(1.6)	(0.1)
Other income, net	5.3	0.3	4.2	0.3	1.6	0.1
Gain from sale of and equity income from equity method investments	3.2	0.2	21.8	1.4	9.6	0.5
Gain (Loss) before provision for income taxes	32.4	1.5	(12.4)	(0.8)	(32.0)	(1.6)
Provision for income taxes	1.9	0.2	4.6	0.3	1.6	0.1
Net income (loss)	**$ 30.4**	**1.4**	**$ (17.0)**	**(1.1)**	**$ (33.6)**	**(1.7)**
Less: Undistributed net income allocable to Series A and Series AA convertible Preferred Stock	(30.0)	(1.4)	—	—	—	—
Less: Dividend or deemed dividend paid to Series A convertible Preferred Stock	—	—	—	—	(20.0)	(1.0)
Net income (loss) attributable to common stock	$ 0.4	—	$ (17.0)	(1.1)	$ (53.6)	(2.6)
Net earnings (loss) per share, basic	$ 0.49		$ (20.01)	—	$ (80.68)	—
Net earnings (loss) per share, diluted	0.09		(20.01)	—	(80.68)	—
Weighted average number of common stock outstanding used in computing per share amounts,	849,159		849,159	—	663,899	—

basic					
Weighted average number of common stock outstanding used in computing per share amounts, diluted	4,561,604	849,159	—	663,899	—

Note:

(1) Includes share-based compensation expenses of $1.6 million, $0.7 million and $3.9 million, respectively, in 2020, 2019 and 2018.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Net sales

Net sales increased by 37.9% for the year end December 31, 2020 compared to the comparable prior year period from $1,533.9 million in 2019 to $2,114.9 million in 2020, which was mainly due to the increase in GMV from its direct sales platforms from $1,438.2 million in 2019 to $1,970.8 million in 2020.

Such increase in GMV was primarily due to (i) a change in buying behavior of consumers from brick-and-mortar stores to online retailers due to the COVID-19 pandemic; and (ii) strong demand in computer components as a result of working and schooling from home.

Cost of Sales & Gross profit

For the year ended December 31, 2020, its cost of sales increased by 34.5% compared to the comparable prior year period from $1,369.1 million in 2019 to $1,841.2 million in 2020, generally reflective of the increase in its net sales. During the same period, its gross profit increased by 66.1% from $164.8 million in 2019 to $273.7 million in 2020.

Newegg's profit margin increased from 10.7% in 2019 to 12.9% in 2020 primarily due to a strategy change where the company focused on selling high margin categories. There was also a high demand in sales that turned the inventories much faster. There were no aggressive promotions needed to move aged inventories that impacted the margin rate negatively.

Selling, general and administrative expenses

As of December 31, 2020, SG&A expenses increased from $229.2 million in 2019 to $250.2 million in 2020, which mainly resulted from (i) an increase in credit card charges from $37.6 million in 2019 to $51.5 million in 2020, which is directly related to the increase in net sales in 2020, and (ii) an increase in advertising and marketing expenses from $25.8 million in 2019 to $29.0 million in 2020.

Interest income and expense

For the year ended December 31, 2020, interest income increased from $0.6 million in 2019 to $1.1 million in 2020. This increase was primarily driven by an increase of $0.5 million in interest income on its loan to an affiliate.

Interest expense decreased from $2.9 million in 2019 to $0.7 million in 2020, which was generally due to a decrease in the average outstanding debt balance in 2020, as compared to that of 2019.

Other income, net

For the year ended December 31, 2020, Newegg recorded other income, net of 5.3 million, compared to other income, net of $4.2 million in 2019. For the year ended December 31, 2020, other income, net, primarily consisted of partnership incentives of $1.5 million, sales tax rebates and discounts of $1.4 million, and insurance proceeds of $0.8 million. In 2019, its other income mainly consisted of insurance proceeds of approximately $2.0 million primarily related to the fire loss in one of Newegg's warehouses in the U.S., property rental income of $1.2 million from one of its idle warehouses in China, and government subsidies of an insignificant amount.

Gain from sale of and equity income from equity method investments

For the year ended December 31, 2020, Newegg recorded a gain on equity method investment of $3.2 million on its investment in Mountain Capital. For the year ended December 31, 2019, Newegg recorded a gain on the sale of the equity method investment in Mountain Capital of $21.8 million. Mountain Capital sold a portion of its investment in One97 to various third-party buyers, which resulted in disposal of all of Newegg's investment in One97 in 2019.

Provision for income taxes

Newegg's provision for income taxes decreased from $4.6 million in 2019 to $1.9 million in 2020. The decrease in its provision for income taxes was mainly due to the expense of withholding tax in first half of 2019 associated with the sale of its investment in One97 through Mountain Capital.

Net Income/(Loss)

For the year ended December 31, 2020, Newegg recorded a net income of $30.4 million in 2020, as compared to a net loss of $17.0 million for the same period in 2019. The increase in net income is primarily driven by a growth in its net sales and improvement in its gross margin.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Net sales

Net sales decreased by 24.2%, from $2,022.4 million in 2018 to $1,533.9 million in 2019, which was mainly due to a decline in the GMV from its U.S.-focused direct sales platforms from $1,745.3 million in 2018 to $1,293.5 million in 2019. Such decline in GMV was also due to the reduced price competitiveness of its product offerings as Newegg expanded the collection of sales tax in an increasing number of U.S. states in 2019. As of December 31, 2019, Newegg collected sales tax in 42 states whereas as of December 31, 2018 Newegg collected sales tax in 25 states.

The decline in the GMV from its U.S.-focused platforms was primarily due to (i) softening demand in computer components; (ii) increased import tariffs that resulted in price increases; and (iii) shortages in supply, particularly in CPU and VGA graphic cards.

The increase in the GMV contribution by the Newegg Marketplace to the total GMV was mainly due to (i) an increase in the amount of GMV from the Newegg Marketplace on its U.S.-focused platforms from $441.4 million in 2018 to $460.5 million in 2019, reflective of its strategic focus in growing its Marketplace operations and adding new sellers to expand the total product offerings on its platforms; and (ii) a partial shift in orders from the direct sales model to the Newegg Marketplace model.

Cost of Sales & Gross profit

From 2018 to 2019, Newegg's cost of sales decreased by 24.6% from $1,816.8 million to $1,369.1 million, generally reflective of the decline in its net sales. During the same period, its gross profit decreased by 19.8% from $205.6 million to $164.9 million.

Newegg's profit margin increased from 10.2% in 2018 to 10.7% in 2019, primarily due to a strategy change where the company focused on selling high margin products such as desktop PCs and gaming notebooks. Newegg also moved over its low margin products, such as TVs, from its direct sale business to marketplace, where the company can receive a higher commission. Newegg also ceased selling low margin video game console categories and applied a minimum margin policy to components, storage, and memory products.

Selling, general and administrative expenses

SG&A expenses decreased from $247.2 million in 2018 to $229.2 million in 2019, which mainly resulted from (i) a decrease in advertising and marketing expenses from $34.8 million in 2018 to $25.8 million in 2019, which was due to more effective control over marketing and branding efforts; (ii) a decrease in credit card fees from $44.2 million in 2018 to $37.6 million in 2019, which are directly related to the decrease in sales; and (iii) a decrease in stock-based compensation from $3.9 million to $0.7 million due to an adjustment made in 2018 as part of a repurchase of shares. These decreases were partially offset by an increase in bonus from $1.6 million in 2018 to $5.6 million in 2019, primarily due to the profit sharing and bonus related to the sale of its equity investment in Mountain Capital in 2019.

During 2019, Newegg entered into a sale leaseback transaction for one of its real estate properties in United Sates. Newegg sold the property for a gross proceed of $38.5 million, and recognized a gain of $28.8 million from the transaction, which is included as other operating income in its consolidated statement of operations. Newegg concurrently leased back the property from the buyer under a lease agreement for ten years, resulting in right-of-use ("ROU") lease asset of $14.1 million and a lease liability of $13.9 million as of the lease commencement date.

Interest income and expense

Interest income decreased from $1.5 million in 2018 to $0.6 million in 2019. This decrease was primarily driven by a decrease of $0.9 million in interest income on its loans to affiliates, resulting from significant amounts paid by such affiliate to it under these loans in 2019.

Interest expense increased from $1.6 million in 2018 to $2.9 million in 2019, which was generally due to an increase in the average outstanding debt balance in 2019, as compared to that of 2018. In 2018, Newegg entered into a number of credit agreements and a long-term revolving loan agreement with certain financial institutions; see "— Liquidity and Capital Resources — Cash flows and working capital" and "Contractual Obligation" for more details of these agreements.

Other income, net

Other income, net was $4.2 million in 2019, compared to other income, net of $1.6 million in 2018. In 2019, its other income mainly consisted of insurance proceeds of approximately $2.0 million primarily related to the fire loss in one of Newegg's warehouses in the U.S., property rental income of $1.2 million from one of its idle warehouses in China, and government subsidies of an insignificant amount, while Newegg recorded other income, net of $1.6 million in 2018 mainly from property rental income of $1.0 million from one of its idle warehouses in China, and government subsidies of an insignificant amount partially offset by other expense of $0.5 million.

Gain from sale of and equity income from equity method investments

Newegg recorded a gain on equity method investment of $21.8 million in 2019, as compared to $9.6 million in 2018. This increase was mainly due to a gain on the sale of equity method investment in Mountain Capital of $21.8 million. Mountain Capital sold a portion of its investment in One97 to various third-party buyers, which resulted in disposal of all of Newegg's investment in One97. The proceeds from the sale of the investment were distributed to Newegg in 2019. In 2018, Newegg accounted for the Mountain Capital investment under the equity method, and recognized a gain on this equity method investment of $9.6 million.

Provision for income taxes

Newegg's provision for income taxes increased significantly from $1.6 million in 2018 to $4.6 million in 2019. The increase in its provision for income taxes was mainly due to the expense of withholding tax since Newegg was generating losses and may not be able to use the tax credit. The tax withholding is for the gain from the sale of its investment in One97 through Mountain Capital and equity income from equity method investments.

Net Loss

As a result of the foregoing, Newegg recorded a net loss of $17.0 million in 2019, as compared to a net loss of $33.6 million in 2018.

Non-GAAP Measures

Newegg has included GMV and Adjusted EBITDA, non-GAAP financial measures, in this proxy statement/prospectus. Newegg believes that these are key measures used by its management and board of directors to evaluate its operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital.

GMV

GMV is the total dollar value of products sold on Newegg's websites, directly to customers and by its Marketplace sellers through Newegg Marketplace, net of returns, discounts, taxes, and cancellations, and excluding the following: (i) sales by Newegg's Asia subsidiaries, (ii) service revenues, and (iii) sales of Rosewill and Nutrend products made through third party platforms. GMV helps Newegg assess and analyze changes in revenues, and if reviewed in conjunction with net sales and other GAAP financial measures, it can provide more information in evaluating Newegg's current performance and in assessing its future performance. See "Newegg's Business Model."

	For the Year Ended December 31,		
	2020	2019	2018
	(in millions)		
Net Sales	$ 2,114.9	$ 1,533.9	$ 2,022.4
Adjustments:			
GMV – Marketplace	663.7	495.2	472.1
Marketplace Commission	(58.1)	(46.0)	(43.2)
Deferred Revenue	16.2	(6.5)	4.5
Service Revenue	(81.8)	(11.2)	(13.0)
Asia Net Sales	(0.0)	(3.9)	(21.7)
Rosewill and Nutrend sales through third party platforms	(40.6)	(31.1)	(29.8)
Other	20.3	2.9	11.6
GMV	**$ 2,634.5**	**$ 1,933.4**	**$ 2,403.0**

Adjusted EBITDA

Adjusted EBITDA is a financial measure that includes the removal of various one-time, irregular, and non-recurring items from EBITDA. Newegg believes that exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis and excludes items that Newegg does not consider to be indicative of its core operating performance. Accordingly, Newegg believes that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating its operating results in the same manner as its management and board of directors.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of its results as reported under U.S. GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, its working capital needs;
- Adjusted EBITDA does not consider the potentially dilutive impact of stock-based compensation;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to it; and
- Other companies, including companies in its industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, operating profit and Newegg's other U.S. GAAP results.

The following table reflects the reconciliation of net loss to Adjusted EBITDA for each of the periods indicated.

	For the Year Ended December 31,		
	2020	2019	2018
	$	$	$
	(in millions)		
Net income (loss)	$ 30.4	$ (17.0)	$ (33.6)
Adjustments:			
Stock-based compensation expenses	1.6	0.7	3.9
Interest (income) expense, net	(0.5)	2.4	0.1
Income tax provision	1.9	4.6	1.6
Depreciation and amortization	9.1	10.7	10.2

Gain from sale of and equity income from equity method investments	(3.2)	(21.8)	(9.6)
Gain from sale of real estate property	—	(28.8)	—
Adjusted EBITDA	**$ 39.3**	**$ (49.2)**	**$ (27.4)**

Liquidity and Capital Resources

Cash Flows and Working Capital

Newegg has historically funded its operations through existing working capital, credit facilities, bank loans, return from investing activities, and equity financings. See Note 7 and 8 to its consolidated financial statements included elsewhere in this proxy statement/prospectus for more information about the line of credit and long-term debt that Newegg obtains from financial institutions and Notes 11 and 12 to its consolidated financial statements included elsewhere in this proxy statement/prospectus for more information about its equity financings.

Newegg's cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, and money market accounts. Cash equivalents are all highly liquid investments with original maturities of three months or less. Amounts receivable from credit card processors are also considered cash equivalents as they are both short term and highly liquid in nature, and are typically converted to cash within three business days. Amounts due to it from credit card processors that are classified as cash and cash equivalents totaled $17.5 million and $9.2 million at December 31, 2020 and 2019, respectively. Newegg anticipates that its existing cash and funds generated from operations will be sufficient to meet its working capital needs and expected capital expenditures for at least 12 months from the date of the filing of this proxy statement/prospectus. Newegg's cash and cash equivalents are primarily denominated in U.S. dollars.

Newegg historically experiences higher sales in the fourth quarter due to the holiday season. In anticipation of such higher sales, Newegg typically begins building up its inventory levels in the late third quarter. Such inventory build-up may require it to expend cash faster than Newegg generates by its operations during these periods. Also as a result of this inventory build-up and faster inventory turnover during the fourth quarter, its accounts payable are typically at their highest levels at year-end, as compared to the first, second and third quarters when sales are lower.

Newegg intends to finance its future working capital requirements and capital expenditures from cash generated from operating activities and funds raised from financing activities, including the net proceeds Newegg will receive from this Offering, and return from investing activities. Newegg's future capital requirements may, however, vary materially from those now planned or anticipated. Changes in its operating plans, lower than anticipated net sales, increased expenses or other events, including those described in "Risk Factors," may cause it to seek additional debt or equity financing in the future. If its existing cash is insufficient to meet its requirements, Newegg may seek to issue debt or equity securities or obtain additional credit facilities. Financing may not be available on acceptable terms, on a timely basis, or at all, and its failure to raise adequate capital when needed could negatively impact its growth plans and its financial condition and results of operations. Issuance of additional equity securities, including convertible debt securities, would dilute its earnings per share. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict its operations and its ability to pay dividends to its shareholders. If Newegg is unable to obtain additional equity or debt financing as required, its business operations and prospects may suffer.

Historical Cash Flows

The following table sets forth its selected consolidated cash flow data for the years ended December 31, 2018, 2019 and 2020.

	For the Year Ended December 31,		
Summary Consolidated Cash Flow Data:	**2020**	**2019**	**2018**
		(in millions)	
Net cash provided by (used in) operating activities	$ 84.5	$ (10.1)	$ (62.9)
Net cash provided by (used in) investing activities	(5.2)	84.7	(16.0)
Net cash provided by (used in) financing activities	(1.7)	(49.7)	2.0
Foreign currency effect on cash, cash equivalents and restricted cash	(0.3)	(1.1)	(0.8)
Net increase (decrease) in cash and cash equivalents	77.2	23.8	(77.7)
Cash, cash equivalents and restricted cash at beginning of the year	**80.5**	**56.7**	**134.4**
Cash, cash equivalents and restricted cash at end of the year	**157.7**	**80.5**	**56.7**

Operating Activities

Net cash provided by operating activities was $84.5 million in 2020. The adjustments for non-cash expenses are primarily comprised of (i) $9.1 million of depreciation and amortization that was associated with property and equipment; (ii) $7.3 million of bad debt expense, and (iii) $4.2 million of provision for obsolete and excess inventory. The changes in operating assets and liabilities represented a $34.4 million increase in cash provided by (i) an increase in accounts payable of $76.2 million; (ii) an increase in accrued liabilities and other liabilities of $35.1 million; and (iii) an increase in deferred revenue of $21.8 million, partially offset by (i) a decrease in accounts receivable of $13.0 million; (ii) an increase in inventory of $76.2 million; and (iii) an increase in prepaid expenses and other assets of $9.6 million.

Net cash used in operating activities was $10.1 million in 2019. Net loss was $17.0 million in 2019. The adjustments for non-cash expenses are primarily comprised of (i) $10.7 million of depreciation and amortization that was associated with property and equipment; (ii) $4.3 million of provision for obsolete and excess inventory; and (iii) $21.8 million of gain on equity method investment. The changes in operating assets and liabilities represented a $42.8 million cash provided by (i) a decrease in accounts receivable and inventory of $33.1 million and $110.1 million, respectively; and (ii) an increase in accrued liabilities and other liabilities of $8.0 million, partially offset by (i) a decrease in accounts payable of $100.7 million, and (ii) a decrease in deferred revenue of $11.2 million.

Net cash used in operating activities was $62.9 million in 2018. Net cash used in operating activities consists of net loss as adjusted for non-cash expenses and changes in operating assets and liabilities. Net loss was $33.6 million in 2018. The adjustments for non-cash expenses are primarily comprised of (i) $10.2 million of depreciation and amortization associated with property and equipment; (ii) $9.6 million of gain on equity method investment; and (iii) $3.9 million of stock-based compensation. Changes in operating assets and liabilities represented a $39.2 million use of cash, primarily comprised of (i) a decrease in accounts payable of $18.5 million; (ii) an increase in inventories of $6.3 million; and (iii) a decrease in the accrued liabilities and other liabilities of $5.9 million, partially offset by a decrease in prepaid expenses and other assets of $2.2 million.

Investing Activities

Net cash used in investing activities was $5.2 million for the year ended December 31, 2020, which was primarily attributable to the payments made to acquire property and equipment of $6.2 million partially offset by the proceeds from insurance of $0.8 million and disposal of fixed assets of $0.1 million.

Net cash provided by investing activities was $84.7 million in 2019, which was mainly due to (i) proceeds on disposal of a warehouse of $38.6 million, and (ii) proceeds on sales of equity method investment of $77.5 million, partially offset by (i) payments of $10.3 million made to acquire property and equipment; (ii) equity investments of $7 million; and (iii) loans to an affiliate of $15 million. See “Transactions with Related Persons.”

Net cash used in investing activities was $16.0 million in 2018, which was mainly attributable to (i) equity investments of $58.0 million in connection with its investment in Mountain Capital and Bitmain; (ii) loans to an affiliate of $20.0 million; and (iii) payments of $8.0 million made to acquire property and equipment, primarily for ongoing maintenance and upkeep of technology infrastructure, partially offset by loan repayments from an affiliate of $70.0 million. Newegg entered into several term loan agreements with one of its affiliates; as of December 31, 2018, there was no outstanding principal balance receivable from affiliate. See “Transactions with Related Persons.”

Financing Activities

Net cash used in financing activities was $1.7 million in 2020, due to the repayment of its line of credit.

Net cash used in financing activities was $49.7 million in 2019, which was mainly due to (i) net repayment under its line of credit of $36.4 million; and (ii) repayment of its long-term debt of $13.3 million.

Net cash provided by financing activities was $2.0 million in 2018, which was mainly due to (i) borrowings under its line of credit of $123.3 million; and (ii) borrowings of long-term debt of $13.0 million, partially offset by (i) repayments under its line of credit of $88.7 million; and (ii) payment for share repurchases of $45.1 million.

Capital Expenditures

Newegg's capital expenditures are incurred primarily in connection with purchases of property and equipment and leasehold improvements. Newegg's capital expenditures were $8.0 million, $10.3 million, and $6.2 million in 2018, 2019 and 2020, respectively. Newegg intends to fund its future capital expenditures with its existing cash balance and proceeds from the public offering.

Credit Agreements

In July 2018, Newegg entered into a credit agreement with East West Bank and PNC Bank that provided a revolving credit facility of up to $100.0 million with a maturity date of July 27, 2021. Prior to July 27, 2020 and subject to certain terms and conditions, the Maximum Revolving Advance Amount, as defined in the loan agreement, could be increased up to $140.0 million. The revolving credit facility includes a letter of credit sublimit of $25.0 million, which can be used to issue standby and trade letters of credit, and a $10.0 million sublimit for swingline loans. Advances from this line of credit will be subject to interest at LIBOR plus the Applicable Margin, as defined in the loan agreement, or the Alternate Base Rate (to be defined as the highest of the financial institution's prime rate, the Overnight Bank Funding Rate plus 0.50%, or the daily LIBOR plus 1.0%) plus the Applicable Margin. For LIBOR loans, Newegg may select interest periods of one, two, or three months. Interest on LIBOR loans shall be payable at the end of the selected interest period. Interest on Alternate Base Rate loans is payable monthly. The line of credit is guaranteed by certain of Newegg's U.S. subsidiaries and is collateralized by certain of the assets of Newegg. Such assets include all Receivables, equipment and fixtures, general intangibles, Inventory, Subsidiary Stock, securities, investment property, and financial assets, contract rights, and ledger sheets, as defined in the loan agreement. To maintain availability of funds under the loan agreement, Newegg will pay on a quarterly basis, an unused commitment fee of either 0.25% of the difference between the amount available and the amount outstanding under the facility if the difference is less than one-third of the Maximum Revolving Advance Amount or 0.40% of the difference between the amount available and the amount outstanding under the facility if the difference is equal to or greater than one-third of the Maximum Revolving Advance Amount. As of December 31, 2019, there was no balance outstanding under this line of credit. The credit facility contains customary covenants, including covenants that limit or restrict Newegg's ability to incur capital expenditures and lease payments, make certain investments, enter into certain related-party transactions, and pay dividends. The credit facility also requires Newegg to maintain certain minimum financial ratios and maintain an operation banking relationship with the financial institutions. As of December 31, 2020, Newegg was in compliance with all financial covenants related to the line of credit.

Contractual Obligations

The following table sets forth its contractual obligations and commitments as of December 31, 2020.

	Payments Due by Years Ending				
	Total	**Less than 1 year**	**1 – 3 years**	**3 – 5 year**	**More than 5 years**
	(in thousand)				
Long-term debt payment	$ 2,369	$ 281	$ 577	$ 599	$ 912
Operating Leases	48,738	10,258	15,139	8,863	14,478
Total contractual obligations	$ 51,107	$ 10,539	$ 15,716	$ 9,462	$ 15,390

Off-Balance Sheet Commitments and Arrangements

Newegg does not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any obligation arising out of a material variable interest in an unconsolidated entity. Newegg does not have any majority-owned subsidiaries that are not included in its consolidated financial statements.

Quantitative and Qualitative Disclosure about Market Risk

Newegg does not use financial instruments for speculative trading purposes, and does not hold any derivative financial instruments that could expose it to significant market risk. Newegg's primary market risk exposures are changes in interest rates and foreign currency fluctuations.

Interest Rate Risk

Newegg's main interest rate exposure relates to long-term borrowings that Newegg obtains from banks and financial institutions to meet its working capital expenditure requirements. Newegg also has interest-bearing assets, including cash and cash equivalents, restricted cash and loans to affiliates. Newegg manages its interest rate exposure with a focus on reducing its overall cost of debt and exposure to changes in interest rates. As of December 31, 2020 and 2019, Newegg had outstanding long-term borrowings in the aggregate amount of $2.4 million and $2.5 million, respectively, with the majority of its long-term borrowings having floating interest rates.

Newegg has not used derivative financial instruments to hedge the interest rate risk. Newegg has not been exposed to material risks due to changes in market interest rates. However, Newegg cannot provide assurance that Newegg will not be exposed to material risks due to changes in market interest rate in the future.

Foreign Currency Risk

Newegg has currency fluctuation exposure arising from both sales and purchases denominated in foreign currencies. Significant changes in exchange rates between foreign currencies in which Newegg transacts business and the U.S. dollar may adversely affect its results of operations and financial condition. Historically, Newegg has not entered into any hedging activities, and, to the extent that Newegg continues not to do so in the future, Newegg may be vulnerable to the effects of currency exchange-rate fluctuations.

Newegg expects its exposure to foreign currency risk will increase as Newegg increases its operations and sales in Canada and other countries and regions. Although the effect of currency fluctuations on its financial statements has not been material in the past, there can be no assurance that the effect of currency fluctuations will not be material in the future. For the years ended December 31, 2018, 2019 and 2020, Newegg recorded foreign exchange loss of $1.6 million, loss of $0.5 million, and loss of $0.7 million, respectively. Based on the balance of its foreign-denominated cash and cash equivalents, as of December 31, 2018, 2019, and 2020, an assumed 10% negative currency movement would not have a material impact.

To date, Newegg has not entered into any hedging transactions in an effort to reduce its exposure to foreign currency exchange risk.

Inflation Risk

Newegg does not believe that inflation has had a material effect on its business, financial condition or results of operations. Although Newegg does not expect it to have such an impact in the near future, Newegg cannot assure you that its business will not be affected by inflation in the future.

Related Party Transactions

For a description of its related party transactions, see "Related Party Transactions" as discussed in the notes to the consolidated financial statements within this registration statement.

Critical Accounting Policies, Judgments and Estimates

Newegg's consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of its financial statements requires it to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales, costs and expenses, as well as the disclosure of contingent assets and liabilities and other related disclosures. Newegg bases its estimates on historical experience and on various other assumptions that Newegg believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of its assets and liabilities that are not readily apparent from other sources. In many instances, Newegg could have reasonably used different accounting estimates. Actual results could differ from those estimates, and Newegg includes any revisions to its estimates in its results for the period in which the actual amounts become known.

Newegg believes the critical accounting policies described below affect the more significant judgments and estimates used in the preparation of its consolidated financial statements. Accordingly, these are the policies Newegg believes are the most critical to aid in fully understanding and evaluating its historical consolidated financial condition and results of operations:

Revenue Recognition

Newegg adopted Accounting Standards Update No. 2014-09 Revenue From Contracts with Customers (Topic 606) as of January 1, 2018. Revenue recognition is evaluated through the following five step process:

1. Identification of the contract with a customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when or as a performance obligation is satisfied.

Revenue is recognized when control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which Newegg expects to be entitled in exchange for transferring those products or services. Revenue is recognized net of sales taxes and discounts. Newegg primarily generates revenue through product sales on its platforms and through fees earned for facilitating marketplace transactions and extended warranty sales on its platforms.

Newegg recognizes revenue on product sales at a point in time to customers when control of the product passes to the customer upon delivery to the customer or when service is provided. Newegg fulfills orders with its own inventory or with inventory sourced through its suppliers. The vast majority of the Company's product sales are fulfilled from its own inventory. The amount recognized in revenue represents the expected consideration to be received in exchange for such goods or services. For orders fulfilled with inventory sourced through its suppliers, and where the products are shipped directly by the supplier to its customer, Newegg evaluates the criteria outlined in ASC 606-10-55, Principal versus Agent Considerations, in determining whether revenue should be recognized on a gross or net basis. Newegg determined that it is the principal in these transactions as it controls the specific good before it is transferred to the customer. Newegg is the entity responsible for fulfilling the promise to provide the specified good to the customer and takes responsibility for the acceptability of the goods, assumes inventory risk before the specified good has been transferred to the customer, has discretion in establishing the price, and selects the suppliers of products sold. Newegg accounts for product sales under these arrangements on a gross basis upon receipt of the product by the customer. Product sales exceeded 95% of consolidated net sales in each of the years ended December 31, 2017, 2018 and 2019. Product sales for the year ended December 31, 2020 decreased to 93.4% of consolidated sales as Newegg expands its D2C platform services.

Newegg generally requires payment by credit card upon placement of an order, and to a limited extent, grants credit to business customers typically on a 30-day term. Shipping and handling is considered a fulfillment activity, as it takes place before the customer obtains control of the goods. Amounts billed to customers for shipping and handling are included in net sales upon completion of the performance obligation.

Newegg's product sales contracts include terms that could cause variability in the transaction price such as sales returns and credit card chargebacks. As such, the transaction price for product sales includes estimates of variable consideration to the extent it is probable that a significant reversal of revenue recognized will not occur. Sales are reported net of estimated returns and allowances and credit card chargebacks, based on historical experience.

Newegg also earns fees for facilitating marketplace transactions and extended warranty sales on its platforms. For marketplace transactions, its websites host third-party sellers and Newegg also provides the payment processing function. Newegg recognizes revenue upon the sale of products made available through its marketplace store. Newegg is not the principal in this arrangement and does not control the specific goods sold to the customer. Newegg reports the net amount earned as commissions, which are determined using a fixed percentage of the sales price or fixed reimbursement amount. Newegg also offers extended warranty programs for various products on behalf of an unrelated third party. Newegg reports the net amount earned as revenue at the time of sale, as it is not the principal in this arrangement and does not control the specific goods sold to the customer.

Newegg offers its customers the opportunity to purchase goods and services on its website using deferred financing promotional programs provided by a third-party financing company. These programs include an option to make no payments for a period of six, twelve, eighteen or twenty-four months. The third-party financing company makes all decisions to extend credit to the customer under a separate agreement with the customer, owns all such receivables from the customer, assumes all risk of collection, and has no recourse to Newegg in the event the customer does not pay. The third-party financing company pays Newegg for the purchase price on behalf of the customer, less certain transaction fees. Accordingly, sales generated through these programs are not reflected in Newegg's receivables once payment is received from the third-party financing company. The transaction fee paid by it to the third-party financing company is recognized as a reduction of revenue. These transaction fees for the years ended December 31, 2018, 2019, and 2020 were immaterial.

To the extent that Newegg sells its products on third-party platforms, Newegg incurs incremental contract acquisition costs in the form of sales commissions paid to the platforms. The commissions are generally determined based on the sales price and an agreed-upon commission rate. Newegg elects the practical expedient under Accounting Standards Update No. 2014-09 Revenue From Contracts with Customers (Topic 606) to recognize sales commission as an expense as incurred, as the amortization period of the asset that Newegg otherwise would have recognized is less than one year.

Newegg has three types of contractual liabilities: (1) amounts collected, or amounts invoiced and due, related to product sales where receipt of the product by the customer has not yet occurred or revenue cannot be recognized. Such amounts are recorded in the consolidated balance sheets as deferred revenue and are recognized when the applicable revenue recognition criteria have been satisfied. For all of the product sales, Newegg ships a large volume of packages through multiple carriers. Actual delivery dates may not always be available and as such, Newegg estimates delivery dates as needed based on historical data. (2) amounts collected for its now discontinued Premier membership services, which were typically paid upfront for membership benefits over a 3-month, 6-month, or 12-month period, including free 3-day shipping, free returns, rush processing and dedicated customers service. Such amounts were initially recorded as deferred revenue and were recognized as revenue ratably over the subscription period. Newegg discontinued its Premier membership services in 2019, resulting in no balance of deferred revenue related to this program as of December 31, 2019. The amount of deferred revenue related to the Premier membership services was immaterial as of December 31, 2018. (3) unredeemed gift cards, which are initially recorded as deferred revenue and are recognized in the period they are redeemed. Subject to governmental agencies' escheat requirements, certain gift cards not expected to be redeemed, also known as "breakage", are recognized as revenue based on the historical redemption pattern. These gift cards breakage revenue for the years ended December 31, 2020, 2019 and 2018 were immaterial.

Incentives Earned from Vendors

Newegg participates in various vendor incentive programs that include, but are not limited to, purchasing-based volume discounts, sales-based volume incentives, marketing development funds, including for certain cooperative advertising, and price protection agreements. Vendor incentives are recognized in the consolidated statements of operations as an offset to marketing and promotional expenses to the extent that they represent reimbursement of advertising costs incurred by it on behalf of the vendors that are specific, incremental, and identifiable. Reimbursements that are in excess of such costs and all other vendor incentive programs are accounted for as a reduction of cost of sales, or if the related product inventory is still on hand at the reporting date, inventory is reduced in the consolidated balance sheets.

Equity Investments

Investments are accounted for using the equity method if the investment provides Newegg with the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if Newegg has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors are considered in determining whether the equity method is appropriate. Also, investment in limited partnerships of more than 3% to 5% are generally viewed as more than minor and are accounted for using the equity method.

The investments for which Newegg is not able to exercise significant influence over the investee and which do not have readily determinable fair values were accounted for under the cost method prior to the adoption of ASU 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Subsequent to the adoption of this standard as of January 1, 2018, Newegg has

elected the measurement alternative to measure such investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Stock-based Compensation Expense and Valuation of Shares of its Common Stock

The measurement and recognition of compensation expense for all stock-based payment awards made to employees, consultants and directors, including employee stock options and restricted stock, is based on estimated fair value of the awards on the date of grant. The value of awards that are ultimately expected to vest is recognized as expense on a straight line basis over the requisite service periods in the consolidated statements of operations.

Stock-based compensation includes stock option awards issued under Newegg's 2005 Incentive Award Plan and restricted stock issued under a Significant Shareholder Incentive Program, which was adopted in 2016. See "Compensation of Executive Officers and Directors — Equity Incentive Plans — Newegg Plans" for a summary of the key terms and conditions of the Newegg's 2005 Incentive Award Plan and the Significant Shareholder Incentive Program.

Common Stock Valuations

The exercise prices of stock options granted were determined contemporaneously by Newegg's Board of Directors, in conjunction with an independent valuation firm, based on its best estimated fair value of the underlying Class A Common Stock as of the date of each option grant, including but not limited to, the following factors: (i) the rights, preferences and privileges of its preferred stock relative to the common stock; (ii) its performance and stage of development; (iii) the prices paid for its preferred stock in recent issuances of its preferred stock; and (iv) the likelihood of achieving a liquidity event for the shares of common stock underlying these stock options.

Valuations of the Class A Common Stock were based on a combination of the income approach and the market approach, which were used to estimate its total enterprise value. The income approach quantifies the present value of the future cash flows that management expects to achieve from continuing operations. These future cash flows are discounted to their present values using a rate corresponding to its estimated weighted average cost of capital. Newegg's weighted average cost of capital is calculated by weighting the required return on interest-bearing debt and common equity capital in proportion to their estimated percentages in its capital structure. The market approach considers multiples of financial metrics based on acquisition values or quoted trading prices of comparable public companies. An implied multiple of key financial metrics based on the trading and transaction values of publicly traded peers is applied to its similar metrics in order to derive an indication of value. A marketability discount is then applied to reflect the fact that its Class A Common Stock is not traded on a public exchange. The amount of the discount varies based on its management's expectation of effecting a public offering of Newegg's Class A Common Stock within the ensuing 12 months. The enterprise value indications from the income approach and market approach were used to estimate the fair value of its Class A Common Stock in the context of its capital structure as of each valuation date. Each valuation was based on certain estimates and assumptions. If different estimates and assumptions had been used, these valuations could have been different.

Preferred Stock Valuations

Valuations of Newegg's Series A preferred stock and Series AA preferred stock were based on a combination of the income approach and market approach, which were used to estimate its total enterprise value. The income approach quantifies the present value of the future cash flows that management expects to achieve from continuing operations. These future cash flows are discounted to their present values using a rate corresponding to its estimated weighted average cost of capital. Newegg's weighted average cost of capital is calculated by weighting the required return on interest-bearing debt and common equity capital in proportion to their estimated percentages in its capital structure. The market approach considers multiples of financial metrics based on acquisition values or quoted trading prices of comparable public companies. An implied multiple of key financial metrics based on the trading and transaction values of publicly traded peers is applied to its similar metrics in order to derive an indication of value. A marketability discount is then applied to reflect the fact that Newegg's Series A preferred stock and Series AA preferred stock are not traded on a public exchange. The enterprise value indications from the income approach and market approach were used to estimate the fair value of its Series A preferred stock and Series AA preferred stock in the context of its capital structure as of each valuation date. Each valuation was based on certain estimates and assumptions. If different estimates and assumptions had been used, these valuations could have been different.

Recent Accounting Pronouncements

For detailed discussion on recent accounting pronouncements, see Note 2 to the consolidated financial statements of Newegg included elsewhere in this proxy statement/prospectus.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers Following the Merger

Following is information about persons who will serve as directors and executive officers of the combined company following the merger.

NAME	AGE	POSITION
Anthony Chow	55	Director and Chief Executive Officer
Robert Chang	52	Chief Financial Officer
Jamie Spannos	43	Chief Operating Officer
Montaque Hou	40	Chief Technology Officer
Matt Strathman	51	General Counsel
Zhitao He	39	Chairman of the Board
Fred Faching Chang	63	Director
Yingmei Yang	51	Director
Gregory Moore	70	Independent Director
Paul Wu	50	Independent Director
Fuya Zheng	54	Independent Director

Mr. Anthony Chow. Mr. Chow is the Global Chief Executive Officer of Newegg. He sets the company's strategic direction and works closely with Newegg's executives to ensure consistent execution across the organization. In addition to Mr. Chow's role as Global CEO, he also serves on the company's board of directors. Mr. Chow's leadership has guided Newegg through some of the company's most transformative years. He first served as Vice President of Newegg's North American business from 2006 until 2008, before moving to Shanghai to oversee Newegg's China operation, as well as OZZO Logistics, a Newegg subsidiary providing third-party logistics (3PL) support for other e-commerce companies based in China. In 2011, Mr. Chow left Newegg to become CEO of OTTO Group China, the Chinese subsidiary of Germany's largest online retailer of fashion and lifestyle products. In this role, he helped the company extend its reach beyond Europe and into key parts of Asia. Then in 2015, he was appointed Vice President of Haier China, a global home appliance and consumer electronics manufacturer based in Qingdao, China. Upon rejoining Newegg in 2019, Mr. Chow made sweeping changes to position the company for continued success in the rapidly expanding e-commerce space. Consequently, Newegg remains one of the leading tech e-commerce companies with strong market share in consumer sales, and a growing portfolio of services for the company's vendor partners, marketplace sellers and 3PL clients. Mr. Chow holds a Bachelor's degree in Electrical & Electronics Engineering from the University of Toledo, and a Master of Business Administration from the UCLA Anderson School of Management.

Mr. Robert Chang. Mr. Chang is the Chief Financial Officer of Newegg. In this role, he is responsible for overseeing all aspects of the company's financial performance, including forecasting, evaluation and reporting. Mr. Chang has served the company in various finance-related roles for more than two decades, first joining the company in 1999 and later being appointed to the CFO role in 2015. Prior to Newegg, Mr. Chang spent five years as an Operational Analyst at Taiwan YFY Paper Manufacturers. Mr. Chang holds a Bachelor's degree in Economics from Soochow University, and a Master's degree in Finance from University of La Verne.

Mr. Jamie Spannos. Mr. Spannos is the Global Chief Operating Officer of Newegg. In this role, he is responsible for the strategic direction and operational development of Newegg's supply chain operations, managing end-to-end operations for the company's 45M+ SKUs in more than 1,665 product categories sold into 20 countries across the globe. Mr. Spannos also oversees Newegg Logistics, a separate Newegg business unit that provides third-party logistics (3PL) services to other e-commerce companies. Prior to joining Newegg in 2018, Mr. Spannos was Senior Vice President of North America Fulfillment and Logistics at FTD.com, where he oversaw all FTD.com and sub-brand operations across 103 drop-ship and internal distribution centers. Before his time at FTD.com, Mr. Spannos spent five years heading up distribution for Kraft Heinz Company, managing the company's robust network of 26,500 3PL and Kraft Heinz employees across 128 distribution locations. In that role, he also played an instrumental part in providing strategic and executional direction in optimizing the company's warehousing infrastructure, in turn unifying several distribution partnership models related to a

multitude of company mergers and divestitures. And before Kraft Heinz, he served as GM/VP/Managing Director of Home Depot's Import and Domestic Distribution Field Operations, helping to build the foundation of Home Depot's supply chain during his

12-year tenure with the company. He holds the distinction of being the youngest at Home Depot to ascend to the GM role at the time. His experience of more than 20 years across a broad range of business functions uniquely qualifies Mr. Spannos to continue and expand Newegg's operational excellence, positively impacting Newegg's customers and the many businesses that rely on Newegg's 3PL support.

Mr. Montaque Hou. Mr. Hou serves as the Chief Technical Officer of Newegg since 2016. In this role, he is responsible for all technical aspects of the Newegg shopping experience, including the website, mobile app and other touchpoints including SMS and email interaction. Mr. Hou's global technology team of more than 500 engineers designs, develops and deploys the technology that underpins site design, customer service, Newegg's marketplace, resource planning, logistics and inventory management of more than 100M unique SKUs. The technical development under Mr. Hou's direction infuses the latest data science, machine learning and artificial intelligence to enhance the shopping experience with search personalization and product recommendations, as well as safeguards that deter fraudulent activity and eliminate counterfeit product listings on Newegg's marketplace. Under Mr. Hou's stewardship, Newegg built and maintains its reputation of pioneering new e-commerce user experiences through customer-driven innovations, personalizing the shopping experience to deliver an intuitive, rewarding shopping experience. Newegg recently became the first major e-commerce company to offer a native Dark Mode, further cementing the company's position as a leading e-commerce innovator. Prior to Mr. Hou's tenure as CTO, he held various technical positions at Newegg, including Solutions Architect, Director of Technology Strategy and Chief Architecture Engineer. Mr. Hou holds a Master of Science in analytical chemistry from Tongji University in Shanghai.

Mr. Matt Strathman. Mr. Strathman is the General Counsel of Newegg. In this role, he is responsible for overseeing all aspects of the company's legal matters, including compliance and litigation. Mr. Strathman has served the company in various legal roles for more than ten years, first joining the company in 2008. Prior to Newegg, Mr. Strathman worked as Sr. Counsel for Empire Companies, and prior to that worked as a business attorney in private practice. Mr. Strathman holds bachelor's degrees in Economics and History from the University of California, Riverside, and a Juris Doctor from Loyola Law School.

Mr. Zhitao He. Mr. He has served as the director of Newegg since March 2017 and the chairman of Newegg's board of directors since March 2018. In addition, Mr. He was the former chairman of the Company's board of directors from October 2016 to August 2020, and the Company's former Chief Executive Officer since April 1, 2020 to August 2020. Mr. Zhitao He is also the Chairman of the Board of Lianluo Interactive, a China-listed company and a major shareholder of the Company. Mr. Zhitao He successfully led Lianluo Interactive to list on China's A share market (ticker: 002280). Mr. Zhitao He was named one of the "10 Top Entrepreneurs of Post-1980s" by Hurun Report and "Top Ten Entrepreneurial Leader of Listed Companies" by Securities Times. In the past two years, under his leadership, Lianluo Interactive has moved into the field of smart hardware, including the purchase of Newegg (*http://www.newegg.com*), investments in American virtual reality device manufacturer Avegant (*www.avegant.com*) and hardware corporation Razer (*http://www.razerzone.com*), and promotion of the world's biggest VR Operating System OSVR in China together with Razer. This investment plan has allowed Lianluo Interactive to become a closed loop of "Software and Hardware + Platform + Channels". Mr. He currently serves on the board of directors of Lianluo Interactive, Newegg Inc., Avegant Light Field Technology, Beijing Digital Grid Technology Co., Ltd., Shenzhen Ailianluo Investment Co., Ltd., Hangzhou Lianluo Holding CO., Ltd., Beijing Lianluo Youjia Technology Co., Ltd. and Shenyang Zhitongrong Networking Technology Co., Ltd. Mr. He received his master's degree from Beijing University of Posts and Telecommunications. Mr. He founded Lianluo Interactive in 2007 which was then known as Beijing Digital Grid Technology Co.

Mr. Fred Faching Chang (or Mr. Fred Chang). Mr. Chang currently serves as the Vice Chairman of Newegg's board of directors and the chairman of Newegg's board's strategy committee. He was previously a director of Newegg from 2005 to August 2018, and was a member of Newegg's board's compensation committee from 2017 to August 2018. During the periods of 2005 to 2008, January 2013 to January 2015, and October 2019 to March 2020, Mr. Chang had also been Newegg's Chief Executive Officer.

Ms. Yingmei Yang. Ms. Yang has served as our interim Chief Financial Officer since March 15, 2018 and on our board of directors since April 1, 2020. Upon completion of the merger, Ms. Yang will resign from her position as interim Chief Financial Officer. Ms. Yang has also served as the director of Newegg since July 2018. In addition, she acted as the Vice President of Hangzhou Lianluo from February 2018 to September 2020. From January 2015 to February 2018, Ms. Yang was Chief Financial Officer and Vice President of Hangzhou Lianluo. From February 2013 to January 2015, Ms. Yang was Chief Financial Officer and Secretary of the Board of Beijing Digit Horizon Technology Limited, the predecessor of Hangzhou Lianluo.

Mr. Gregory Moore. Mr. Greg Moore has been a member of Newegg's board of directors since 2011. He currently serves as the chair of Newegg's audit and nominating& governance committees and as a member of its compensation committee. He previously served as chair of the compensation committee. Mr. Moore previously served as the Senior Vice President and Controller of Yum! Brands, Inc. until he retired in 2005. Yum! Brands is the world-wide parent company of Taco Bell, KFC and Pizza Hut. Prior to becoming Yum! Brands' Controller, Mr. Moore was the Vice President and General Auditor of Yum! Brands. Before that, he was with PepsiCo, Inc. and held the position of Vice President, Controller of Taco Bell and Controller of PepsiCo Wines & Spirits International, a division of PepsiCola International. Before joining PepsiCo he was an Audit Manager at Arthur Young & Company in its New York, New York and Stamford, Connecticut offices. Mr. Moore also serves as Chairman of the Board of Texas Roadhouse Inc. (Nasdaq: TXRH).

Mr. Paul Wu. Mr. Paul Wu joined Newegg's board of directors in February 2020. He currently serves as the chair of Newegg's compensation committee and as a member of its audit and nominating & governance committees. Mr. Wu is the founder and CEO of Carota, a supplier of connected car services. Mr. Wu is also the co-founder of the MOX mobile accelerator. He previously served as the CEO of Pocketnet Tech, a mobile content provider, and has also served in various roles with MediaTek, Hon Hai Foxconn Technology Group and Hong Kong Hutchison Wampoa's TOM Group. Mr. Wu obtained his bachelor's degree from the Department of Agricultural Economics at Taiwan University, and obtained an MBA from RSM Rotterdam Business School in the Netherlands.

Mr. Fuya Zheng. Mr. Zheng has been an independent director of the Company since April 24, 2020. Mr. Zheng has extensive experience in corporate finance and investment management. He has served as Chief Financial Officer of X Financial since August 2020. He was a consultant of Yingde Gases Group Company ("Yingde Gases"), a leading industrial gas supplier in China, from September 2017 to March 2020. Mr. Zheng was an independent director of Yingde Gases from September 2009 to September 2017. From February 2018 until May 2019, Mr. Zheng was also an independent director of ChinaCache International Holdings Ltd. (CCIHY). From January 2008 to November 2012, Mr. Zheng was Chief Financial Officer of Cogo Group, Inc., a then NASDAQ listed company that provided customized module design solutions and manufactured electronic products in China. Mr. Zheng was also a director of the same company from January 2005 to November 2012. Prior to that, Mr. Zheng was vice president of travel service at eLong, Inc., one of the leading online travel service companies in China and listed on NASDAQ, where he was responsible for the overall operation of eLong Inc.'s travel services. Mr. Zheng received a Bachelor of Business Administration majoring in accounting from City University of New York in 1994.

Board of Directors

Our board of directors will consist of 7 directors upon the closing of the merger.

A director may vote in respect of any contract or transaction in which he is interested, provided, however that the nature of the interest of any director in any such contract or transaction shall be disclosed by him or her at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof of the nature of a director's interest shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction. A director may be counted for a quorum upon a motion in respect of any contract or arrangement which he or she shall make with our company, or in which he or she is so interested and may vote on such motion. There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting.

The listing rules of NASDAQ generally require that a majority of an issuer's board of directors must consist of independent directors. However, the listing rules permit foreign private issuers like us to follow "home country practice" in certain corporate governance matters. We rely on this "home country practice" exception and do not have a majority of independent directors serving on our board of directors. Mr. Gregory Moore, Mr. Paul Wu, and Fuya Zheng are our independent directors.

We do not have a lead independent director because we believe our independent directors are encouraged to freely voice their opinions on a relatively small company board. We believe this leadership structure is appropriate because we are a smaller reporting company.

The amended and restated memorandum and articles of incorporation to be adopted at the special meeting provides that, subject to compliance with applicable laws and NASDAQ rules, Digital Grid and the "Minority Representative", which is initially Mr. Fred Faching Chang, shall be entitled to designate nominees to our board of directors in a number that is proportionate to the voting power of Digital Grid and its affiliate, and certain legacy stockholders of Newegg in the Company, respectively.

Digital Grid has nominated Mr. Zhitao He, Ms. Yingmei Yang, Mr. Paul Wu and Mr. Fuya Zheng, and Mr. Fred Faching Chang has nominated Mr. Fred Faching Chang, Mr. Greg Moore and Mr. Anthony Chow to serve as the directors of the post-closing issuer.

There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

Duties of Directors

Under BVI law, our directors have duties to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restated memorandum and articles of association. We have the right to seek damages if a duty owed by our directors is breached. The functions and powers of our board of directors include, among others:

- appointing officers and determining the term of office of the officers;
- authorizing the payment of donations to religious, charitable, public or other bodies, clubs, funds or associations as deemed advisable;
- exercising the borrowing powers of the Company and mortgaging the property of the Company;
- executing checks, promissory notes and other negotiable instruments on behalf of the Company; and
- maintaining or registering a register of mortgages, charges or other encumbrances of the Company.

Limitation of Director and Officer Liability

BVI does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the BVI courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

Under our amended and restated memorandum and articles of association, we may indemnify our directors, officers and liquidators against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with civil, criminal, administrative or investigative proceedings to which they are party or are threatened to be made a party by reason of their acting as our director, officer or liquidator. To be entitled to indemnification, these persons must have acted honestly and in good faith with a view to the best interest of the company and, in the case of criminal proceedings, they must have had no reasonable cause to believe their conduct was unlawful.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors or officers under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Involvement in Certain Legal Proceedings

On August 6, 2020, Hangzhou Lianluo and Mr. Zhitao He received an investigation notice from the CSRC for alleged violation of laws and regulations regarding information disclosures of Hangzhou Lianluo. Hangzhou Lianluo is a PRC company with shares listed on Shenzhen Stock Exchange. Mr. He is the Chairman and Chief Executive Officer of Hangzhou Lianluo. Hangzhou Lianluo is also the largest shareholder of the Company and Mr. He was the former Chairman and the former Chief Executive Officer of the Company.

Hangzhou Lianluo has announced this investigation on August 7, 2020 and stated that it will fully cooperate with CSRC in the investigation.

On October 19, 2020, Hangzhou Lianluo announced that it has received a notice of administrative punishment from Zhejiang Regulatory Bureau of CSRC, which provides, among others, that (i) Hangzhou Lianluo is receiving a warning and required to correct its unlawful acts and pay a fine of RMB 300,000, and (ii) Mr. Zhitao He is receiving a warning and required to pay a fine of RMB 400,000.

To the best of our knowledge, except as disclosed herein, none of our directors or executive officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or has been a party to any judicial or administrative proceeding during the past ten years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities or commodities laws, any laws respecting financial institutions or insurance companies, any law or regulation prohibiting mail or wire fraud in connection with any business entity or been subject to any disciplinary sanctions or orders imposed by a stock, commodities or derivatives exchange or other self-regulatory organization, except for matters that were dismissed without sanction or settlement.

Family Relationship

There are no family relationships among any of the persons named above, and there are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any such person was selected as a director or member of senior management.

Terms of Directors and Executive Officers

Each of our directors holds office until a successor has been duly elected and qualified unless the director was appointed by the board of directors, in which case such director holds office until the next following annual meeting of shareholders at which time such director is eligible for re-election. All of our executive officers are appointed by and serve at the discretion of our board of directors.

Qualification

There is currently no shareholding qualification for directors, although a shareholding qualification for directors may be fixed by our shareholders by ordinary resolution.

Committees of the Board of Directors

Currently, three committees have been established under the board: the audit committee, the compensation committee and the nominating committee and corporate governance committee. Each committee's members and functions are described below.

Audit Committee

Upon the closing of the merger, Mr. Gregory Moore, Mr. Paul Wu and Mr. Fuya Zheng will become the members of our audit committee. Mr. Moore will be the chairman of our audit committee. We have determined that Mr. Moore, Mr. Wu and Mr. Fuya Zheng satisfy the "independence" requirements of Section 5605(a)(2) of the NASDAQ Listing Rules and Rule 10A-3 under the Exchange Act. Our board also has determined that Mr. Moore qualifies as an audit committee financial expert within the meaning of the SEC rules or possesses financial sophistication within the meaning of the NASDAQ Listing Rules. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;

- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee

Upon the closing of the merger, Mr. Gregory Moore, Mr. Paul Wu and Mr. Fuya Zheng will become the members of our compensation committee. Mr. Wu will be the chairman of our compensation committee. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving to the board with respect to the total compensation package for our most senior executive officers;
- approving and overseeing the total compensation package for our executives other than the most senior executive officers;
- reviewing and recommending to the board with respect to the compensation of our directors;
- reviewing periodically and approving any long-term incentive compensation or equity plans;
- selecting compensation consultants, legal counsel or other advisors after taking into consideration all factors relevant to that person's independence from management; and
- reviewing programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Nominating and Corporate Governance Committee.

Upon the closing of the merger, Mr. Gregory Moore, Mr. Paul Wu and Mr. Fuya Zheng will become the members of our nominating and corporate governance committee. Mr. Zheng will be the chairperson of our nominating and corporate governance committee. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- identifying and recommending nominees for election or re-election to our board of directors or for appointment to fill any vacancy;
- reviewing annually with our board of directors its current composition in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to our board the directors to serve as members of committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Code of Ethics

Our code of conduct and business ethics conforms to the rules and regulations of NASDAQ. The code of conduct and business ethics applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer, and addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, regulations and policies, including disclosure requirements under the federal securities laws, confidentiality, trading on inside information, and reporting of violations of the code. A copy of conduct and business ethics has been filed as an exhibit to our Registration Statement on Form S-1, File no. 333-163041, filed on November 12, 2009, as amended. The Company will provide any person a copy of its code of ethics, without charge, upon request. Such request should be addressed to the Company at Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, People's Republic of China.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Director and Executive Officer Compensation

In 2020, Newegg paid an aggregate of $6,384,304 in cash compensation to the directors and senior management.

In 2019, Newegg paid an aggregate of $2,757,363 in cash compensation to its directors and senior management. It did not separately set aside any amounts for pensions, retirement or other benefits for its executive officers, other than pursuant to relevant statutory requirements.

Employment Agreements

Upon closing of the merger, we will enter into employment agreements with our new named executive officers. Pursuant to employment agreements, the form of which is filed an as exhibit to the registration statement of which this proxy statement/prospectus forms a part, the employment with each of our named executive officers is for no fixed term and is "at will", which can be terminated by us or each named executive officer at any time and for any reason, with or without notice, with or without cause. Each named executive officer shall only use or disclose any confidential information for the benefit of us, and as is necessary to carry out his or her responsibilities for us. Following the end of the employment, each named executive officer shall return all confidential information and neither directly or indirectly, use or disclose any such confidential information, except as expressly and specifically authorized in writing by us, and will hold, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information.

Equity Incentive Plans

2009 Share Incentive Plan

In 2009, in connection with our initial public offering, we established our 2009 Share Incentive Plan. This plan contains options to purchase up to 56,250 of our common shares. We issued all 56,250 options pursuant to this plan on December 29, 2011 at an exercise price of $11.6 per share, which vest over five years until December 28, 2016 and will expire on December 29, 2021. As of October 7, 2013, 125 options issued under this plan had been exercised for common shares, and the board decided to grant Mr. Ping Chen 11,750 options recovered from former employees who received options under this plan and thereafter left the Company. These 11,750 options were awarded on October 7, 2013, at an exercise price of $18.4 per share, which vest over five years until October 6, 2018 and will expire on October 7, 2023. As of the date of this proxy statement/prospectus, there are an aggregate of 23,000 options issued and outstanding under this plan.

2013 Share Incentive Plan

In 2013, we established our 2013 Share Incentive Plan. This pool allows us to issue options, common shares and other securities exercisable or convertible into, in the aggregate, 57,750 of our common shares. We issued 16,375 options pursuant to this plan on August 20, 2014 at an exercise price of $42.48 per share which vest over five years until August 19, 2019. As of the date of this proxy statement/prospectus, there are 16,375 options issued and outstanding under this plan which will expire on August 20, 2024.

2014 Share Incentive Plan

On July 28, 2014, we established our 2014 Share Incentive Plan, which provides that the maximum number of shares authorized for issuance under this plan shall not exceed ten percent of the number of our issued and outstanding shares as of December 31 of the immediately preceding fiscal year, and an additional number of shares may be added automatically annually to the shares issuable under the plan on and after January 1 of each year, from January 1, 2015 through January 1, 2024. This plan will terminate on July 28, 2024.

For fiscal 2014 this plan allowed us to issue options, common shares and other securities exercisable or convertible into, in the aggregate, 58,350 of our common shares. We issued 43,625 options under this plan on August 7, 2015, at an exercise price of $13.12 per share, which vest over two years until August 6, 2017. As of the date of this proxy statement/prospectus, there are no options outstanding under this plan.

For fiscal 2015, this plan allowed us to issue options, common shares and other securities exercisable or convertible into, in the aggregate, 72,608 of our common shares. We issued 72,608 options pursuant to this plan on March 21, 2016 at an exercise price of $15.04 per share which vest over two years until March 20, 2018. As of the date of this proxy statement/prospectus, there are 26,983 options issued and outstanding under this plan which will expire on March 21, 2026.

On June 8, 2017, we held an annual general meeting to approve our amended and restated memorandum and articles of association in order that our authorized shares be re-classified and re-designated into 50,000,000 common shares of par value of $0.002731 each, of which 37,888,889 were designated as Class A common shares of par value of $0.002731 each, and 12,111,111 were designated as Class B common shares of par value of $0.002731 each. After this recapitalization event, shares issuable under this plan, either directly or upon exercise of options issued under this plan, were limited to Class A common shares.

On January 12, 2018, the Company registered on a Form S-8 143,798 Class A common shares issuable pursuant to this plan for fiscal year 2018, either directly or upon exercise of options issued under the plan. We did not issue options under this plan for 2018.

Newegg Plans

Upon closing of the merger, the Company will assume the Newegg 2005 Incentive Award Plan and Significant Shareholder Incentive Plan. The outstanding options under these plans granted by Newegg will be exchanged for options to acquire certain number of common shares upon completion of the merger, based on the exchange ratio. Below is a description of these plans.

Newegg Incentive Award Plan:

On September 22, 2005, Newegg 2005 Incentive Award Plan was approved and was later amended in January 2008, October 2009, December 2011 and September 2015. Under this plan, Newegg may grant equity incentive awards to employees, directors, and consultants based on Newegg's Class A common stock. A committee of Newegg's board of directors determines the eligibility, types of equity awards, vesting schedules, and exercise prices for equity awards granted. Subject to certain adjustments in the event of a change in capitalization or similar transaction, Newegg may issue a maximum of 14,200,000 shares of its Class A common stock under this plan. Newegg issues new shares of Class A common stock from its authorized share pool to settle stock-based compensation awards. The exercise price of options granted under the plan shall not be less than the fair value of Newegg's Class A common stock as of the date of grant. Options typically vest over the term of four years, and are typically exercisable for a period of 10 years after the date of grant, except when granted to a holder who, at the time the option is granted, owns stock representing more than 10% of the voting power of all classes of stock of Newegg or any subsidiaries, in which case, the term of the option shall be no more than five years from the date of grant. In September 2015, this plan was amended to permit additional awards to be made after the tenth anniversary of the original adoption of said plan.

Newegg Significant Shareholder Incentive Program:

In 2016, Fred Chang established the Newegg Significant Shareholder Incentive Program, pursuant to which he caused to be transferred a total of 5,198,458 shares of Newegg's Series A Preferred Stock from Tekhill USA LLC, a limited liability company fully owned by Fred Chang, into the Fred Chang Partners Trust, or the Trust. In March and May 2016, the Trust entered into restricted share award agreements with several key executives of Newegg, under which the Trust granted a total of 5,090,157 restricted shares of Newegg's Series A Preferred Stock to those executives to be vested over a 15-year period in equal annual installments on each anniversary date of the grant date. As of December 31, 2016, the restricted share award agreements were terminated with a concurrent offer from the significant shareholder to re-establish the Significant Shareholder Incentive Program. During the year ended December 31, 2017, the re-established incentive program granted a total of 3,898,843 restricted shares of Newegg's Series A preferred stock to a subset of the same recipients with substantially the same terms as those

under the Significant Shareholder Incentive Program. The re-established Significant Shareholder Incentive Program subsequently modified the vesting period from 15 years to 10 years during the year ended December 31, 2017, which did not have a significant impact on Newegg's consolidated financial statements.

As of the date of this proxy statement/prospectus, the restricted stock awards granted under the Newegg Significant Shareholder Incentive Program were all vested. The unvested amount of such restricted stock awards had been forfeited according to that certain amendment to the restricted stock award agreement by and between the Trust and recipient on March 31, 2020.

TRANSACTIONS WITH RELATED PERSONS

The following includes a brief summary of certain material arrangements, agreements and transactions since January 1, 2018, or any currently proposed transaction, in which the Company or Newegg was or is to be a participant and in which any person who will serve as an executive officer or director of the Company following the merger had or will have a direct or indirect material interest (other than compensation described under "Compensation of Executive Officers and Directors").

Transactions between Company and Hangzhou Lianluo

During the years ended December 31, 2020, 2019 and 2018, the Company purchased from Hangzhou Lianluo, a company controlled by Mr. Zhitao He, for inventory, as well as from Hangzhou Lianluo's subsidiary for service, in aggregate of $44,614, $42,000 and $204, respectively. As of December 31, 2020, the Company reported $3,019 in service charge payable to Hangzhou Lianluo's subsidiary. On January 19, 2021, this balance was fully paid.

Starting on July 1, 2018, the Company leased office premises from Hangzhou Lianluo with an annual rental of $84,447 (RMB580,788). Rental payments charged as expenses in 2020, 2019 and 2018 were $0, $35,892 and $39,942, respectively. As of December 31, 2020, the Company reported an outstanding rental payable of $81,126 to Hangzhou Lianluo.

During the fiscal year 2019, the Company borrowed an aggregate of $942,500 from Hangzhou Lianluo and repaid $0. As of December 31, 2020, the loan balances were $996,450. These loans were extended, interest-free as of December 31, 2020 and without specific repayment date, which is based upon both parties' agreement.

During 2018, the Company borrowed from Hangzhou Lianluo $3,682,592 carrying an annual interest rate of 5%-8%, which was fully settled through a debt offset agreement among the Company, Hangzhou Lianluo and Digital Grid as described below "Transactions between Company and Digital Grid." As of December 31, 2018, the loan balance was zero.

Transactions between Company and Digital Grid

During 2019, the Company borrowed $33,000 interest free from Digital Grid, and repaid $0. On July 14, 2020, the Company repaid the principal of $33,000 to Digital Grid. As of December 31, 2020, the loan balance was zero.

On March 15, 2018, the Company entered into a loan agreement with Digital Grid, pursuant to which the Company loaned $6 million to Digital Grid for a term of 12 months. As of December 27, 2018, the Company also owed RMB34.34 million in loan principal and RMB1.23 million in accrued interest to Hangzhou Lianluo, its principal shareholder. Pursuant to an agreement, dated December 27, 2018, the Company, Digital Grid and Hangzhou Lianluo agreed that the outstanding amount owed by Digital Grid to the Company of RMB35.6 million be repaid by Hangzhou Lianluo on behalf of Digital Grid, to the Company. This repayment was agreed to be settled in the form of offset against the amount owed by the Company to Hangzhou Lianluo of RMB35.6 million (approximately $5.2 million) as of December 27, 2018. As a result, the Company no longer owed or was owed by Hangzhou Lianluo or Digital Grid any amount as of December 31, 2018.

Transactions between Company and Mr. Ping Chen

Starting in 2019, the Company borrowed from Mr. Ping Chen, its former CEO, free of interest to fund its operation. During 2020, 2019 and 2018, the borrowings were $498,191, $387,182 and nil, and Mr. Ping Chen forgave a debt of $143,301 of the borrowings in 2019. The balances were $787,608, $243,881 and nil as of December 31, 2020, 2019 and 2018, respectively.

During the years ended December 31, 2020, 2019 and 2018, the Company sold equipment of $nil, $9,588 and $nil, respectively, to a related party company in which Mr. Ping Chen holds 51% ownership. As of December 31, 2020, the Company reported an outstanding receivable of $11,455 due from the related party company.

Loans from Newegg to Affiliate

On April 13, 2017, Newegg loaned $12.0 million to Digital Grid under a term loan agreement with a maturity date of April 18, 2017 and an interest rate equal to the prime rate, as defined in the loan agreement. The loan was collateralized by a security interest in 2,000,000 Series AA convertible Preferred Stock of Newegg held by Digital Grid.

On June 16, 2017, Newegg loaned $50.0 million to Digital Grid under a term loan agreement with a maturity date of June 15, 2018 and an interest rate of 4% per annum. The loan was collateralized by a security interest in 43,167 Series C Shares of Razer Inc., a company incorporated under the laws of the Cayman Islands, or Razer, held by Digital Grid.

On March 20, 2018, Newegg loaned $20.0 million to Digital Grid under a term loan agreement with a maturity date of June 15, 2018 and an interest rate equal to 4% per annum. The loan was collateralized by a security interest in 362,732,301 Ordinary Shares of Razer held by Digital Grid.

On May 11, 2018, Newegg and Digital Grid entered into an amended and restated loan agreement which combined all of the remaining unpaid principal and interest on the $50.0 million loan and the $20.0 million loan into an amended and restated secured promissory note of approximately $23.3 million. The loan replaced, amended, and restated in their respective entirety the $50.0 million loan and the $20.0 million loan. The new loan had a maturity date of June 15, 2018 and carried an interest rate equal to 4% per annum. This loan was collateralized by a security interest in certain convertible bonds of China Digital Culture (Group) Limited, a company incorporated in the Cayman Islands, in the amount of HK$412,500,000 held by Digital Grid.

On June 15, 2018, Newegg and Digital Grid entered into the first amendment to the $23.3 million loan, pursuant to which the interest rate was amended to 5% per annum and the maturity date was extended to September 30, 2018. As of December 31, 2018, there was no outstanding principal balance receivable.

On December 17, 2019, Newegg loaned $15.0 million to Digital Grid under a term loan agreement with a maturity date of April 30, 2020 and a fixed interest rate of 5.0% (the “$15.0 Million Loan”). The $15.0 Million Loan was subsequently extended to June 30, 2021. The $15.0 Million Loan is included as “Notes receivable” at the Stockholders’ Equity section of the Consolidated Balance Sheets as of December 31, 2020 and 2019.

During the years ended December 31, 2020, 2019 and 2018, the Company recorded interest income of $0.7 million, $0.1 million and $0.9 million, respectively, from loans to affiliate in interest income in the consolidated statement of operations. As of December 31, 2020 and 2019, the amount of interest receivable on the $15.0 Million Loan outstanding included as a component of “Notes receivable” at the Stockholders’ Equity section in the consolidated balance sheets was $0.2 million and immaterial, respectively.

Loans from Affiliate to Newegg

On January 14, 2019, Newegg entered into three loan agreements with BARD Company Limited, an entity affiliated with Danny Lee, Newegg’s former Chief Executive Officer, pursuant to which Newegg borrowed a total of $15.0 million. For all of the three loans, the maturity date was March 31, 2019 unless extended to April 30, 2019 in accordance with the terms of the loan agreements, and the interest rate is 6% per annum. Newegg repaid the three loans in their entirety as of March 8, 2019.

Sales from Newegg to Related Parties

Due from related parties and net sales to related parties primarily reflect sales of finished goods and services with the exception of loans to affiliate as discussed above.

As of December 31, 2020 and 2019, due from related parties represent amounts receivable of $0 and $1.5 million, respectively, due from Digital Grid (Hong Kong) Technology (“Digital Grid”). Digital Grid is determined to be a related party by virtue of common control. Sales during the year ended December 31, 2020, 2019 and 2018 to this related party were immaterial.

As of December 31, 2020 and 2019, due from related parties represent amounts receivable of $0 and $4.3 million, respectively, due from Connect Technova Inc. (“Connect Technova”). Connect Technova is determined to be a related party by virtue of common control. Sales during the year ended December 31, 2020 were immaterial. Sales during the year ended December 31, 2019 and 2018 to this related party were $0.8 million and $2.9 million, respectively.

As of December 31, 2020 and 2019, amount due to related parties was immaterial.

Investment

On April 17, 2018, Newegg acquired an equity interest in Mountain Capital Fund L.P. from Pegasus View Global Ltd. The sole owner of Pegasus View Global Ltd is the spouse of a member of the Newegg’s Board of Directors.

PRINCIPAL SHAREHOLDERS

Security Ownership of the Company

The following table sets forth information with respect to beneficial ownership of our Class A common shares and Class B common shares as of March 30, 2021 by: (i) each of our directors and named executive officers, (ii) all directors and named executive officers as a group, and (iii) each person who is known by us to beneficially own 5% or more of our outstanding Class A common shares and Class B common shares, respectively.

Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of 5% or more of our Class A common shares and Class B common shares. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of common shares beneficially owned by a person listed below and the percentage ownership of such person, including the percentage of total voting shares, common shares underlying options, warrants or convertible securities held by each such person that are exercisable or convertible within 60 days of March 30, 2021 are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all persons listed have sole voting and investment power for all common shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in the care of the Company, Room 1003B, 10th Floor, BeiKong Technology Building, No. 10 Baifuquan Road, Changping District, Beijing 102200, People's Republic of China.

	Amount of Beneficial Ownership[1]				
Name and Address of Beneficial Owner	Class A Common Shares	Class B Common Shares	Percent of Class A Common Shares[2]	Percent of Class B Common Shares[3]	Percent of Total Voting Shares[4]
Bin Lin, Chairman and CEO	0	0	*	*	*
Yingmei Yang, Director and Interim CFO	0	0	*	*	*
Richard Zhiqiang Chang, Director	0	0	*	*	*
Bin Pan, Director	0	0	*	*	*
Fuya Zheng, Director	0	0	*	*	*
All officers and directors as a group	0	0	*	*	*
Zhitao He[5]	58,937	1,513,888	1.70%	100%	81.68%
Ping Chen[6]	267,425	0	7.57%	*	1.54%

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* Less than 1%

(1) Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

(2) Based on 3,465,683 Class A common shares outstanding as of March 30, 2021. Holders of Class A common shares are entitled to one vote per share.

(3) Based on 1,388,888 Class B common shares outstanding as of March 30, 2021. Holders of Class B common shares are entitled to ten votes per share. Each Class B common share is convertible at any time by the holder into one Class A common share.

(4) Percentage of Total Voting Shares represents total ownership with respect to all Class A common shares and Class B common shares, voting together as a single class.

(5) Includes 58,937 Class A common shares held by Hyperfinite Galaxy Holding Limited, a company controlled by Zhitao He, 1,388,888 Class B common shares held by Hangzhou Lianluo and 125,000 Class B common shares issuable upon the exercise of a warrant issued to Hangzhou Lianluo that is exercisable within 60 days. Mr. He is the chairman and chief executive officer of Hangzhou Lianluo.

(6) Includes 201,692 Class A common shares issued and outstanding and 65,733 Class A common shares underlying options exercisable within 60 days. Ping Chen pledged his 201,692 Class A common shares to Hangzhou Lianluo in favor of Lianluo Connection with respect to the indebtedness of RMB 6.5 million owed by Lianluo Connection to Hangzhou Lianluo.

Except as contemplated by the merger agreement, we do not currently have any arrangements which if consummated may result in a change of control of the Company.

Security Ownership of Newegg

The following table sets forth information with respect to beneficial ownership of the voting securities of Newegg as of March 30, 2021 by: (i) each of its directors and named executive officers, (ii) all directors and named executive officers as a group, and (iii) each person who is known by Newegg to beneficially own 5% or more of each class of its outstanding voting securities.

Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of 5% or more of Newegg's voting securities. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of shares beneficially owned by a person listed below and the percentage ownership of such person, including the percentage of total voting shares, common stock underlying options, warrants or convertible securities held by each such person that are exercisable or convertible within 60 days of March 30, 2021 are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all persons listed have sole voting and investment power for all shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in the care of Newegg, 17560 Rowland Street, City of Industry, CA 91748.

	Amount of Beneficial Ownership [1]			**Percentage of[2][3]**			
Name and Address of Beneficial Owner	**Class A Common Stock**	**Series A Preferred Stock**	**Series AA Preferred Stock**	**Class A Common Stock**	**Series A Preferred Stock**	**Series AA Preferred Stock**	**Total Voting Shares[4]**
Zhitao He, Chairman[5]	490,706	12,782,546	24,870,027	57.79%	35.04%	100%	61.37%
Fred Faching Chang, Vice Chairman[6]	—	22,678,616	—	—	32.28%	—	38.54%
Anthony Chow, Director and CEO	—	—	—	—	—	—	—
Paul Wu, Director	—	—	—	—	—	—	—
Gregory Moore, Director	—	—	—	—	—	—	—
Pen "Ben" Liao, Director	—	—	—	—	—	—	—
Yingmei Yang, Director	—	—	—	—	—	—	—
Robert Chang, CFO[7]	102,500	—	—	10.77%	—	—	*
Jamie Spannos, COO	—	—	—		—	—	—
Montaque Hou, CTO	—	—	—	—	—	—	—
Matt Strathman, General Counsel[8]	75,000	—	—	8.12%	—	—	*
All officers and directors as a group	688,206	35,461,162	24,870,027	76.68%	67.32%	100%	99.91%

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* Less than 1%

(1) Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

(2) Based (i) 849,159 shares of Newegg Class A common stock, (ii) 24,870,027 shares of Newegg Series AA preferred stock and (iii) 36,475,987 shares of Newegg Series A preferred stock outstanding as of March 30, 2021.

(3) Each share of Newegg Class A common stock is entitled to one vote. Each share of Newegg Series A preferred stock and Series AA preferred stock is entitled to ten votes as of March 30, 2021.

(4) Percentage of Total Voting Shares represents total ownership with respect to all Newegg Class A common stock, Newegg Class B common stock, Newegg Series A preferred stock, and Newegg Series AA preferred stock, voting together as a single class.

(5) Includes (i) 490,706 shares of Newegg Class A common stock held by Digital Grid, a company controlled by Zhitao He, (ii) includes 12,782,546 shares of Newegg Series A preferred stock held by Digital Grid, and (iii) includes 24,870,027 shares of Newegg Series AA preferred stock held by Digital Grid. All of these shares have been pledged by Digital Grid to Bank of China Limited Zhejiang Branch, or BOC, as collateral to support working capital loans and letters of credit provided by BOC to Hangzhou Lianluo. The loans have been guaranteed jointly and severally by Beijing Digital Grid Technology Co., Ltd., a subsidiary of Hangzhou Lianluo, and Mr. He. The total amount owed under these loans is approximately RMB 400 million in RMB denominated loans, plus $66.5 million in U.S. dollar loans, plus interest, fees and penalties on such amounts. In May 2020, BOC filed several lawsuits against Hangzhou Lianluo, Digital Grid, Beijing Digital Grid Technology Co., Ltd. and Mr. He in the Hangzhou Intermediate People's Court in China alleging that Hangzhou Lianluo has failed to repay the loans when due and is in breach of the loan agreements. This litigation is ongoing.

(6) Includes (i) 15,829,054 shares of Series A preferred stock held by Tekhill USA, LLC, (ii) 4,044,048 shares of Series A preferred stock held by Fred Chang Partners Trust, (iii) 1,567,790 shares of Series A preferred stock held by Nabal Spring, LLC, (iv) 930,509 shares of Series A preferred stock held by Chang Trust 2008, (v) 136,540 shares of Series A preferred stock held by Chang 2009 Annuity Trust No. 1, (vi) 56,891 shares of Series A preferred stock held by Chang 2009 Annuity Trust No.2, and (vii) 113,784 shares of Series A preferred stock held by Chang 2009 Annuity Trust No. 3. Tekhill USA, LLC, Fred Chang Partners Trust, Nabal Spring, LLC, Chang Trust 2008, Chang 2009 Annuity Trust No. 1, Chang 2009 Annuity Trust No. 2, and Chang 2009 Annuity Trust No. 3, are all controlled by Fred Faching Chang. Tekhill USA, LLC has specifically pledged 5,600,000 of these shares, and generally pledged all other shares of Newegg which it acquires, as collateral to Preferred Bank. The pledged shares secure a loan from the bank to Mr. Chang with a principal amount of $7.1 million.

(7) Includes 102,500 shares of Newegg Class A common stock issuable upon options held by Robert Chang, exercisable within 60 days.

(8) Includes 75,000 shares of Newegg Class A common stock issuable upon options held by Matt Strathman, exercisable within 60 days.

Security Ownership of the Company After the Merger

The following table sets forth information with respect to beneficial ownership of our common shares following the merger by: (i) each of our directors and named executive officers after the merger, (ii) all directors and named executive officers after the merger as a group, and (iii) each person who is known by us to beneficially own 5% or more of our outstanding common shares after the merger.

Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of 5% or more of our common shares. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of common shares beneficially owned by a person listed below and the percentage ownership of such person, common shares underlying options, warrants or convertible securities held by each such person that are exercisable or convertible within 60 days of March 30, 2021 are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all persons listed have sole voting and investment power for all common shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in the care of Newegg, 17560 Rowland Street, City of Industry, CA 91748.

Name and Address of Beneficial Owner	Title of Class	Amount of Beneficial Ownership[1]	Percent of Class[2]
Anthony Chow, Director and Chief Executive Officer	Common Shares	—	—
Robert Chang, Chief Financial Officer[3]	Common Shares	598,774	*
Jamie Spannos, Chief Operating Officer	Common Shares	—	—
Montaque Hou, Chief Technology Officer	Common Shares	—	—
Matt Strathman, General Counsel[4]	Common Shares	438,127	*
Zhitao “Tom” He, Chairman of the Board[5]	Common Shares	224,394,416	60.91%
Fred Faching Chang, Director[6]	Common Shares	132,481,667	35.98%
Yingmei Yang, Director	Common Shares	—	—
Gregory Moore, Independent Director	Common Shares	—	—
Paul Wu, Independent Director	Common Shares	125	*
All officers and directors as a group	Common Shares		96.94%

* Less than 1%

(1) Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

(2) Based on 368,180,113 common shares outstanding after the merger.

(3) Includes 598,744 shares of common shares issuable upon options held by Robert Chang, exercisable within 60 days.

(4) Includes 438,127 shares of common shares issuable upon options held by Matt Strathman, exercisable within 60 days.

(5) Includes (i) 222,821,591 common shares held by Digital Grid, (ii) 58,937 common shares held by Hyperfinite Galaxy Holding Limited, (iii) 1,388,888 common shares held by Hangzhou Lianluo and (iv) 125,000 common shares issuable upon the exercise of a warrant issued to Hangzhou Lianluo that is exercisable within 60 days. The 222,821,591

common shares held by Digital Grid, have been pledged by Digital Grid to BOC as collateral to support working capital loans and letters of credit provided by BOC to Hangzhou Lianluo. The loans have been guaranteed jointly and severally by Beijing

Digital Grid Technology Co., Ltd., a subsidiary of Hangzhou Lianluo, and Mr. He. The total amount owed under these loans is approximately RMB 400 million in RMB denominated loans, plus $66.5 million in U.S. dollar loans, plus interest, fees and penalties on such amounts. In May 2020, BOC filed several lawsuits against Hangzhou Lianluo, Digital Grid, Beijing Digital Grid Technology Co., Ltd. and Mr. He in the Hangzhou Intermediate People's Court in China alleging that Hangzhou Lianluo has failed to repay the loans when due and is in breach of the loan agreements. This litigation is ongoing.

(6) Includes (i) 92,468,584 common shares held by Tekhill USA, LLC, (ii) 23,624,115 common shares held by Fred Chang Partners Trust, (iii) 9,158,558 common shares held by Nabal Spring, LLC, (iv) 5,435,754 common shares held by Chang Trust 2008, (v) 797,625 common shares held by Chang 2009 Annuity Trust No. 1, (vi) 332,340 common shares held by Chang 2009 Annuity Trust No.2, and (vii) 664,691 common shares held by Chang 2009 Annuity Trust No. 3. Tekhill USA, LLC, Fred Chang Partners Trust, Nabal Spring, LLC, Chang Trust 2008, Chang 2009 Annuity Trust No. 1, Chang 2009 Annuity Trust No. 2, and Chang 2009 Annuity Trust No. 3, are all controlled by Fred Faching Chang. Tekhill USA, LLC has specifically pledged 32,713,520 of these shares, and generally pledged all other shares of Newegg which it acquires, as collateral to Preferred Bank. The pledged shares secure a loan from the bank to Mr. Chang with a principal amount of $7.1 million.

TAXATION

The following is a general summary of certain material BVI, PRC and U.S. federal income tax considerations. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular shareholder or prospective shareholder. The discussion is based on laws and relevant interpretations thereof in effect as of the date hereof, all of which are subject to change or different interpretations, possibly with retroactive effect.

BVI Taxation

The BVI does not impose a withholding tax on dividends paid to holders of our common shares, nor does the BVI levy any capital gains or income taxes on us. Further, a holder of our common shares who is not a resident of the BVI is exempt from the BVI income tax on dividends paid with respect to the common shares. Holders of common shares are not subject to the BVI income tax on gains realized on the sale or disposition of the common shares.

Our common shares are not subject to transfer taxes, stamp duties or similar charges in the BVI. However, as a company incorporated under the BVI Act, we are required to pay the BVI government an annual license fee based on the number of shares we are authorized to issue.

There is no income tax treaty or convention currently in effect between the United States and the BVI.

PRC Taxation

We are a holding company incorporated in the BVI, which directly holds our equity interests in our PRC operating subsidiaries. The EIT Law and its implementation rules, both of which became effective as of January 1, 2008, as amended on February 24, 2017, provide that a PRC enterprise is subject to a standard income tax rate of 25% and China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiaries to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10%, unless there are applicable treaties between the overseas parent's jurisdiction of incorporation and China to reduce such rate.

The EIT Law also provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. Its implementation rules further define the term "de facto management body" as the management body that exercises substantial and overall management and control over the business, personnel, accounts and properties of an enterprise. While we do not currently consider our company or any of our overseas subsidiaries to be a PRC resident enterprise, there is a risk that the PRC tax authorities may deem our company or any of our overseas subsidiaries as a PRC resident enterprise since a substantial majority of the members of our management team as well as the management team of our overseas subsidiaries are located in China, in which case we or the overseas subsidiaries, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that our BVI holding company is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. Under the EIT Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends paid to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. In addition, any gain realized on the transfer of shares by such investors is also subject to PRC tax at a rate of 10%, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our common shares, and any gain realized from the transfer of our common shares, may be treated as income derived from sources within the PRC and may as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to individual investors who are non-PRC residents and any gain realized on the transfer of common shares by such investors may be subject to PRC tax at a current rate of 20% (which in the case of dividends may be withheld at source). Any PRC tax liability may be reduced under applicable tax treaties or tax arrangements between China and other jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of our common shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

U.S. Federal Income Taxation

The following is a discussion of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of our common shares. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's situation. The discussion applies only to holders that hold their common shares as capital assets (generally property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on the Code, income tax regulations promulgated thereunder, judicial positions, published positions of the IRS, and other applicable authorities, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion is general in nature and is not exhaustive of all possible tax considerations, nor does the discussion address any state, local or foreign tax considerations or any U.S. tax considerations (e.g., estate or gift tax) that may be applicable to particular holders other than U.S. federal income tax considerations.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant in light of particular circumstances, nor does it address the U.S. federal income tax consequences to persons who are subject to special rules under U.S. federal income tax law, including:

(a) banks, insurance companies or other financial institutions;

(b) persons subject to the alternative minimum tax;

(c) tax-exempt organizations;

(d) controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid United States federal income tax;

(e) certain former citizens or long-term residents of the United States;

(f) dealers in securities or currencies;

(g) traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

(h) persons that own, or are deemed to own, more than five percent of our capital stock;

(i) holders who acquired our stock as compensation or pursuant to the exercise of a stock option; or

(j) persons who hold our shares as a position in a hedging transaction, "straddle," or other risk reduction transaction.

For purposes of this discussion, a U.S. holder is (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes; (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States (or treated as such under applicable U.S. tax laws), any State thereof, or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) it has a valid election in effect under applicable law and regulations to be treated as a U.S. person for U.S. federal income tax purposes. A non-U.S. holder is a holder that is neither a U.S. holder nor a partnership or other entity classified as a partnership for U.S. federal income tax purposes.

In the case of a partnership or entity classified as a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. Partners of partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them of the merger or of the ownership and disposition of our common shares.

U.S. Federal Income Tax Consequences for U.S. Holders

The following discussion constitutes part of the opinion of Potomac Law Group, PLLC, tax counsel to the Company, as to the material U.S. federal income tax consequences of the merger.

Distributions

We do not currently anticipate paying distributions on our common shares. In the event that distributions are paid, however, the gross amount of such distributions will be included in the gross income of the U.S. holder as dividend income on the date of receipt to the extent that the distribution is paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Notwithstanding that it is incorporated in the British Virgin Islands, the Company expects to be treated under Section 7874(b) of the Code as a domestic corporation for U.S. federal income tax purposes, in respect of both the merger transaction and for future periods. Accordingly, dividends paid by the Company should generally be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations. Dividends received by non-corporate U.S. holders, including individuals, may be subject to reduced rates of taxation under current law. A U.S. holder may be eligible to claim a foreign tax credit with respect to any PRC withholding tax imposed on dividends paid by us. However, the foreign tax credit rules are complex, and U.S. holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules.

To the extent that dividends paid on our common shares exceed current and accumulated earnings and profits, the distributions will be treated first as a tax-free return of the holder's tax basis in our common shares, and to the extent that the amount of the distribution exceeds the holder's tax basis, the excess will be treated as gain from the disposition of those common shares.

Sale or Other Disposition

U.S. holders of our common shares will recognize taxable gain or loss on any sale, exchange, or other taxable disposition of common shares equal to the difference between the amounts realized for the common shares and the U.S. holder's tax basis in the common shares. This gain or loss generally will be capital gain or loss. Under current law, non-corporate U.S. holders, including individuals, are eligible for reduced tax rates if the common shares have been held for more than one year. The deductibility of capital losses is subject to limitations. A U.S. holder may be eligible to claim a foreign tax credit with respect to any PRC withholding tax imposed on gain from the sale or other disposition of common shares. However, the foreign tax credit rules are complex, and U.S. holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules.

Unearned Income Medicare Contribution

Certain U.S. holders who are individuals, trusts or estates are required to pay an additional 3.8% Medicare tax on, among other things, dividends on and capital gains from the sale or other disposition of shares of stock. U.S. holders should consult their own advisors regarding the effect, if any, of this rule on their ownership and disposition of our common shares.

U.S. Federal Income Tax Consequences for Non-U.S. Holders

Distributions

The rules applicable to non-U.S. holders for determining the extent to which distributions on our common shares, if any, constitute dividends for U.S. federal income tax purposes are the same as for U.S. holders. See "— U.S. Federal Income Tax Consequences for U.S. Holders — Distributions."

If, at any time after the merger, the Company pays dividends to its non-U.S. holders, the Company will be required to impose U.S. withholding taxes on such dividends at the statutory rate of 30%. That rate may be reduced under an applicable income tax treaty between the United States and the holder's country of residence. Non-U.S. holders must satisfy the eligibility requirements under the applicable income tax treaty and provide the appropriate IRS Form W-8 or other withholding certificate to the Company as the withholding agent. Under the prevailing U.S. — China income tax treaty, the rate of U.S. withholding tax on dividends paid to PRC residents who meet the relevant eligibility requirements is reduced to 10%.

Dividends received by a non-U.S. holder that are effectively connected with such holder's conduct of a U.S. trade or business (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. holder in the U.S.) will be subject to U.S. federal income tax, net of certain deductions, at the rates applicable to U.S. persons. In addition, corporate non-U.S. holders may be subject to an additional branch profits tax equal to 30% or such lower rate as may be specified by an applicable tax treaty on dividends received that are effectively connected with the conduct of a trade or business in the United States.

Sale or Other Disposition

Except as described below for a reduced rate of U.S. withholding tax pursuant to an applicable income tax treaty, any gain realized by a non-U.S. holder upon the sale or other disposition of our common shares generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with the conduct of a trade or business in the United States by such non-U.S. holder, and, if an income tax treaty applies, is attributable to a permanent establishment maintained by such non-U.S. holder in the U.S.;
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met; or
- the Company is or has been a "U.S. real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period during which the holder has held our common shares.

Non-U.S. holders whose gain is described in the first bullet point above will be subject to U.S. federal income tax on the gain derived from the sale, net of certain deductions, at the rates applicable to U.S. persons. Corporate non-U.S. holders whose gain is described in the first bullet point above may also be subject to the branch profits tax described above at a 30% rate or lower rate provided by an applicable income tax treaty. Individual non-U.S. holders described in the second bullet point above will be subject to a flat 30% U.S. federal income tax rate on the gain derived from the sale, which may be offset by U.S.-source capital losses, even though such non-U.S. holders are not considered to be residents of the United States.

A corporation will be a USRPHC if the fair market value of its U.S. real property interests equals or exceeds 50 percent of the aggregate of its real property interests (U.S. and non-U.S.) and its assets used or held for use in a trade or business. Because we do not currently own significant U.S. real property, we believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common shares are regularly traded on an established securities market, such common shares will be treated as U.S. real property interests only if a non-U.S. holder actually or constructively holds more than 5% of such regularly traded common shares at any time during the applicable period specified in the Code.

Foreign Account Tax Compliance

The Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act (generally referred to as FATCA), when applicable, will impose a U.S. federal withholding tax of 30% on payments of dividends on, and gross proceeds from dispositions of, our common shares that are held through "foreign financial institutions" (a term that is broadly defined for this purpose and that in general includes investment vehicles) and certain other non-U.S. entities unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of certain interests in or accounts with those entities) have been satisfied or an exemption applies. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. U.S. Holders should consult their tax advisers regarding the effect, if any, of the FATCA provisions on their particular circumstances.

Information Reporting and Backup Withholding

Payments of proceeds on the disposition of stock made to a holder of our common shares may be subject to information reporting and backup withholding at a current rate of 24% unless such holder provides a correct taxpayer identification number on IRS Form W-9 (or other appropriate withholding form) or establishes an exemption from backup withholding, for example by properly certifying the holder's non-U.S. status on a Form W-8BEN, Form W-8BEN-E or another appropriate version of IRS Form W-8.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

DESCRIPTION OF SECURITIES

As described elsewhere in this proxy statement/prospectus, at the special meeting shareholders will be asked to adopt an amendment and restatement of our current amended and restated memorandum and articles of association. Unless otherwise indicated below, the following discussion of the rights of our shareholders reflects such amendment and restatement.

We are a BVI business company incorporated with limited liability and our affairs are governed by our amended and restated memorandum and articles of association, the BVI Act, the common law of the BVI, our corporate governance documents and rules and regulations of the stock exchange on which our common shares are traded.

We are authorized to issue a maximum 6,250,000 common shares, $0.021848 par value per share, of which 4,736,111 shares are designated as Class A common shares and 1,513,889 shares are designated as Class B common shares. As of the date of this proxy statement/prospectus, there are 3,465,683 Class A common shares and 1,388,888 Class B common shares issued and outstanding. All shares are fully paid.

Upon filing of the amended and restated memorandum and articles of association to be adopted at the special meeting, we will be authorized to issue an unlimited number of common shares.

The board of directors has the right, in its absolute discretion and without approval of the existing shareholders, to issue shares, grant rights over existing shares or issue other securities in one or more series as it deems necessary and appropriate and to determine designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the shares held by existing shareholders, at such times and on such other terms as it deems proper. No preferred shares have been issued.

Rights and Obligations of Shareholders

Each of common share confers on its holder:

- the right to vote;
- the right to an equal share in any dividend paid by the Company in accordance with the BVI Act; and
- the right to an equal share in the distribution of the surplus of the Company.

Voting Rights. Each common share is entitled to one (1) vote on all matters subject to vote at general meetings of the Company.

Dividends. The holders of common shares are entitled to such dividends as may be declared by the directors of the Company at such time and of such an amount as the directors think fit if they are satisfied, on reasonable grounds, that immediately after the distribution, the value of Company assets exceeds the Company's liabilities and the Company will be able to pay its debts as they fall due.

Pre-emptive rights. There are no pre-emptive rights applicable to the issue by the Company of new shares under either the BVI Act or the Company's amended and restated memorandum and articles of association.

The Investor Warrants

As a result of the private placements that closed on February 14, 2020, February 25, 2020, and March 2, 2020, we issued to several investors warrants to purchase 1,373,750 of our Class A common shares. In late January 2021, 1,255,000 of these warrants were exercised resulting in aggregate cash proceeds to the Company of $6.8 million and leaving 118,750 warrants that remain outstanding. Following the redesignation, these warrants will be exercisable for common shares. The features of these investor warrants are discussed below:

Exercise Price. The unexercised investor warrants have an exercise price of $5.60 per share.

Exercise Price Adjustment. The exercise price of the investor warrants is subject to appropriate adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our Class A common shares and also upon any distributions of assets, including cash, stock or other property to our shareholder. The investor warrants also contain full ratchet anti-dilution protection upon the issuance

or sale or the announcement of any offer, sale of other disposition of any Class A common shares or securities convertible into Class A common shares for consideration per share that is less than the then-existing exercise price of the investor warrants, with certain exceptions and limits.

The issuance of the merger consideration could result in the reduction of the exercise price of the investor warrants based on the full ratchet anti-dilution protection provisions. Any such reduction would depend on the fair value of Newegg, as determined jointly by the Company and the warrant investors. If that agreed-upon fair value, divided by the 363,325,542 Company common shares that will be issued to Newegg stockholders in the merger as merger consideration, is less than the exercise price of the warrant, then the exercise price will be reduced to equal the agreed-upon fair value per share. If the Company and the holder of the warrant are not able to agree upon the fair value of Newegg for this purpose within ten days of the issuance of the merger consideration, then the fair value will be determined by an appraiser jointly selected by the Company and the warrant holder.

Exercisability. The outstanding investor warrants are exercisable for a period of five and one-half years commencing on March 2, 2020 and expiring on September 2, 2025. The investor warrants are exercisable, at the option of each holder, in whole or in part by delivering to us a duly executed exercise notice and, at any time a registration statement registering the issuance of Class A common shares underlying the investor warrants under the Securities Act is effective and available for the issuance of such shares, or an exemption from registration under the Securities Act is available for the issuance of such shares, by payment in full in immediately available funds for the number of Class A common shares purchased upon such exercise. If a registration statement registering the issuance of the Class A common shares underlying the investor warrants under the Securities Act is not effective or available, at any time after the six-month anniversary of the warrant issue date, the holder may, in its sole discretion, elect to exercise the investor warrants through a cashless exercise, in which case the holder would receive upon such exercise the net number of Class A common shares determined according to the formula set forth in the warrant.

Exercise Limitation. A holder will not have the right to exercise any portion of the investor warrants if the holder (together with its affiliates) would beneficially own in excess of 4.99% (or, upon election of the holder, 9.99%) of the number of our Class A common shares outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants. Any holder may increase or decrease such percentage, but in no event may such percentage be increased to more than 9.99%, provided that any increase will not be effective until the 61st day after such election.

Exchange Listing. There is no established trading market for the investor warrants and we do not expect a market to develop. In addition, we do not intend to apply for the listing of the investor warrants on any national securities exchange or other trading market.

Participation Rights. If at any time we grant, issue or sell any Class A common share equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any Class A common shares, the holder of the investor warrants will be entitled to acquire, upon the terms applicable to such rights, subject to the beneficial ownership limitations, the aggregate amount of securities which the holder of the investor warrants could have acquired if the holder had held the number of Class A common shares acquirable upon complete exercise of the investor warrants.

Fundamental Transactions. If (i) we, directly or indirectly, in one or more related transactions effect any merger or consolidation of the Company with or into another person, (ii) we, directly or indirectly, effect any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of our assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by us or another person) is completed pursuant to which holders of our Class A common shares are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Class A common shares, (iv) we, directly or indirectly, in one or more related transactions effect any reclassification, reorganization or recapitalization of our Class A common shares or any compulsory share exchange pursuant to which our Class A common shares are effectively converted into or exchanged for other securities, cash or property, or (v) we, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off, merger or scheme of arrangement) with another person or group of persons whereby such other person or group acquires more than 50% of the outstanding Class A common shares (not including any Class A common shares held by the other person or other persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination) (each

referred to as a fundamental transaction), then the successor entity will succeed to, and be substituted for us, and may exercise every right and power that we may exercise and will assume all of our obligations under the investor warrants with the same effect as if such successor entity had been named in the investor warrant itself. If holders of our Class A common shares are given a choice as to the securities, cash or property to be received in a fundamental transaction, then the holder of investor warrants shall be given the same choice as to the consideration it receives upon any exercise of the investor warrants following such fundamental transaction. In addition, the successor entity, at the request of the holders of investor warrants, will be obligated to purchase any unexercised portion of the investor warrants in accordance with the terms of such warrants.

Dividends. If, at any time while the investor warrants are outstanding, we declare or make any dividend or other distribution of our assets (or rights to acquire our assets) to holders of our Class A common shares, by way of return of capital or otherwise, then each holder of investor warrants shall be entitled to participate in such distribution, subject to the beneficial ownership limitations, to the same extent that the holder would have participated therein if the holder had held the number of Class A common shares acquirable upon complete exercise of the investor warrants immediately prior to the record date for such distribution.

Rights as a Shareholder. Except as otherwise provided in the investor warrants or by virtue of such holder's ownership of our Class A common shares, the holder of investor warrants will not have the rights or privileges of a holder of our Class A common shares, including any voting rights, until the holder exercises the warrant.

Hangzhou Lianluo Warrants

On August 18, 2016, the Company closed the sale of warrants to purchase 125,000 of our Class B common shares to Hangzhou Lianluo pursuant to the terms of a certain securities purchase agreement. These warrants are exercisable at any time for an exercise price of $17.60 per share, with no expiration date.

As described elsewhere in this proxy statement/prospectus, Hangzhou Lianluo has agreed that, effective at the time of the merger, the warrant shall be exercisable for Class A common shares instead of Class B common shares. Following the redesignation, these warrants will be exercisable for common shares.

Amended and Restated Memorandum and Articles of Association

We are registered in the BVI and have been assigned company number 553525 in the register of companies. Our registered office is at the offices of Vistra (BVI) Limited, of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

Objects of the Company

Under our amended and restated memorandum and articles of association, the objects of our Company are unrestricted and we have the full power and authority to carry out any object not prohibited by BVI law.

Amendment

Section 12.1 of our amended and restated memorandum and articles of association provides that the Company may amend the memorandum of association or articles of association by resolution of shareholders or by resolution of directors, provided that no amendment may be made by resolution of directors: (a) to restrict the rights or powers of the shareholders to amend the memorandum of association or the articles of association; (b) to change the percentage of shareholders required to pass a resolution of shareholders to amend the memorandum of association or the articles of association; (c) in circumstances where the memorandum of association or the articles of association cannot be amended by the shareholders; and (d) provided that the directors may not amend certain sections of the amended and restated memorandum and articles of association that would negatively affect existing shareholders.

Appointment and Removal of the Directors

Pursuant to the amended and restated memorandum and articles of association to be adopted at the special meeting, and subject to compliance with applicable laws and NASDAQ rules, the board of the Company shall consist of up to seven directors. Initially, four of the directors shall be appointed by Digital Grid, and three of the directors shall be appointed by a representative (which we refer to as the minority representative) of certain legacy stockholders of Newegg (which we refer to as the legacy shareholders), who shall initial be Fred Chang.

Digital Grid has nominated Mr. Zhitao He, Ms. Yingmei Yang, Mr. Paul Wu and Mr. Fuya Zheng, and Mr. Fred Faching Chang has nominated Mr. Fred Faching Chang, Mr. Greg Moore and Mr. Anthony Chow to serve as the directors of the post-closing issuer.

If the number of common shares or other equity interests (as defined in the amended and restated memorandum and articles of association) of Company held by the legacy shareholders represents (i) more than two sevenths (2/7) of the total voting power of all outstanding common shares or other equity interests of the Company, then the minority representative shall be entitled to appoint and replace three directors, (ii) less than or equal to two sevenths (2/7) and more than one seventh (1/7) of the total voting power of all outstanding common shares or equity interests of the Company, then the minority representative shall be entitled to appoint and replace two directors, (iii) less than or equal to one seventh (1/7) and more than five percent (5%) of the total voting power of all outstanding common shares or other equity interests of the Company, then the minority representative shall be entitled to appoint and replace one director; and (iv) less than or equal to five percent (5%) of the total voting power of all outstanding common shares or other equity interests of the Company, then the minority representative shall no longer be entitled to appoint any directors.

If the number of common shares or other equity interests held by Digital Grid or its affiliates represents (i) more than fifty percent (50%) of the total voting power of all outstanding common shares or other equity interests of the Company, then Digital Grid shall be entitled to appoint and remove four directors, (ii) less than or equal to fifty percent (50%) and more than two sevenths (2/7) of the total voting power of all outstanding common shares or other equity interests of the Company, then Digital Grid shall be entitled to appoint and remove three directors, (iii) less than or equal to two sevenths (2/7) and more than one seventh (1/7) of the total voting power of all outstanding common shares or other equity interests of the Company, then Digital Grid shall be entitled to appoint and replace two directors, (iv) less than or equal to one seventh (1/7) and more than five percent (5%) of the total voting power of all outstanding common shares or other equity interests of the Company, then Digital Grid shall be entitled to appoint and replace one director, and (v) less than or equal to five percent (5%) of the total voting power of all outstanding common shares or other equity interests of the Company, then Digital Grid shall no longer be entitled to appoint any directors.

Of the directors appointed by the minority representative, one shall be designated by the minority representative to be the primary minority board appointee (which we refer to as primary minority board appointee) from time to time by delivering written notice thereof to the board. The initial primary minority board appointee shall be Fred Chang.

Any director positions which neither Digital Grid nor the minority representative is entitled to appoint under the amended and restated memorandum and articles of association shall be appointed by a majority of the remaining directors, or by any other means allowed under the amended and restated memorandum and articles of association and the BVI Act.

A director or member of a committee of the board or the board of a subsidiary may be removed from his or her position, with cause, by the majority of the shareholders or the majority of the board; provided that

(i) Any director or member of a committee of the board or the board of a subsidiary that is appointed or nominated by the minority representative shall be removed from their position upon and only upon, the written request of the minority representative; and

(ii) Any director or member of a committee of the board or the board of a subsidiary that is appointed or nominated by Digital Grid shall be removed from their position upon and only upon, the written request of Digital Grid.

The rights granted to the Digital Grid and the legacy shareholders are additive to and not intended to limit in any way the rights that the Digital Grid, the legacy shareholders or any of their affiliates may have to appoint, elect or remove our directors under our amended and restated memorandum and articles of association or laws of the British Virgin Islands.

Requirements of Board Approval on Certain Matters

The amended and restated memorandum and articles of association to be adopted at the special meeting also provides that, as long as the number of common shares held by legacy shareholders represents more than ten percent (10%) of the equity interests of the Company, the Company or any officer or agent of the Company will not to

take, or permit its subsidiaries to take, certain actions, without the approval of the affirmative vote of not less than a majority of the number of votes represented by the directors, which majority must include the primary minority board appointee. Such actions include the following:

(i) initiate any liquidation, dissolution, bankruptcy filing or similar action, recapitalization, restructuring or reorganization of the Company or any of its subsidiaries;

(ii) other than to the Company or a wholly-owned subsidiary thereof, sell, license, transfer or otherwise dispose of (including through merger or consolidation) all or substantially all of the assets or properties of the Company or any of its subsidiaries in any transaction or series of related transactions;

(iii) agree to any merger, consolidation or combination of the Company or any of its subsidiaries, or to a sale of all or substantially all of the assets of the Company in connection with a company sale (as defined in the amended and restated memorandum and articles of association);

(iv) commence or undertake any reorganization (as defined in the amended and restated memorandum and articles of association);

(v) issue, directly or indirectly, any equity interest of the post-closing entity or permit any of the subsidiaries to issue any equity interest other than, in each case, any excluded issuance (as defined in the amended and restated memorandum and articles of association);

(vi) materially alter or fundamentally change the nature of the business of the Company and its subsidiaries;

(vii) amend, change, or waive any provision of, the amended and restated memorandum and articles of association of the Company;

(viii) purchase or otherwise acquire all or any part of the assets or business of, or equity interests or other evidences of beneficial ownership of, invest in or participate in any joint venture, partnership or similar arrangement with, any person (other than the Company or any of its subsidiaries), in each case in any transaction or series of related transactions involving a commitment in excess of $10,000,000;

(ix) other than to the Company or a wholly-owned subsidiary thereof, sell, license, transfer or otherwise dispose of (including through merger or consolidation) any assets or properties of the Company or any of its subsidiaries, in each case in any transaction or series of related transactions involving a commitment in excess of $10,000,000;

(x) other than loans to wholly-owned subsidiaries, (A) extend any credit or make any loans to any person, (B) incur, assume, guarantee, endorse or otherwise become responsible for indebtedness, or (C) amend, modify or supplement in any material respect the agreements governing (or otherwise extend or refinance) existing indebtedness;

(xi) appoint or remove the Chief Executive Officer of the Company;

(xii) enter into any affiliate transactions (as defined in the amended and restated memorandum and articles of association);

(xiii) amend, change or waive any of the actions of the Company described in the amended and restated memorandum and articles of association or the required voting threshold specified therein; and

(xiv) agree or commit to do any of the foregoing, or delegate any of the foregoing to the Company or any of its subsidiaries or any officer or agent of the Company or subsidiary thereof.

Limitations on Right to Own Shares

BVI law and our amended and restated memorandum and articles of association impose no limitations on the right of nonresident or foreign owners to hold or vote our securities. There are no provisions in the amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

Anti-Takeover Provisions

Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of the Company or management that shareholders may consider favorable, including provisions that limit the ability of shareholders to requisition and convene general meetings of shareholders. Our amended and restated memorandum and articles of association allow our shareholders holding shares representing in aggregate at least thirty percent (30%) of our voting shares to requisition a special meeting of shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting.

However, under BVI law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of the Company.

Register of Members

The Company is required to keep a register of members containing (i) the names and addresses of the shareholders, (ii) the number of each class and series of shares held by each shareholder, (iii) the date on which the name of each shareholder was entered in the register of members, and (iv) the date on which any person ceased to be a shareholder. A share is deemed to be issued when the name of the shareholder is entered in the register of members and the entry of the name of a person in the register of members as a holder of a share is prima facie evidence that legal title in the share vests in that person.

Variation of Rights of Shareholders

If at any time the shares are divided into different classes, the rights attached to any class may only be varied, whether or not the Company is in liquidation, by a resolution passed at a meeting by a majority of the votes cast by those entitled to vote at a meeting of the holders of the issued shares in that class.

Meetings

Any action required or permitted to be taken by the shareholders may be effected at a duly called annual or special meeting of the shareholders entitled to vote on such action. An action that may be taken by the shareholders at a meeting (other than the election of directors) may also be taken by a resolution of shareholders consented to in writing, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by the unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution. All meetings of shareholders (whether annual or special) will be held on such dates and at such places as may be fixed from time to time by the directors. The Company is not required to hold an annual general meeting in any calendar year. However, where so determined by the directors of the Company, an annual general meeting shall be held once in each calendar year at such date and time as may be determined by the directors of the Company.

At any meeting of shareholders, a quorum will be present if there are one or more shareholders present in person or by proxy representing not less than one third of the issued shares entitled to vote on the resolutions to be considered at the meeting. The shareholders present at a duly called or held meeting of shareholders at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

A shareholder may be represented at a meeting of shareholders by a proxy who may speak and vote on behalf of the shareholder. A shareholder will be deemed to be present at the meeting if he participates by telephone or other electronic means and all shareholders participating in the meeting are able to hear each other.

Transfer of Shares

Subject to the restrictions and conditions in the amended and restated memorandum and articles of association, any shareholder may transfer all or any of his or her shares by written instrument of transfer signed by the transferor and containing the name and address of the transferee. The transfer of a share is effective when the name of the transferee is entered on the register of members of the Company.

Redemption of Shares

The Company may purchase, redeem or otherwise acquire any of its own shares for such consideration as the directors of the Company may determine if the directors are satisfied, on reasonable grounds, that immediately after the acquisition the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due. Shares that the Company purchases, redeems or otherwise acquires may be cancelled or held as treasury shares except to the extent that such shares are in excess of 50% of the issued shares in which case they shall be cancelled to the extent of such excess but they shall be available for reissue.

Rights of Certain Principal Shareholders of the Company

Pre-emptive Rights

Prior to the merger, Newegg's stockholders have entered into that certain stockholders agreement, dated March 30, 2017. In connection with the merger, we will assume that agreement and enter into an amended and restated shareholders agreement with Digital Grid and certain stockholders of Newegg (which we collectively refer to as the principal shareholders).

Under the amended and restated shareholders agreement, the principal shareholders will have pre-emptive rights to acquire additional shares when the Company issues or sells additional securities in the future, except for the "excluded issuance" or common shares offered pursuant to a registration statement filed with the SEC. For the purpose of the amended and restated shareholders agreement, "excluded issuance" means (i) any equity interests issued as share dividends, or pursuant to share splits, recapitalization or other similar events that do not adversely affect the proportionate amount of the common shares held by the principal shareholders, (ii) common shares issuable pursuant to any stock option or any similar equity incentive plan of the Company approved by the board; and (iii) equity interests issued pursuant to acquisitions or strategic transactions approved by a majority of the disinterested directors of the Company provided that any such issuance shall only be to an entity (or to the equity holders of an entity) which is, itself or through its subsidiaries, an operating company or an owner of an asset in a business synergistic with the business of the Company and shall provide to the Company additional benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing equity interests primarily for the purpose of raising capital or to an entity whose primary business is investing in securities.

The Company is required to give principal shareholders a notice stating the price range (or formula by which the price will be determined, which may refer to a future contingent event) and terms of issuance of new securities and to keep the offer open to issue the principal shareholders their pro rata share of such new securities (as defined below) open until the 15th calendar day following the receipt of such notice. The principal shareholders shall deliver an exercise notice along with payment to exercise their pre-emptive rights.

In the event that the principal shareholder fails to give an exercise notice timely, or elects to purchase fewer than all of its pro rata share of such new securities, then the Company shall send written notice to any principal shareholder who has elected to purchase all of its pro rata share of such new securities, who will then have the right, by giving written notice to the Company within two business days upon receiving notice from the Company, to purchase its pro rata share of such unsubscribed portion, and such right shall continue to apply repeatedly and iteratively until all of such new securities have been allocated to the principal shareholders or none of the principal shareholders have elected to participate in such further purchase. If, at the end of such process, there are new securities that have not been subscribed for by the principal shareholders, the Company may, for a period of time not to exceed 60 days, sell such unsubscribed new securities, on the same terms to a third party purchaser. If, however, at the end of such 60-day period, the Company has not consummated a sale of any of such unsubscribed new securities, the Company shall no longer be permitted to sell such new securities without again complying with these provisions of pre-emptive rights in the amended and restated shareholders agreement.

Right of First Refusal

Pursuant to the amended and restated shareholders agreement, subject to compliance with applicable laws and NASDAQ's rules, if any principal shareholder receives a bona fide offer from any person other than its affiliate for any common shares that such principal shareholder received in connection with the merger, then the Company will have a right of first refusal, but not the obligation, to elect to purchase all (and not less than all) of such shares, at the same price, and on the same terms and conditions offered by the purchaser. In the event the Company does not decide to purchase such shares or decides to purchase less than all of such shares, then each of the principal shareholders other than the selling principal shareholder shall have a right of first refusal to elect to purchase all (and not less than all) of its pro rata share of such shares on the same terms and conditions offered by the purchaser. For the purpose of the amended and restated shareholders agreement, "pro rata share" means the percentage which corresponds to the ratio which each selling principal shareholder's percentage interest (which is calculated by dividing (i) the number of the common shares owned by such principal shareholder, by (ii) total number of the then outstanding shares of the common shares held by all principal shareholders) bears to the total percentage interests of all principal shareholders exercising their right of first refusal. In the event that such shares are in exchange for non-cash consideration, then such right of first refusal shall be exercisable based on the fair market value determined in good faith by the board of such non-cash consideration. Such right of first refusal may delay or prevent us from raising funding in the future and may have an adverse impact on the liquidity and market price of our common shares.

Differences Between the Law of Different Jurisdictions

We were incorporated under, and are governed by, the laws of the BVI. Set forth below is a summary of some of the differences between provisions of the BVI Act applicable to us and the laws application to companies incorporated in Delaware and their shareholders.

Director's Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its stockholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to stockholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its stockholders take precedence over any interest possessed by a director, officer or controlling stockholder and not shared by the stockholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

BVI law provides that every director of a BVI company in exercising his powers or performing his duties shall act honestly and in good faith and in what the director believes to be in the best interests of the company. Additionally, the director shall exercise the care, diligence and skill that a reasonable director would exercise in the same circumstances taking into account the nature of the company, the nature of the decision and the position of the director and his responsibilities. In addition, BVI law provides that a director shall exercise his powers as a director for a proper purpose and shall not act, or agree to the company acting, in a manner that contravenes the BVI Act or the memorandum of association or articles of association of the company.

Amendment of Governing Documents

Under Delaware corporate law, with very limited exceptions, a vote of the stockholders is required to amend the certificate of incorporation. Under BVI law and our amended and restated memorandum and articles of association, we may amend the memorandum of association or articles of association by resolution of shareholders or by resolution of directors, provided that no amendment may be made by resolution of directors: (a) to restrict the rights or powers of the shareholders to amend the memorandum of association or the articles of association; (b) to

change the percentage of shareholders required to pass a resolution of shareholders to amend the memorandum of association or the articles of association; (c) in circumstances where the memorandum of association or the articles of association cannot be amended by the shareholders; and (d) provided that the directors may not amend certain sections of the amended and restated memorandum and articles of association that would negatively affect existing shareholders.

Written Consent of Directors

Under Delaware corporate law, directors may act by written consent only on the basis of a unanimous vote. Under BVI law, directors' consents need only a majority of directors signing to take effect. Under our amended and restated memorandum and articles of association, directors may act by written consents of all directors.

Written Consent of Shareholders

Under Delaware corporate law, unless otherwise provided in the certificate of incorporation, any action to be taken at any annual or special meeting of stockholders of a corporation, may be taken by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take such action at a meeting. As permitted by BVI law, shareholders' consents need only a majority of shareholders signing to take effect. Our amended and restated memorandum and articles of association provide that an action that may be taken by the shareholders at a meeting (other than the election of directors) may also be taken by a resolution of shareholders consented to in writing, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by the unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution

Shareholder Proposals

Under Delaware corporate law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. BVI law and our amended and restated memorandum and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise 30% or more of the voting rights in respect of the matter for which the meeting is requested.

Sale of Assets

Under Delaware corporate law, a vote of the stockholders is required to approve the sale of assets only when all or substantially all assets are being sold. In the BVI, shareholder approval is required when more than 50% of a company's total assets by value are being disposed of or sold.

Dissolution; Winding Up

Under Delaware corporate law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware corporate law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. As permitted by BVI law and our amended and restated memorandum and articles of association, we may by a resolution of shareholders or by resolution of directors appoint a voluntary liquidator to undertake the liquidation of the Company.

Redemption of Shares

Under Delaware corporate law, any stock may be made subject to redemption by the corporation at its option or at the option of the holders of such stock provided there remains outstanding shares with full voting power. Such stock may be made redeemable for cash, property or rights, as specified in the certificate of incorporation or in the resolution of the board of directors providing for the issue of such stock. As permitted by BVI law and our amended and restated memorandum and articles of association, we may purchase, redeem or otherwise acquire any of our own shares for such consideration as our directors may determine if the directors are satisfied, on reasonable grounds,

that immediately after the acquisition the value of our assets will exceed our liabilities and we will be able to pay our debts as they fall due. Shares that the Company purchases, redeems or otherwise acquires may be cancelled or held as treasury shares except to the extent that such shares are in excess of 50% of the issued shares in which case they shall be cancelled to the extent of such excess but they shall be available for reissue.

Variation of Rights of Shares

Under Delaware corporate law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. As permitted by BVI law and our amended and restated memorandum and articles of association, if at any time the shares are divided into different classes, the rights attached to any class may only be varied, whether or not the Company is in liquidation, by a resolution passed at a meeting by a majority of the votes cast by those entitled to vote at a meeting of the holders of the issued shares in that class.

Removal of Directors

Under Delaware corporate law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate provides otherwise. As permitted by BVI law and our amended and restated memorandum and articles of association, a director or member of a committee of the board or the board of a subsidiary may be removed from his or her position, with cause, by the majority of the shareholders or the majority of the board; provided that (i) any director or member of a committee of the board or the board of a subsidiary that is appointed or nominated by the minority representative shall be removed from their position upon and only upon, the written request of the minority representative; and (ii) any director or member of a committee of the board or the board of a subsidiary that is appointed or nominated by Digital Grid shall be removed from their position upon and only upon, the written request of Digital Grid.

Mergers

Under Delaware corporate law, one or more constituent corporations may merge into and become part of another constituent corporation in a process known as a merger. A Delaware corporation may merge with a foreign corporation as long as the law of the foreign jurisdiction permits such a merger. To effect a merger under Delaware General Corporation Law §251, an agreement of merger must be properly adopted and the agreement of merger or a certificate of merger must be filed with the Delaware Secretary of State. In order to be properly adopted, the agreement of merger must be adopted by the board of directors of each constituent corporation by a resolution or unanimous written consent. In addition, the agreement of merger generally must be approved at a meeting of stockholders of each constituent corporation by a majority of the outstanding stock of the corporation entitled to vote, unless the certificate of incorporation provides for a supermajority vote. In general, the surviving corporation assumes all of the assets and liabilities of the disappearing corporation or corporations as a result of the merger.

Under the BVI Act, two or more companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders.

Shareholders not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

Inspection of Books and Records

Under Delaware corporate law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation’s stock ledger, list of shareholders and other books and records. Holders of our shares have no general right under BVI law to inspect or obtain copies of our list of shareholders or our corporate records.

Transactions with Interested Shareholders

Delaware corporate law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or group who or that owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

BVI law has no comparable provision. However, our amended and restated memorandum and articles of association provide that the Company shall not engage in any business combination with any interested shareholder for a period of 3 years following the time that such shareholder became an interested shareholder unless: (a) prior to such time the board of directors of the Company approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder; (b) upon consummation of the transaction which resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting shares of the Company outstanding at the time the transaction commenced, excluding for the purposes of determining the voting shares outstanding (but not the outstanding voting shares owned by the interested shareholder) those shares owned (i) by persons who are directors and also officers and (ii) employee share plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (c) at or subsequent to such time the business combination is approved by the board of directors and authorized at any annual or special meeting of the shareholders by the affirmative vote of at least 66⅔% of the outstanding voting shares which are not owned by the interested shareholder.

Cumulative Voting

Under Delaware corporate law, cumulative voting for elections of directors is not permitted unless the company's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions to cumulative voting under the laws of the BVI, but our amended and restated memorandum and articles of association do not provide for cumulative voting.

COMPARISON OF SHAREHOLDER RIGHTS

The rights of our shareholders are currently governed by our amended and restated memorandum and articles of association, the BVI Act and the common law of the BVI. The rights of Newegg stockholders are currently governed by Newegg's certificate of incorporation and bylaws and Delaware law. As a result of the merger, Newegg stockholders will be entitled to receive merger consideration in our common shares. Following completion of the merger, the rights of Newegg stockholders who become holders of our common shares in the merger will be governed by our amended and restated memorandum and articles of association, as amended in accordance with the charter amendment proposal, the BVI Act and the common law of the BVI.

The following discussion summarizes the material differences between the current rights of our shareholders and the current rights of Newegg stockholders. These differences arise from differences between Delaware law and the laws of the BVI, the governing instruments of the two companies, and the securities laws and regulations governing the two companies.

Although it is impracticable to compare all of the aspects in which Delaware law and the laws of the BVI, and each company's governing instruments, differ with respect to shareholder rights, the following discussion summarizes certain material differences between them. This summary is not intended to be complete, and it is qualified in its entirety by reference to Delaware law, the laws of the BVI, our amended and restated memorandum and articles of association and Newegg's certificate of incorporation and bylaws. In addition, the identification of some of the differences in the rights of shareholders as material is not intended to indicate that other differences that are equally important do not exist. We urge you to carefully read this entire proxy statement/prospectus, the relevant provisions of Delaware law and BVI law and the other documents to which we refer in this proxy statement/prospectus for a more complete understanding of the differences between the rights of our shareholders and the rights of Newegg stockholders. For a description of the rights of holders of our common shares, see "Description of Securities."

Newegg	Company
AUTHORIZED CAPITAL	
Newegg is authorized to issue a total number of shares 285,889,968, consisting of (I) 142,000,000 shares of Class A common stock, $.001 par value per share, (ii) 59,000,000 shares of Class B common stock, $.001 par value per share and (iii) 84,889,968 shares of preferred stock, $.001 par value per share, of which 59,000,000 shares are designated Series A preferred stock and 25,889,968 shares are designated Series AA preferred stock.	We are authorized to issue a maximum 6,250,000 common shares, $0.021848 par value per share, of which 4,736,111 shares are designated as Class A common shares and 1,513,889 shares are designated as Class B common shares. Upon filing of the amended and restated memorandum and articles of association to be adopted at the special meeting, we will be authorized to issue an unlimited number of common shares.
DIVIDEND RIGHTS	
Holders of Newegg's Preferred Stock: Newegg shall not declare, pay or set aside any dividends on shares of Newegg's common stock (other than dividends on all then outstanding shares of Newegg's common stock payable in shares of Newegg's common stock) in any year unless, the holders of the Series A preferred stock and Series AA preferred stock then outstanding shall first receive, or simultaneously receive for such year, a dividend on each outstanding share of Series A preferred stock and Series AA preferred stock in an amount at least equal to $.0016 per share of Series A preferred stock and Series AA preferred stock (subject to appropriate adjustment for stock dividend, stock split, reclassification, combination or other similar recapitalization affecting such shares). The foregoing dividend shall not be cumulative.	The holders of common shares are entitled to such dividends as may be declared by the directors of the Company at such time and of such an amount as the directors think fit if they are satisfied, on reasonable grounds, that immediately after the distribution, the value of Company assets exceeds the Company's liabilities and the Company will be able to pay its debts as they fall due.

Newegg	Company
Newegg shall not declare, pay or set aside any dividends on shares of any class or series of capital stock of the Newegg (other than dividends on all then outstanding shares of Newegg's common stock payable in shares of Newegg's common stock) unless the holders of the Series A preferred stock and Series AA preferred stock then outstanding shall first receive, or simultaneously receive, in addition to any dividend payable as described above, a dividend on each outstanding share of Series A preferred stock and Series AA preferred stock in an amount at least equal to (i) in the case of a dividend on Newegg's common stock or any class or series of capital stock that is convertible into Newegg's common stock, that dividend per share of Series A preferred stock and Series AA preferred stock as would equal the product of (A) the dividend payable on each share of such common stock or class or series of capital stock determined, if applicable, as if all such shares of such class or series of capital stock had been converted into Newegg's common stock and (B) the number of shares of Newegg's common stock issuable upon conversion of a share of Series A preferred stock and Series AA preferred stock, in each case calculated on the record date for determination of holders entitled to receive such dividend or (ii) in the case of a dividend on any class or series of capital stock that is not convertible into Newegg's common stock, at a rate per share of Series A preferred stock and Series AA preferred stock determined by dividing the amount of the dividend payable on each share of such class or series of capital stock by the original issuance price of such class or series of capital stock and multiplying such fraction by an amount equal to $0.02 per share (subject to appropriate adjustment for stock dividend, stock split, reclassification, combination or other similar recapitalization affecting such shares).	
Holders of Newegg's Common Stock: Subject to the preferences applicable to any series of preferred stock outstanding at any time, the holders of Class A common stock and the holders of Class B common stock shall be entitled to share equally, on a per share basis, in such dividends and other distributions cash, property or shares of stock of Newegg as may be declared by Newegg's board of directors from time to time with respect to Newegg's common stock out of assets or funds of Newegg legally available therefor; provided, however, that in the event that any such dividend or distribution is paid in the form of shares of Newegg's common stock or rights to acquire common stock, the holders of Class A common stock shall receive shares of Class A common stock or rights to acquire shares of Class A common stock, as the case may be, and the holders of Class B common stock shall receive shares of Class B common stock or rights to acquire shares of Class B common stock, as the case may be.	

Newegg	Company
PURCHASE, REDEMPTION AND PREEMPTIVE RIGHTS	
Under Delaware corporate law, Newegg may generally redeem or repurchase shares of its stock unless the Delaware statutory capital of the corporation is impaired or such redemption or repurchase would impair the capital of the corporation. According to Newegg's stockholders agreement, certain holders of Series AA convertible preferred stock, Series A convertible preferred stock and common stock have pre-emptive rights to purchase any shares of Series AA convertible preferred stock, Series A convertible preferred stock or common stock that Newegg proposes to issue other than in connection with an IPO and certain excluded issuances specified in Newegg's stockholders agreement.	The Company may purchase, redeem or otherwise acquire any of its own shares for such consideration as the directors of the Company may determine if the directors are satisfied, on reasonable grounds, that immediately after the acquisition the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due. Certain of our shareholders following the merger will have certain pre-emptive rights and rights of first refusal as described under "Description of Securities — Rights of Certain Principal Shareholders of the Company" above.
INSPECTION RIGHTS	
According to Delaware corporate law, any stockholder of Newegg may for any proper purpose inspect or make copies of Newegg's stock ledger, list of stockholders and other books and records.	Holders of our shares have no general right under BVI law to inspect or obtain copies of our list of shareholders or our corporate records.
APPRAISAL RIGHTS	
According to Delaware corporate law, a holder of shares of any class or series of Newegg has the right, in specified circumstances, to dissent from a merger or consolidation by demanding payment in cash for the stockholder's shares equal to the fair value of those shares, as determined by the Delaware Court of Chancery in an action timely brought by the corporation or a dissenting stockholder. In addition, appraisal rights are not available to holders of shares of the surviving corporation in specified mergers that do not require the vote of the stockholders of the surviving corporation.	The BVI Act provides that any shareholder of a BVI company is entitled to payment of the fair value of his shares upon dissenting from any of the following: (a) a merger if the company is a constituent company, unless the company is the surviving company and the shareholder continues to hold the same or similar shares; (b) a consolidation if the company is a constituent company; (c) any sale, transfer, lease, exchange or other disposition of more than 50% in value of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including: (i) a disposition pursuant to an order of the court having jurisdiction in the matter, (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the shareholders in accordance with their respective interest within one year after the date of disposition, or (iii) a transfer pursuant to the power of the directors to transfer assets for the protection thereof; (d) a compulsory redemption of 10% or fewer of the issued shares of the company required by the holders of 90% or more of the shares of the company pursuant to the terms of the BVI Act; and (e) an arrangement, if permitted by the BVI court.

Newegg	Company
VOTING RIGHTS	
Except as otherwise provided in Newegg's certificate of incorporation or by applicable law, the holders of shares of Class A common stock and Class B common stock shall at all times vote together as one class on all matters (including the election of directors) submitted to a vote or for the consent of the stockholders of Newegg. Each Class A common stock is entitled to one (1) vote on all matters subject to vote at general meetings of the Company. Each Class B common stock is entitled to one (1) vote on all matters subject to vote at general meetings of the Company. Each Series A preferred stock shall be entitled to ten (10) votes for each share of Class A common stock into which such share of Series A preferred stock is convertible as of the record date for determining stockholders entitled to vote on such matter. Each Series AA preferred stock shall be entitled to ten (10) votes for each share of Class A common stock into which such share of Series AA preferred stock is convertible as of the record date for determining stockholders entitled to vote on such matter.	Each common share is entitled to one (1) vote on all matters subject to vote at general meetings of the Company.
VOTE ON MERGER, CONSOLIDATIONS OR SALES OF SUBSTANTIALLY ALL ASSETS	
Under Delaware corporate law, one or more constituent corporations may merge into and become part of another constituent corporation in a process known as a merger. A Delaware corporation may merge with a foreign corporation as long as the law of the foreign jurisdiction permits such a merger. To effect a merger under Delaware General Corporation Law §251, an agreement of merger must be properly adopted and the agreement of merger or a certificate of merger must be filed with the Delaware Secretary of State. In order to be properly adopted, the agreement of merger must be adopted by the board of directors of each constituent corporation by a resolution or unanimous written consent. In addition, the agreement of merger generally must be approved at a meeting of stockholders of each constituent corporation by a majority of the outstanding stock of the corporation entitled to vote, unless the certificate of incorporation provides for a supermajority vote. In general, the surviving corporation assumes all of the assets and liabilities of the disappearing corporation or corporations as a result of the merger. Under Delaware corporate law, a vote of the stockholders is required to approve the sale of assets only when all or substantially all assets are being sold.	Under the BVI Act, two or more companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders. Shareholders not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation. In the BVI, shareholder approval is required when more than 50% of a company's total assets by value are being disposed of or sold.

Newegg	Company
CHARTER AMENDMENTS	
Under Delaware corporate law, with very limited exceptions, a vote of the stockholders is required to amend the certificate of incorporation. In addition, according to Newegg's stockholders agreement, Newegg's certificate of incorporation could not be amended without the approval of the affirmative vote of not less than 66 2/3% of the number of votes represented by the Directors (excluding any vacancies).	Under BVI law and our amended and restated memorandum and articles of association, we may amend the memorandum of association or articles of association by resolution of shareholders or by resolution of directors, provided that no amendment may be made by resolution of directors: (a) to restrict the rights or powers of the shareholders to amend the memorandum of association or the articles of association; (b) to change the percentage of shareholders required to pass a resolution of shareholders to amend the memorandum of association or the articles of association; (c) in circumstances where the memorandum of association or the articles of association cannot be amended by the shareholders; and (d) provided that the directors may not amend certain sections of the amended and restated memorandum and articles of association that would negatively affect existing shareholders.
SHAREHOLDER MEETINGS	
Meetings of stockholders may be held within or without the State of Delaware, or by means of remote communication as determined by Newegg's board of directors. Annual meeting of Newegg's stockholders shall be held each year on a date and a time designated by the board of directors.	All meetings of shareholders (whether annual or special) will be held on such dates and at such places as may be fixed from time to time by the directors. The Company is not required to hold an annual general meeting in any calendar year. However, where so determined by the directors of the Company, an annual general meeting shall be held once in each calendar year at such date and time as may be determined by the directors of the Company.
QUORUM	
A majority of the stock issued and outstanding and entitled to vote at any meeting of stockholders, the holders of which are present in person or represented by proxy, shall constitute a quorum for such meeting, except as otherwise provided by Delaware corporate law.	At any meeting of shareholders, a quorum will be present if there are one or more shareholders present in person or by proxy representing not less than one-third (33.33%) of the issued shares entitled to vote on the resolutions to be considered at the meeting. The shareholders present at a duly called or held meeting of shareholders at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.
SHAREHOLDER PROPOSALS	
According to the bylaws of Newegg, a special meeting of the stockholders could be called by the president or secretary at the requires in writing of stockholders owning a majority in amount of Newegg's issued and outstanding shares, and entitled to vote,	BVI law and our amended and restated memorandum and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise 30% or more of the voting rights in respect of the matter for which the meeting is requested.

Newegg	Company
ACTION BY WRITTEN CONSENT OF THE SHAREHOLDERS	
Under Delaware corporate law, Newegg's stockholders may act by written consent signed by stockholders having the minimum number of votes that would be necessary to take such action at a meeting at which all shares entitled to vote thereon were present and voted.	Our amended and restated memorandum and articles of association provide that an action that may be taken by the shareholders at a meeting (other than the election of directors) may also be taken by a resolution of shareholders consented to in writing, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by the unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution.
ANTI-TAKEOVER PROVISIONS AND OTHER SHAREHOLDER PROTECTIONS	
Some provisions of Newegg's stockholders agreement may discourage, delay or prevent a change of control of the Company or management that shareholders may consider favorable, including provisions that requires an affirmative vote of not less than 66⅔% of the number of votes represented by the directors to take certain corporate action, including agreeing to any merger, consolidation or combination of Newegg or any of its subsidiaries.	Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of the Company or management that shareholders may consider favorable, including provisions that limit the ability of shareholders to requisition and convene general meetings of shareholders. For instance, our amended and restated memorandum and articles of association allow our shareholders holding shares representing in aggregate at least thirty percent (30%) of our voting shares to requisition a special meeting of shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting. However, under BVI law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of the Company.
ELECTION OF DIRECTORS	
Pursuant to Newegg's stockholders agreement, the board of directors shall consist of either five or seven Directors: (i) in the event the size of the board consists of five directors, three shall be nominated by Digital Grid and two shall be nominated by the Minority Representative, and (ii) in the event the size of the board consists of seven directors, four of the directors shall be nominated by Digital Grid, and three of the directors shall be nominated by the Minority Representative.	Pursuant to the amended and restated memorandum and articles of association to be adopted at the special meeting, and subject to compliance with applicable laws and NASDAQ rules, the board of the Company shall consist of up to seven directors. Initially, four of the directors shall be appointed by Digital Grid, and three of the directors shall be appointed by the minority representative. Of the directors appointed by the minority representative, one shall be designated by the minority representative to be the primary minority board appointee from time to time by delivering written notice thereof to the board.

Newegg	Company
	Any director positions which neither Digital Grid nor the minority representative are entitled to appoint under the amended and restated memorandum and articles of association shall be appointed by a majority of the remaining directors, or by any other means allowed under the amended and restated memorandum and articles of association and the BVI Act. See "Description of Securities — Amended and Restated Memorandum and Articles of Association — Appointment and Removal of the Directors" above for more information.
REMOVAL OF DIRECTORS	
No director or member of a committee of the board or subsidiary board that is nominated by the Minority Representative shall be removed from the board, any subsidiary board, or any committee thereof shall be removed without the prior written consent of the Minority Representative. No director or board, any subsidiary board, or any committee thereof shall be removed without the prior written consent of Digital Grid. The parties to the Newegg's stockholders agreement shall take all reasonable actions to remove any director that is nominated by the Minority Representative from the board, any subsidiary board, or any committee thereof upon the written request of the Minority Representative. Each of the parties shall take all reasonable actions to remove any director that is nominated by Digital Grid from the board, any subsidiary board, or any committee thereof upon the written request of Digital Grid.	A director or member of a committee of the board or the board of a subsidiary may be removed from his or her position, with cause, by the majority of the shareholders or the majority of the board; provided that (i) Any director or member of a committee of the board or the board of a subsidiary that is appointed or nominated by the minority representative shall be removed from their position upon and only upon, the written request of the minority representative; and (ii) Any director or member of a committee of the board or the board of a subsidiary that is appointed or nominated by Digital Grid shall be removed from their position upon and only upon, the written request of Digital Grid.
REQUIREMENTS OF BOARD APPROVAL ON CERTAIN MATTERS	
Neither Newegg nor any officer or agent of the Newegg or its subsidiaries shall take, directly or indirectly, any of the following actions without the approval of the affirmative vote of not less than 66⅔% of the number of votes represented by the directors (excluding any vacancies): (i) initiate any liquidation, dissolution, bankruptcy filing or similar action, recapitalization, restructuring or reorganization; (ii) other than to Newegg or a wholly-owned subsidiary thereof, sell, license, transfer or otherwise dispose of (including through merger or consolidation) all or substantially all of the assets or properties of Newegg or any of its subsidiaries in any transaction or series of related transactions;	The amended and restated memorandum and articles of association to be adopted at the special meeting provide that, as long as the number of common shares held by legacy shareholders represents more than ten percent (10%) of the equity interest of the Company, the Company or any officer or agent of the Company will not to take, or permit its subsidiaries to take, certain actions, without the approval of the affirmative vote of not less than a majority of the number of votes represented by the directors, which majority must include the primary minority board appointee. See "Description of Securities — Amended and Restated Memorandum and Articles of Association — Requirements of Board Approval on Certain Matters" above for a description of these matters.

Newegg	Company
(iii) agree to any merger, consolidation or combination of Newegg or any of its subsidiaries, or to a sale of all or substantially all of the assets of Newegg in connection with a Company Sale (as defined in Newegg's stockholders agreement);	
(iv) commence or undertake any reorganization;	
(v) issue, directly or indirectly, any equity interest of Newegg or permit any of the subsidiaries to issue any equity interest other than, in each case, any excluded issuance;	
(vi) materially alter or fundamentally change the nature of the business of Newegg and its subsidiaries;	
(vii) amend, change, or waive any provision of, the certificate of incorporation or bylaws of Newegg (the "Organizational Documents");	
(viii) purchase or otherwise acquire all or any part of the assets or business of, or equity interests or other evidences of beneficial ownership of, invest in or participate in any joint venture, partnership or similar arrangement with, any person (other than Newegg or any of its subsidiaries), in each case in any transaction or series of related transactions involving a commitment in excess of $10,000,000;	
(ix) other than to Newegg or a wholly-owned subsidiary thereof, sell, license, transfer or otherwise dispose of (including through merger or consolidation) any assets or properties of Newegg or any of its subsidiaries, in each case in any transaction or series of related transactions involving a commitment in excess of $10,000,000;	
(x) other than loans to wholly-owned subsidiaries, (A) extend any credit or make any loans to any person, (B) incur, assume, guarantee, endorse or otherwise become responsible for indebtedness, or (C) amend, modify or supplement in any material respect the agreements governing (or otherwise extend or refinance) existing indebtedness; (xi) appoint or remove the Chief Executive Officer of Newegg; (xii) enter into any affiliate transactions.	

Newegg	Company
FILLING VACANCIES ON THE BOARD OF DIRECTORS	
In the event that any director ceases to serve as a member of the board or any committee thereof for any reason, in each case, during such member's term of office, the resulting vacancy on the board or committee, as applicable, shall be filled by person appointed by Digital Grid or Minority Representative.	Subject to the rights of Digital Grid and the minority representative to appoint directors, the directors shall have the power from time to time and at any time to appoint any person as a director to fill a casual vacancy on the board. Any director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of shareholders after his appointment and shall resign and be subject to re-election at such meeting.
INDEMNIFICATION OF DIRECTORS AND OFFICERS AND INSURANCE	
Newegg provides indemnification for its directors, and the directors or managers of each subsidiary thereof, or each an Indemnitee, against, any losses, liabilities and reasonable expenses (including reasonable attorneys' fees), or each, a Loss, arising from proceedings in which such Indemnitee may be involved, as a party or otherwise, by reason of he or she being a director of Newegg, or director or manager of any subsidiary thereof, or by reason of his or her involvement in the management of the affairs of Newegg or its subsidiaries, whether or not he or she continues to be such at the time any such Loss is paid or incurred. Notwithstanding the foregoing, an Indemnitee shall not be held harmless or indemnified for any Losses arising out of the fraud, intentional misconduct, or knowing or reckless breach of Indemnitee's obligations under the Newegg's stockholders agreement, or bad faith of such Indemnitee. Without limiting the foregoing, an Indemnitee shall be entitled to indemnification by Newegg against reasonable expenses (as incurred), including attorneys' fees, incurred by the Indemnitee in connection with the defense of any action to which the Indemnitee may be made a party (without regard to the success of such defense), to the fullest extent permitted under the provisions of applicable law.	BVI law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by BVI courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our amended and restated memorandum and articles of association permit indemnification of officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred in connection with the execution of their duties, powers, authorities or discretions as a director or officer of the Company, unless such losses or damages arise through the willful neglect or default of such directors or officers. Our amended and restated memorandum and articles of association provide that we shall purchase and maintain insurance in relation to any person who is or was a director, officer or liquidator of the Company or any of its subsidiaries, or who at the request of the Company is or was serving as a director, officer or liquidator of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise, against any liability asserted against the person and incurred by the person in that capacity, whether or not the Company has or would have had the power to indemnify the person against the liability as provided in our amended and restated memorandum and articles of association. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

EXCHANGE CONTROLS

There are no material exchange controls restrictions on payment of dividends, interest or other payments to the holders of our common shares or on the conduct of our operations in the BVI, where we were incorporated. There are no material BVI laws that impose any material exchange controls on us or that affect the payment of dividends, interest or other payments to nonresident holders of our common shares. BVI law and our amended and restated memorandum and articles of association do not impose any material limitations on the right of non-residents or foreign owners to hold or vote our common shares.

For a discussion of PRC exchange controls, see "Information About the Company — Business Overview — Regulations — Regulations on Foreign Currency Exchange."

SUBMISSION OF SHAREHOLDER PROPOSALS

Only such business will be conducted at the special meeting as will have been brought by our board before the special meeting pursuant to the attached "Notice of Special Meeting of Shareholders."

LEGAL MATTERS

The validity of the common shares being issued to Newegg stockholders will be passed upon for us by Conyers Dill & Pearman. Certain U.S. federal income tax consequences relating to the transactions will be passed upon for us by Potomac Law Group.

EXPERTS

The consolidated financial statements of the Company included in this proxy statement/prospectus as of and for the years ended December 31, 2020 and 2019 have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of the Company included in this proxy statement/prospectus as of December 31, 2018 and for the year ended December 31, 2018 have been audited by Centurion ZD CPA & Co., an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Newegg included in this proxy statement/prospectus as of and for the years ended December 31, 2020 and 2019 have been audited by BDO USA, LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Newegg for the year ended December 31, 2018 have been included herein and in the registration statement, include the effects of the adjustment to retrospectively apply the change in the classification of Newegg's Series A convertible preferred stock and Series AA convertible preferred stock to temporary equity as described in Note 2(y) to the consolidated financial statements. KPMG LLP, an independent registered public accounting firm, audited the consolidated financial statements of Newegg for the year ended December 31, 2018, before the effects of the retrospective adjustment, which financial statements are not included herein. BDO USA, LLP, an independent registered public accounting firm, audited the retrospective adjustment. The consolidated financial statements for the year ended December 31, 2018 have been included herein and in the registration statement in reliance upon the reports of (1) KPMG LLP, solely with respect to the consolidated financial statements of Newegg before the effects of the retrospective adjustment, and (2) BDO USA, LLP, solely with respect to the retrospective adjustment, included herein, and upon the authority of said firms as experts in accounting and auditing.

ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated under the laws of the BVI as an exempted company with limited liability because of certain benefits associated with being a BVI corporation, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the BVI has a less developed body of securities laws that provides significantly less protection to investors as compared to the securities laws of the United States. In addition, BVI companies may not have standing to sue before the federal courts of the United States.

All of our assets are located in the PRC. In addition, our directors and officers are residents of the PRC and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or our directors and officers, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

The courts of the BVI would recognize as a valid judgment, a final and conclusive judgment in personam obtained in a competent federal or state court of the United States of America against the Company under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the BVI; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the BVI; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the BVI; and (f) there is due compliance with the correct procedures under the laws of the BVI.

WHERE YOU CAN FIND MORE INFORMATION

The Company has filed a registration statement on Form F-4, including the exhibits and annexes thereto, with the SEC under the Securities Act, to register the common shares that Newegg stockholders will receive in connection with the merger. This proxy statement/prospectus, which is part of the registration statement as well as a proxy statement with respect to the special meeting, does not contain all of the information set forth in the registration statement and the exhibits to the registration statement, and some parts have been omitted in accordance with the rules and regulations of the SEC. The Company may also file amendments to the registration statement. For further information, you are referred to the registration statement and the exhibits and schedules filed as part of the registration statement. If a document has been filed as an exhibit to the registration statement, you are referred to the copy of the document that has been filed. Each statement in this proxy statement/prospectus relating to a document filed as an exhibit is qualified in all respects by the filed exhibit.

Newegg has supplied all information contained in this proxy statement/prospectus relating to Newegg, and the Company has supplied all information contained in this proxy statement/prospectus relating to the Company.

Any person, including any beneficial owner, to whom this proxy statement/prospectus is delivered may request copies of this proxy statement/prospectus and any of the annexes incorporated by reference in this document or other information concerning the special meeting, without charge, by requesting them in writing or by telephone from the Company at the following address and telephone number:

Lianluo Smart Limited
Room 1003B, 10th Floor, BeiKong Technology Building
No. 10 Baifuquan Road, Changping District
Beijing 102200
People's Republic of China
Attention: Corporate Secretary
Telephone: 86-10-89788107

THIS PROXY STATEMENT/PROSPECTUS DOES NOT CONSTITUTE THE SOLICITATION OF A PROXY IN ANY JURISDICTION TO OR FROM ANY PERSON TO WHOM OR FROM WHOM IT IS UNLAWFUL TO MAKE SUCH PROXY SOLICITATION IN THAT JURISDICTION. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROXY STATEMENT/PROSPECTUS TO VOTE YOUR SHARES AT THE SPECIAL MEETING. THE PARTIES HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS.

THIS PROXY STATEMENT/PROSPECTUS IS DATED [ ], 2021. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THAT DATE, AND THE MAILING OF THIS PROXY STATEMENT/PROSPECTUS TO SHAREHOLDERS DOES NOT CREATE ANY IMPLICATION TO THE CONTRARY.

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LIANLUO SMART LIMITED AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SHAREHOLDERS AND BOARD OF DIRECTORS
LIANLUO SMART LIMITED.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Lianluo Smart Limited. and subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, changes in equity shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

We have served as the Company's auditor since 2020.

Beijing, China
March 31, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Lianluo Smart Limited

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of operations and comprehensive loss, changes in equity and cash flows of Lianluo Smart Limited and subsidiaries (the "Company") for the year ended December 31, 2018, and the related notes (collectively referred to as the "2018 financial statements"). In our opinion, the 2018 financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

The 2018 financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 2018 financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, 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.

Our audit included performing procedures to assess the risks of material misstatement of the 2018 financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the 2018 financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the 2018 financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Centurion ZD CPA & Co.

Centurion ZD CPA & Co.
(successor to Centurion ZD CPA Limited)

Hong Kong, China

May 15, 2019, except for share combination included in Note 3, as to which the date is October 26, 2020

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LIANLUO SMART LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In U.S. dollars)

	December 31,	
	2020	**2019**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,816,177	$ 22,834
Restricted cash	3,500,000	—
Accounts receivable, net	4,940	61,779
Other receivables and prepayments, net	33,942	18,867
Advances to suppliers, net	8,266	7,727
Inventories, net	88,603	1,085,016
Other taxes receivable	246,685	337,412
Marketable equity securities	273,913	143,478
Total Current Assets	5,972,526	1,677,113
Property and equipment, net	75,653	656,840
Total Assets	$ 6,048,179	$ 2,333,953
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 18,614	$ 226,215
Contract liability	48,116	267,365
Accrued expenses and other current liabilities	866,334	1,530,473
Warranty obligation	—	728
Due to related parties	1,784,058	1,208,331
Total Current Liabilities	2,717,122	3,233,112
OTHER LIABILITIES		
Warrants liability	518,666	389,630
Total Liabilities	3,235,788	3,622,742
Commitments and Contingency		
SHAREHOLDERS' EQUITY		
Common stock – Class A, par value $0.021848: 4,736,111 shares authorized as of December 31, 2020 and December 31, 2019; 2,210,683 and 836,933 shares issued and outstanding as of December 31, 2020 and December 31, 2019	48,299	18,285
Common stock – Class B, par value $0.021848: 1,513,889 shares authorized as of December 31, 2020 and December 31, 2019; 1,388,888 shares issued and outstanding as of December 31, 2020 and December 31, 2019	30,345	30,345
Additional paid-in capital	47,995,772	40,833,249
Accumulated deficit	(47,848,895)	(44,607,198)

Accumulated other comprehensive income	2,586,870	2,436,530
Total Equity	2,812,391	(1,288,789)
Total liabilities and equity	$ 6,048,179	$ 2,333,953

On October 21, 2020, the Company completed a share combination of its common shares at a ratio of one-for-eight. Accordingly, all share and per share information has been restated to retroactively show the effect of this share combination.

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

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LIANLUO SMART LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In U.S. dollars)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Revenues	$ 358,536	$ 383,458	$ 559,386
Costs of revenue	(646,653)	(743,744)	(757,901)
Gross loss	(288,117)	(360,286)	(198,515)
Selling expenses	(91,820)	(835,270)	(2,082,829)
General and administrative expenses	(2,482,201)	(2,593,808)	(3,675,465)
Provision for doubtful accounts and inventories	(113,000)	(13,011)	(22,229)
Impairment loss for intangible assets	—	—	(3,281,779)
Operating loss	(2,975,138)	(3,802,375)	(9,260,817)
Financial income (expenses)	561	557	(37,899)
Other expense, net	(23,193)	(32,227)	(211,151)
Unrealized gain (loss) on marketable securities	130,435	(1,356,565)	—
Change in fair value of warrants liability	(129,036)	739,616	599,865
Loss on disposal of a subsidiary	(245,326)	—	—
Loss before income tax	(3,241,697)	(4,450,994)	(8,910,002)
Income tax benefit	—	—	—
Net loss	(3,241,697)	(4,450,994)	(8,910,002)
Other comprehensive (loss) income:			
Foreign currency translation gain (loss)	150,340	(166,892)	(515,477)
Comprehensive loss	(3,091,357)	(4,617,886)	(9,425,479)
Weighted average number of common shares used in computation			
-Basic and diluted	3,389,069	2,225,821	2,202,176
Net loss per share of common stock			
-Basic and diluted	$ (0.96)	$ (2.00)	$ (4.05)

On October 21, 2020, the Company completed a share combination of its common shares at a ratio of one-for-eight. Accordingly, all share and per share information has been restated to retroactively show the effect of this share combination.

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

LIANLUO SMART LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In U.S. dollars)

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2017	$ 775,183	$ 16,936	$ 1,388,888	$ 30,345	$ 39,233,137	$ (31,246,202)	$ 3,118,899	$ 11,153,115
Issuance of shares upon excise of share-based awards	2,375	52	—	—	17,799	—	—	17,851
Issuance of shares to non-employees	59,375	1,297	—	—	1,122,702	—	—	1,123,999
Stock based compensation to employees	—	—	—	—	247,134	—	—	247,134
Foreign currency translation	—	—	—	—	—	—	(515,477)	(515,477)
Net loss	—	—	—	—	—	(8,910,002)	—	(8,910,002)
Balance as of December 31, 2018	836,933	18,285	1,388,888	$ 30,345	$ 40,620,772	$ (40,156,204)	$ 2,603,422	$ 3,116,620
Stock based compensation	—	—	—	—	69,176	—	—	69,176
Exemption of borrowings from related party	—	—	—	—	143,301			143,301
Foreign currency translation	—	—	—	—	—	—	(166,892)	(166,892)
Net loss	—		—	—	—	(4,450,994)	—	(4,450,994)
Balance as of December 31, 2019	$ 836,933	$ 18,285	1,388,888	$ 30,345	$ 40,833,249	$ (44,607,198)	$ 2,436,530	$ (1,288,789)
Issuance of shares	1,373,750	30,014			7,162,523			7,192,537
Foreign currency translation	—	—	—	—	—	—	150,340	150,340
Net loss	—	—	—	—	—	(3,241,697)	—	(3,241,697)
Balance as of December 31, 2020	2,210,683	48,299	1,388,888	30,345	47,995,772	(47,848,895)	2,586,870	2,812,391

On October 21, 2020, the Company completed a share combination of its common shares at a ratio of one-for-eight. Accordingly, all share and per share information has been restated to retroactively show the effect of this share combination.

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

LIANLUO SMART LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars)

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Cash flows from operating activities			
Net loss	$ (3,241,697)	$ (4,450,994)	$ (8,910,002)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation to employees	—	69,176	247,134
Stock-based compensation to non-employees	—	179,112	944,887
Depreciation and amortization	451,884	778,117	827,630
Loss from disposal of inventories	—	6,218	58,992
Change in fair value of warrants liability	129,036	(739,616)	(599,865)
Loss on disposal of equipment and intangible assets	1,499	18,502	232,171
Provision for doubtful accounts:	—	—	—
– accounts receivable	30,572	10,148	5,826
– other receivables and prepayments	26,688	499	16,403
Change in warranty obligation	(728)	(7,911)	(10,261)
Provision for inventory obsolescence	55,739	2,363	—
Impairment loss for intangible assets	—		3,281,779
Unrealized (gain) loss on marketable securities	(130,435)	1,356,565	—
Loss on disposal of a subsidiary	245,326	—	—
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(48,635)	20,222	(88,270)
Decrease (increase) in advances to suppliers	—	—	—
– third parties	(539)	145,024	233,490
– related party	—	—	—
Decrease(increase) in other receivables and prepayments	(29,176)	69,773	23,352
Increase in interest receivable – related party		(2,523)	(161,384)
Decrease(increase) in inventories	209,521	255,592	(137,464)
Decrease(increase) in other taxes receivable	17,526	36,858	(92,897)
Decrease(increase) in accounts payable	(60,944)	(8,234)	186,561
Increase in interest payable- related party	—	2,053	178,708
Decrease in due to related parties – Trade	—	—	—
Increase (decrease) in contract liabilities	(117,476)	34,799	(80,602)
Increase in accrued expenses and other current liabilities	125,514	553,354	214,245
Net cash used in operating activities	(2,336,325)	(1,670,903)	(3,629,567)

LIANLUO SMART LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(In U.S. dollars)

	For the years ended December 31,		
	2020	**2019**	**2018**
Cash flows from investing activities			
Proceeds from disposal of equipment	—	23,016	1,309
Capital expenditures and other additions	—	—	(776,328)
Loan to a related party	—	—	(6,000,000)
Repayment from a related party	—	—	549,192
Net cash payments from disposal of subsidiaries	(2,354)	—	—
Net cash (used in) provided by investing activities	(2,354)	23,016	(6,225,827)
Cash flows from financing activities			
Loans from related parties	498,191	1,362,681	3,682,642
Net proceeds from option exercises	—	—	17,851
Repayment of the loan from related party	(33,178)	—	—
Net proceeds from issuance of common stock, net of issuance costs	7,192,537	—	—
Net cash provided by financing activities	7,657,550	1,362,681	3,700,493
Effect of exchange rate fluctuations on cash and cash equivalents	(25,528)	(169,269)	(177,275)
Net increase (decrease) in cash, cash equivalents and restricted cash	5,293,343	(454,475)	(6,332,176)
Cash, cash equivalents and restricted cash at beginning of year	22,834	477,309	6,809,485
Cash, cash equivalents and restricted cash at end of year	$ 5,316,177	$ 22,834	$ 477,309
Supplemental cash flow information:			
Cash paid during the year for:			
Income tax	$ —	$ —	$ —
Interest	$ —	$ —	$ 14,840
Reconciliation of cash, cash equivalents and restricted cash in consolidated statements of cash flows:			
Cash and cash equivalent	1,816,177	22,834	477,309
Restricted cash	3,500,000	—	—
Cash, cash equivalent and restricted cash	5,316,177	22,834	477,309
Non-cash investing and financing activities:			
Acquisition of property and equipment and construction in progress by decreasing inventories	$ —	$ —	$ 947,172
Offset short-term borrowings – related party against loans to a related party (including accrued interests)	$ —	$ —	$ 5,381,589

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

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Lianluo Smart Limited ("Lianluo Smart" or the "Company") (previously known as "Dehaier Medical Systems Limited") was incorporated as an international business company under the International Business Companies Act, 1984, in the British Virgin Islands on July 22, 2003. On November 21, 2016, the Company changed its name from Dehaier Medical Systems Limited to Lianluo Smart Limited, and its NASDAQ stock ticker from DHRM to LLIT.

Lianluo Smart distributed and provided after-sale services for medical equipment in China mainly through its wholly-owned subsidiaries, Beijing Dehaier Medical Technology Co., Limited ("Beijing Dehaier") and Lianluo Connection Medical Wearable Device Technology (Beijing) Co., Ltd. ("Lianluo Connection"), which were both formed in Beijing, the PRC, for the business development in the health equipment market.

On April 28, 2016, the Company entered into a definitive securities purchase agreement (the "SPA") with Hangzhou Lianluo Interactive Information Technology Co., Ltd. ("Lianluo Interactive" or "Hangzhou Lianluo") to sell 11,111,111 of its common shares and warrants to purchase common shares to Lianluo Interactive for an aggregate purchase price of $20 million (Note 14)

On August 13, 2020, Lianluo Connection sold Beijing Dehaier to China Mine United Investment Group Co., Ltd. for a cash consideration of RMB 0.

On September 18, 2020, Lianluo Smart Limited set up a wholly-owned subsidiary, Hangzhou Lianluo Technology Co., Ltd. ("Lianluo Technology"), in Hangzhou, PRC. Lianluo Technology was in the business of technology development. It has no operation as of December 31, 2020.

On September 23, 2020, Lianluo Smart set up a new subsidiary Lightning Delaware Sub, Inc. ("Merger Sub"), a Delaware corporation, through which the company entered into a Merger Agreement with Newegg. It has no operation as of December 31, 2020.

Currently, Lianluo Smart wholly owns Lianluo Connection, Lianluo Technology and Merger Sub.

Lianluo Smart, through its subsidiary, Lianluo Connection, now distributes branded, proprietary medical equipment, such as sleep apnea machines and CPR. Besides, since fiscal year 2018, the Company has been providing examination service to hospitals and medical centers through its developed medical wearable device. Doctors could refer to examination results provided by such device in making diagnosis regarding Obstructive Sleep Apnea Syndrome ("OSAS").

On October 21, 2020, the Company completed a share combination of its common shares at a ratio of one-for-eight, which decreased the Company's outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and the Company's outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares. This share combination also decreased the Company's authorized shares to 6,250,000 common shares of par value of US$0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares

2. GOING CONCERN AND LIQUIDITY

As of December 31, 2020, the Company had $1.82 million in cash and cash equivalents which increased from $0.02 million on December 31, 2019. The Company's principal sources of liquidity have been proceeds from issuances of equity securities and loans from related parties. As reflected in the consolidated financial statements, the Company had a net loss of $3.24 million and used $2.34 million of cash in operation activities for the year ended December 31, 2020. The ability to continue as a going concern is dependent upon the Company's profit generating operations in the future and/or obtaining the necessary financing to meet the Company's obligations and repay our liabilities arising from normal business operations when they become due. The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company's consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as going concern.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. GOING CONCERN AND LIQUIDITY (cont.)

The Company's principal sources of liquidity have been proceeds from issuances of equity securities and loans from related parties. The Company had a working capital of $3.26 million as of December 31, 2020. In February and March 2020, the Company obtained approximately $7.2 million equity financing, net of placement agent's commissions and other expenses. In late January 2021, 1,255,000 of warrants were exercised resulting in aggregate cash proceeds to the Company of $6.8 million.

Considering equity financing and the cost cutting activities, the Company believes that the current cash and cash equivalents and the anticipated cash flows from operations will be sufficient to meet the anticipated working capital requirements and expenditures for the next 12 months.

COVID-19 Assessment

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus first surfaced in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

As a result of these events, the Company assessed its operations, working capital, finances and capital formation opportunities, and implemented, in late December 2019 and early February 2020, a downsizing of the Company's operations, including workforce reductions, reductions of salaried employee compensation and a reduction of hours worked to preserve cash resources, cut costs and focus the Company's operations on customer-centric sales and project management activities. The extent to which COVID-19 will impact the Company's business and financial results will depend on future developments, which are uncertain and cannot be predicted at this time.

The Company's service was suspended due to restrictions and hospital closures except for essential services in February 2020 and recovered gradually in March 2020 as hospitals began to resume business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Basis of Consolidation

The consolidated financial statements include the accounts of Lianluo Smart and its wholly-owned subsidiaries. All inter-company transactions and balances are eliminated in consolidation.

Share Combination

On October 21, 2020, the Company completed a share combination of its common shares at a ratio of one-for-eight, which decreased the Company's outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and the Company's outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares. This share combination also decreased the Company's authorized shares to 6,250,000 common shares of par value of US$0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares.

Accordingly, all share and per share information has been restated to retroactively show the effect of this share combination.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Foreign currency translation and transactions

The functional currency of Lianluo Smart Limited is United States dollars ("US$" or "$"). The functional currency of Lianluo Connection is Renminbi ("RMB"), and PRC is the primary economic environment in which the Company operates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the determination of net income for the respective periods.

The financial statements of the Company's foreign operations are translated into US$ in accordance with ASC 830-10, "Foreign Currency Matters". For financial reporting purposes, the financial statements of the Company's PRC subsidiary are prepared using RMB are translated into Company's reporting currency, the US$. Assets and liabilities are translated using the exchange rate at each balance sheet date. Revenue and expenses are translated using average rates prevailing during each reporting period, and Shareholders' equity is translated at historical exchange rates except for the change in retained earnings during the year which is the result of the income. The cumulative translation adjustments are recorded in accumulated other comprehensive income in the accompanying consolidated statements of shareholders' equity.

The exchange rates applied are as follows:

	December 31, 2020	December 31, 2019
RMB to US$ exchange rate at balance sheets dates,	6.5249	6.9762

	Year Ended December 31,		
	2020	2019	2018
Average RMB to US$ exchange rate for each year	6.8976	6.8985	6.6090

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation. The source of the exchange rates is generated from People's Bank of China.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant accounting estimates reflected in the Company's consolidated financial statements include revenue recognition, reserve for doubtful accounts, valuation of inventories, impairment testing of long-term assets, standard warranty obligation, warrants liability, stock-based compensation, recoverability of intangible assets, property and equipment, and realization of deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased. The Company maintains uninsured cash and cash equivalents with various financial institutions in the PRC.

Restricted Cash

As of December 31, 2020, restricted cash of $3.5 million represents the cash balance placed into a U.S. bank account designated by a third-party escrow agent mutually selected by the Company and Newegg. The cash can only be used by the Company and Newegg to (i) defend, indemnify and hold harmless the Parties and each of their respective

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Affiliates and Representatives against, and satisfy any Liabilities relating to, any Actions relating to the Securities Purchase Agreements dated February 12, 2020, February 21, 2020 and February 27, 2020 between LLIT, Sabby Volatility Warrant Master Fund, Ltd., Intracoastal Capital LLC, and Anson Investments Master Fund LP or the Class A Common Share Purchase Warrants issued on February 14, 2020, February 25, 2020, and March 2, 2020, in each case as amended or restated and (ii) pay the amount of any fee that is payable from the Company to Newegg pursuant to the Merger Agreement.

Accounts Receivable, net

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for expected losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowance when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balance, the Company considers many factors, including historical experience, current conditions, and reasonable and supportable forecasts. Accounts are written off after exhaustive efforts at collection. Accounts receivable terms typically are net 60-180 days from when the services were provided, or when goods were delivered. At December 31, 2020 and 2019, the Company has established, based on a review of its outstanding balances, an allowance for doubtful accounts in the amounts of $38,995 and $36,416, respectively.

Other Receivables and Prepayments, net

Other receivables and prepayments primarily include advances to employees, short-term loan and deposits to landlords and service providers. Management regularly reviews aging of receivables and prepayments and changes in payment trends and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off after exhaustive efforts at collection.

Advances to Suppliers, net

The Company, as a common practice in the PRC, often makes advance payments to suppliers for unassembled parts. Advances to suppliers are reviewed periodically to determine whether their carrying value has become impaired.

Fair Value of Financial Instruments

ASC Topic 820, “Fair Value Measurements and Disclosures,” requires disclosure of the fair value of financial instruments held by the Company. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. 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 Company’s carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments are a reasonable estimate of their fair values because carrying value of cash and cash equivalents, accounts receivable, accounts payable, other payables and accrued liabilities approximate fair value because of the short-term nature of these items. The estimated fair values of short-term related party borrowings were not materially different from their carrying value as presented due to the short maturities. As the carrying amounts are reasonable estimates of the fair value, these financial instruments are classified within Level 1 of the fair value hierarchy. 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.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- 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.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The marketable equity securities are accounted at fair value, with changes in fair value recorded through earnings. The fair value of marketable equity securities was determined using the quote price in the active market, with Level 1 inputs (Note 9).

The fair value of warrants was determined using the Black Scholes Model, with level 3 inputs (Note 14).

Warrant Liability

For warrants that are not indexed to the Company's stock, the Company records the fair value of the issued warrants as a liability at each balance sheet date and records changes in the estimated fair value as a non-cash gain or loss in the consolidated statement of operations and comprehensive income. The warrant liability is recognized in the balance sheet at the fair value (level 3). The fair value of these warrants has been determined using the Black-Scholes pricing mode. The Black-Scholes pricing model provides for assumptions regarding volatility, call and put features and risk-free interest rates within the total period to maturity (Note 14).

Inventories

Inventories include finished goods relating to medical devices. Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted-average basis. Management compares the cost of inventories with the net realizable value and writes down inventories to net realizable value, if lower. Net realizable value is based on estimated selling prices in the ordinary course of business less cost to sell. These estimates are based on the current market and economic condition and the historical experience of selling products of similar nature. Management of the Company reassesses the estimations at the end of each reporting period.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Shorter of the useful lives or the lease term
Machinery and equipment	2 – 3 years
Furniture and office equipment	3 – 5 years

Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Amortization is calculated on a straight-line basis over the following estimated useful lives:

Software copyrights	20 years
Patent rights	10 years
Other software	5 years

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Impairment of Long-Lived Assets

Long-lived assets such as property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. When these events occur, the Company compares the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the asset and eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. 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 determined that, for the years ended December 31, 2020, 2019 and 2018, impairment loss for intangible assets was $nil, $nil and $3,281,779, respectively.

Equity securities

The Company's equity securities represent equity investments in Guardion Health Sciences, Inc. ("GHSI") made in November 2017. The Company holds less than 5% of the GHSI's total shares. Details see Note 9. The equity securities were accounted for as non-marketable securities in 2018 on the balance sheets and as marketable securities in 2019 when GHSI went public in April 5, 2019.

Prior to January 1, 2018, the Company accounted for the equity securities at cost and only adjusted for other-than-temporary declines in fair value and distributions of earnings. An impairment loss was recognized in the consolidated statements of operations equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment was made. The fair value would then become the new cost basis of investments.

Subsequent to the adoption of ASU 2016-01 on January 1, 2018, equity investments, except for those accounted for under the 2016-01 equity method, those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures ("ASC 820") to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Company elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. Pursuant to ASU 2016-01, for equity investments measured at fair value with changes in fair value recorded in earnings, the Company does not assess whether those securities are impaired. For those equity investments that the Company elects to use the measurement alternative, the Company makes a qualitative assessment of whether the investment is impaired at each reporting date.

As of December 31, 2019 and 2020, the investment was accounted at fair value with changes recorded through earnings.

Revenue Recognition

Revenue is recognized when control of the promised goods or services, through performance obligations by the Company, is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for the performance obligations.

The Company recognizes revenue when a sales arrangement with a customer exists, transaction price is fixed or determinable and the Company has satisfied its performance obligation per the sales arrangement. The majority of Company revenue originates from contracts with a single performance obligation to deliver products or service. The Company's performance obligations are satisfied when control of the product is transferred to the customer.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company also records a contract liability when customers prepay but the Company has not yet satisfied its performance obligation.

The new revenue standards became effective for the Company on January 1, 2018, and were adopted using the modified retrospective method. The adoption of the new revenue standards as of January 1, 2018 did not change the Company's revenue recognition as the majority of its revenues continue to be recognized when the customer takes control of its product or services. As the Company did not identify any accounting changes that impacted the amount of reported revenues with respect to its product revenues, no adjustment to accumulated deficit was required upon adoption.

The Company has two reportable segments, which are sales of medical equipment and provision of sleep diagnostic services.

The following is a description of principal activities from which the Company generates revenue and related revenue recognition policies:

1. Sale of medical equipment

   Sale of medical equipment includes both mobile medicine products (sleep apnea diagnostic products) and abdominal CPR Compression

   The Company distributes medical equipment in China. Control of products sold transfers to customers upon shipment from the Company's facilities, and the Company's performance obligations are satisfied at that time. Shipping and handling activities are performed before the customer obtains control of the goods and therefore represent a fulfillment activity rather than a promised service to the customer. The Company also provides after-sale services for medical equipment, such as sleep apnea machines and CPR in China. The Company typically sells its branded products with standard warranty terms covering 12 months after purchase. The warranty requires the Company to repair all mechanical malfunctions and, if necessary, replace defective components.

   The Company evaluates its arrangements with distributors and determines that it is the primary obligor in the sales of distributed products, is subject to inventory risk, has latitude in establishing prices, and assumes credit risk for the amount billed to the customer, or has several but not all of these indicators. In accordance with ASC 606, the Company determines that it is appropriate to record the gross amount of product sales and related costs. As the Company is a principal and it obtains control of the specified goods before they are transferred to the customers, the revenues should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods transferred.

2. Provision of sleep diagnostic services

   Starting from 2018, the Company started to earn service revenue from provision of technical services in relation to detection and analysis of Obstructive Sleep Apnea Syndrome ("OSAS"). The Company is focused on the promotion of sleep respiratory solutions and service in public hospitals. Its wearable sleep diagnostic products and cloud-based service are also available in medical centers of Chinese private preventive healthcare companies in China. Revenue is recognized when the Company's diagnostic services are provided to the user at medical centers and public hospitals.

In the PRC, value added tax ("VAT") of 13% and 6% of the invoice amount is collected in respect of the sales of goods and service rendered, respectively, on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cost of Revenues

Cost of revenues primarily includes wages to assemble parts and the costs of unassembled parts, other expenses associated with the assembly and distribution of products and depreciation of fixed assets in the provision of services.

Selling Expenses

Selling expenses consist primarily of salaries and related expenses for personnel engaged in sales, marketing and customer support functions, and costs associated with advertising and other marketing activities, and depreciation expenses related to equipment used for sales and marketing activities.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries and benefits and related costs for our administrative personnel and management, stock-based compensation, fees and expenses of our outside advisers, including legal, audit and register expenses, expenses associated with our administrative offices, and the depreciation of equipment used for administrative purposes.

Advertising Expenses

Advertising expenses are expensed as incurred. For the years ended December 31, 2020, 2019 and 2018, advertising and promotional expenses recognized in the consolidated statements of comprehensive loss were $27,908, $19,811 and $56,259, respectively.

Warranty

The Company typically sells its branded products with standard warranty terms covering 12 months after purchase. The warranty requires the Company to repair all mechanical malfunctions and, if necessary, replace defective components.

The Company provides for the estimated cost of product warranties at the time revenue is recognized and records warranty expenses in the selling expenses. The Company’s warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting product failure. Should actual material usage or service delivery costs differ from the Company’s estimates, the Company may reverse warranty liability at warranty expiry date.

Recovery gain from warranty expense accrued for the years ended December 31, 2020, 2019 and 2018 was $728, $7,911 and $10,261, respectively.

Research and Development Costs

Research and development costs relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred, and included in general and administrative expenses. Research and development costs were $0, $0 and $301,713 for the years ended December 31, 2020, 2019 and 2018, respectively.

Government Subsidies

Government subsidies primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. For certain government subsidies, there are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of government subsidy is determined at the discretion of the

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

relevant government authorities. The government subsidies of non-operating nature with no further conditions to be met are recorded as non-operating income in "Other income" when received. The government subsidies with certain operating conditions are recorded as "deferred income" when received and will be recorded as operating income when the conditions are met. During the years ended December 31, 2020, 2019 and 2018, government subsidies with no further conditions to be met of $447, $0 and $0, respectively, were recorded.

Leases

Leases where substantially all the rewards and risk of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statement of operations on a straight-line basis over the shorter of the lease term or estimated economic life of the leased property. All of the Company's leases were short term (less than 12 months) and the Company elected the practical expedient not to record right of use of assets for short term leases.

Loss per Share

The Company follows the provisions of ASC 260-10, "Earnings per Share". The Company has been authorized to issue Class A and Class B common stock. The two classes of common stock are substantially identical in all material respects, except for voting rights. Since the Company did not declare any dividends during the years ended December 31, 2020 and 2019, the net loss per common share attributable to each class is the same under the "two-class" method. As such, the two classes of common stock have been presented on a combined basis in the consolidated statements of operations and comprehensive income and in the above computation of net income per common share.

Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Common stock equivalents having an anti-dilutive effect on earnings per share are excluded from the calculation of diluted loss per share.

Value Added Tax

The Company reports revenues, net of PRC's value added tax, for all the periods presented in the consolidated statements of income and comprehensive income.

Stock-Based Compensation

The Company accounts for stock-based share-based compensation awards to employees at fair value on the grant date and recognizes the expense over the employee's requisite service period. The Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend is zero based on the Company's current and expected dividend policy.

Share-based compensation expenses for stock-based share-based compensation awards granted to non-employees are measured at fair value at the earlier of the performance commitment date or the date service is completed, and recognized over the period during which the service is provided. The Company applies the guidance in ASC 718 to measure share options and restricted shares granted to non-employees based on the then-current fair value at each reporting date.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Comprehensive income (loss)

Comprehensive income (loss) is comprised of net loss and foreign exchange translation gain (loss). For the Company, comprehensive income for the years ended December 31, 2020, 2019 and 2018 included cumulative foreign currency translation adjustments.

Segment Information

The Company's segments are business units that offer different products and services and are reviewed separately by the chief operating decision maker (the "CODM"), in deciding how to allocate resources and in assessing performance. The Company's CODM is the Company's Chief Executive Officer. During 2018, the Company started to earn service revenue from provision of technical services in relation to diagnosis of Obstructive Sleep Apnea Syndrome ("OSAS"). The Company is focused on the promotion of sleep respiratory solutions and service in public hospitals. Its wearable sleep diagnostic products and cloud-based service are also available in medical centers of Chinese private preventive healthcare companies in China. We have two reportable segments: sale of medical equipment and provision of OSAS during 2020, 2019 and 2018.

	For the Years Ended December 31,		
	2020	**2019**	**2018**
Revenues			
Sale of medical equipment			
Abdominal CPR Compression	301,549	58,750	221,414
Mobile Medicine (sleep apnea diagnostic products)	$ 21,776	$ 153,644	$ 120,930
Provision of OSAS diagnostic services	35,211	171,064	217,042
Total net revenues	358,536	383,458	559,386
Cost of revenue			
Sale of medical equipment	(275,465)	(112,942)	(464,918)
Provision of OSAS diagnostic services	(371,188)	(630,802)	(292,983)
	(646,653)	(743,744)	(757,901)
Gross loss			
Sale of medical equipment	47,860	99,452	(122,574)
Provision of OSAS diagnostic services	(335,977)	(459,738)	(75,941)
	(288,117)	(360,286)	(198,515)
Depreciation and amortization expense:			
Sale of medical equipment	$ 7,006	$ 84,371	$ 535,800
Provision of OSAS diagnostic services	444,878	693,746	291,830
	$ 451,884	$ 778,117	$ 827,630
Capital expenditure			
Sale of medical equipment	$ —	$ —	$ 16,137
Provision of OSAS diagnostic services	—	—	760,191
	$ —	$ —	$ 776,328

The total assets for the two reportable segments were shared and indistinguishable for reporting purposes.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Concentrations of credit, economic, political risks and exchange risks

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC's economy. The Company's operation in the PRC is subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances aboard, and rates and methods of taxation, among other things.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, restricted cash and trade accounts receivable. All of the Company's cash is maintained with state-owned banks within the PRC and none of these deposits are covered by insurance. The Company has not experienced any losses in such accounts. A portion of the Company's sales are credit sales which are primarily to customers whose abilities to pay are dependent upon the industry economics prevailing in these areas; however, concentrations of credit risk with respect to trade accounts receivables are limited due to generally short payment terms. The Company also performs ongoing credit evaluations of its customers to help further reduce credit risk.

The Company cannot guarantee that the current exchange rate will remain steady. Therefore, there is a possibility that the Company could post the same amount of profit for two comparable periods and yet, because of a fluctuating exchange rates, record higher or lower profit depending on exchange rate of PRC Renminbi (RMB) converted to U.S. dollars on the relevant dates. The exchange rate could fluctuate depending on changes in the political and economic environment without notice.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC 740, "Accounting for Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year; and, (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation reserve is provided to reduce the deferred tax assets reported if, based on the weight of available positive and negative evidence. Based on management's estimate, it is more likely than not that all of the deferred tax assets will not be realized.

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken on a tax return. Under ASC 740, a tax benefit from an uncertain tax position taken or expected to be taken may be recognized only if it is "more likely than not" that the position is sustainable upon examination, based on its technical merits. The tax benefit of a qualifying position under ASC 740 would equal the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all the relevant information. A liability (including interest and penalties, if applicable) is established in the financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. Related interest and penalties, if any, are included as components of income tax expense and income taxes payable.

The implementation of ASC 740 resulted in no material liability for unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the statements of income and comprehensive income. During the years ended December 31, 2020, 2019 and 2018, the Company did not incur any interest or penalties.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments", which will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which a company recognizes an allowance based on the estimate of expected credit loss. The standard did not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles — Goodwill and Other (Topic 350): simplifying the test for goodwill impairment", the guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not the difference between the fair value and carrying amount of goodwill which was the step 2 test before. The ASU 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 standard did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement." This standard eliminates the current requirement to disclose the amount or reason for transfers between level 1 and level 2 of the fair value hierarchy and the requirement to disclose the valuation methodology for level 3 fair value measurements. The standard includes additional disclosure requirements for level 3 fair value measurements, including the requirement to disclose the changes in unrealized gains and losses in other comprehensive income during the period and permits the disclosure of other relevant quantitative information for certain unobservable inputs. The new guidance is effective for interim and annual periods beginning after December 15, 2019. The standard did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Internal-Use Software — Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement." This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement service contract with the guidance to capitalize implementation costs of internal use software. The ASU also requires that the costs for implementation activities during the application development phase be capitalized in a hosting arrangement service contract, and costs during the preliminary and post implementation phase are expensed. The new guidance is effective for interim and annual periods beginning after December 15, 2019. The standard did not have a material impact on our consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities, ("ASU 2018-17"). ASU 2018-17 requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Entities are required to apply the amendments in ASU 2018-17 retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The standard did not have a material impact on our consolidated financial statements

In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, ("ASU 2019-04"). ASU 2019-04 clarifies and improves areas of guidance related to the recently issued standards on credit losses (ASU 2016-13), hedging (ASU 2017-12), and recognition and measurement of financial instruments (ASU 2016-01). The amendments generally have the same effective dates as their related standards. If already adopted, the amendments of ASU 2016-01 and ASU 2016-13 are effective for fiscal years beginning after December 15, 2019 and the amendments of ASU 2017-12 are effective as of the beginning of the Company's next annual reporting period; early adoption is permitted. The standard did not have a material impact on our consolidated financial statements.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Recent Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-03, Codification Improvements to Financial Instruments, ("ASU 2020-03"). ASU 2020-03 improves various financial instruments topics, including the CECL Standard. ASU 2020-03 includes seven different issues that describe the areas of improvement and the related amendments to GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. The amendments related to Issue 1, Issue 2, Issue 4 and Issue 5 were effective upon issuance of ASU 2020-03. The amendments related to Issue 3, Issue 6 and Issue 7 were effective for the Company beginning on January 1, 2020. The Company does not anticipate that the adoption of the new standard will have a material effect on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. ASU 2019-12 will simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. ASU 2019-12 will be effective for the Company in the first quarter of 2021. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations, cash flows or disclosures.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. The amendments in this standard can be applied anytime between the first quarter of 2020 and the fourth quarter of 2022. The Company is currently in the process of evaluating the impact of adoption of the new rules on the Company's financial condition, results of operations, cash flows and disclosures.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of December 31, 2020 and 2019 consist of the following:

	2020	2019
Accounts receivable	$ 43,935	$ 98,195
Less: reserve for doubtful accounts	(38,995)	(36,416)
Accounts receivable, net	$ 4,940	$ 61,779

During the year ended December 31, 2020, bad debt expense was $30,572, recovery of bad debt was 27,993 due to the disposal of Beijing Dehaier and during 2019 and 2018, bad debt expense was $10,148 and $5,826 respectively.

5. OTHER RECEIVABLES AND PREPAYMENTS, NET

Other receivables and prepayments as of December 31, 2020 and 2019 consist of the following:

	2020	2019
Rental deposits	$ —	$ 36,846
Prepaid expenses	74,500	29,939
Interest receivable	16,130	—
Advances to employees	83	78
	90,713	66,863
Less: reserves for doubtful accounts	(56,771)	(47,996)
Other receivables and prepayment, net	$ 33,942	$ 18,867

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. OTHER RECEIVABLES AND PREPAYMENTS, NET (cont.)

During the years ended December 31, 2020, bad debt expense was $26,688, recovery of bad debt was 17,913 due to the disposition of Beijing Dehaier. In 2019 and 2018, bad debts on other receivables were $499 and $16,403, respectively.

6. INVENTORIES

Inventories as of December 31, 2020 and 2019 consist of the following:

	2020	2019
Raw materials	$ —	$ 25,985
Work in progress	—	779
Finished goods	147,533	1,060,615
Total inventories	$ 147,533	$ 1,087,379
Less: inventory impairment loss	(58,930)	(2,363)
Inventories, net	88,603	1,085,016

During the years ended December 31, 2020, 2019 and 2018, write-downs of inventories to lower of cost or net realizable value of $58,930, $2,363 and $0, respectively, were charged to costs of revenue in relation to the Company's operations. Subsequent sale of impaired inventory items is recorded as credits to inventory write-downs previously recorded.

7. PROPERTY AND EQUIPMENT, NET

Property and equipment as of December 31, 2020 and 2019 consist of the following:

	2020	2019
Plant and machinery	$ 1,413,088	$ 1,915,160
Automobiles	—	137,367
Office and computer equipment	17,343	22,689
Total property and equipment	1,430,431	2,075,216
Less: Accumulated depreciation	(1,354,778)	(1,418,376)
Property and equipment, net	$ 75,653	$ 656,840

Depreciation from the Company's operations were $451,884, $778,117 and $467,929 for the years ended December 31, 2020, 2019, and 2018 respectively.

The Company did not record any impairment on its property and equipment for the years ended December 31, 2020, 2019 and 2018.

8. INTANGIBLE ASSETS, NET

Intangible assets as of December 31, 2020 and 2019 were $nil and $nil, respectively.

Amortization expense from the Company's continuing operations was $0, $0 and $359,701 for the years ended December 31, 2020, 2019, and 2018, respectively.

The Company recorded impairment on its intangible assets from its continuing operations $0, $0 and $3,281,779 for the years ended December 31, 2020, 2019 and 2018, respectively. During the year ended December 31, 2018, as a result of lower-than-expected revenue performance of the Company, management determined not to further update and maintain its software copyright and patent for the therapy products of sleep respiratory business. The unamortized software copyright and patent and others of $3,281,779 were fully impaired.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. EQUITY SECURITIES

On November 3, 2017 (the "Effective Date"), the Company completed a purchase of an aggregate of 1,304,348 shares of common stock, par value $0.001 per share (the "Shares") of Guardion Health Sciences, Inc. ("GHSI" or the "Seller"), at a purchase price of $1.15 per Share (or a purchase price of $1.5 million in the aggregate) in a private placement (the "Private Placement"). The Private Placement occurred pursuant to a Stock Purchase Agreement dated November 3, 2017 (the "Purchase Agreement") by and among GHSI as Seller and (i) LLIT and (ii) Digital Grid (Hong Kong) Technology Co., Limited ("DGHKT"; and together with LLIT, "Purchasers"), as purchasers of, in aggregate, 4,347,827 Shares for aggregate purchase price of $5.0 million. The investments account for less five percent of GHSI's total shares.

Prior to January 1, 2018, the Company accounted for the equity securities at cost and only adjusted for other-than-temporary declines in fair value and distributions of earnings. As of December 31, 2018, under ASU 2016-01 the Company elected to measure this equity investment using the measurement alternative, which requires that the investment is measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. For the year ended December 31, 2018 the investment was not impaired and there were no observable price changes.

On January 30, 2019, GHSI effectuated a one-for-two (1:2) reverse stock split of its common stock without any change to its par value. On April 9, 2019, GHSI closed its initial public offering of 1,250,000 shares of its common stock at a public offering price of $4.00 per share for total gross proceeds of $5.0 million, before deducting underwriting discounts and commissions and other offering costs and expenses payable by it. GHSI's shares began trading on the Nasdaq Capital Market on April 5, 2019 under the symbol "GHSI".

The Company accounted for the equity securities as marketable securities as of December 31, 2020. The share price of GHSI at December 31, 2020 is $0.42 per share, based on which the Company re-valued its equity securities in GHSI and recognized the fair value change gain of $130,435 through unrealized income on marketable securities. The share price of GHSI at December 31, 2019 is $0.22 per share, based on which the Company re-valued its equity securities in GHSI and recognized the fair value change of $1,356,565 through unrealized loss on marketable securities.

10. DUE TO RELATED PARTIES

	December 31,	
	2020	**2019**
Loans from Hangzhou Lianluo Interactive.	$ 996,450	$ 931,450
Loans from DGHKT.	—	33,000
Loans from Ping Chen	787,608	243,881
Total short-term borrowings	1,784,058	1,208,331

The short-term borrowings are all from related parties. See Note 19.

Interest expense on short-term borrowings amounted to $0, $0 and $200,799 for the years ended December 31, 2020, 2019 and 2018, respectively.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Other payables and other current liabilities as of December 31, 2020 and 2019 consist of the following:

	2020	**2019**
Accrued salaries and social welfare	$ 382,769	$ 663,929
Accrued expenses	348,023	572,932
Reimbursed employee's expense	8,174	27,460
Deposits from customers	117,204	253,014

Others	10,164	13,1383
Total accrued expenses and other current liabilities	$ 866,334	$ 1,530,473

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCY

Operating Leases

Rent expense for the years ended December 31, 2020, 2019 and 2018 was $57,202, $206,006 and $301,021, respectively. All of Company's leases were short term (less than 12 months) and the Company elected the practical expedient not to record right of use of assets related to short term leases.

Employment Contracts

Under the PRC labor law, all employees have signed employment contracts with the Company. Management employees have employment contracts with terms up to three years and non-management employees have either a three-year employment contract renewable on an annual basis or non-fixed term employment contract.

Contingency

The Company is periodically the subject of various pending or threatened legal actions and claims arising out of its operations in the normal course of business. In the opinion of management of the Company, adequate provision has been made in the Company's financial statements at December 31, 2020.

13. EQUITY

Common Shares

LLIT is authorized to issue 4,736,111 shares of Class A common stock and 1,513,889 shares of Class B common stock, each with a par value of $0.021848. Each share of Class A common stock is entitled to one vote, and each share of Class B common stock is entitled to ten votes and is convertible at any time into one share of Class A common stock. Shares of Class A common stock and Class B common stock are treated equally, identically and ratably with respect to any dividends declared by the Board of Directors unless the Board of Directors declares different dividends to the Class A common stock and Class B common stock by getting approval from a majority of common stock holders.

On April 28, 2016, the Company entered into a definitive securities purchase agreement with Hangzhou Lianluo pursuant to which Hangzhou Lianluo has agreed to purchase 1,388,888 common shares of the Company for an aggregate of $20,000,000. The purchase price is $14.40 per share, which represents a 35% premium to the Company's closing price of $10.64 on April 27, 2016. In August 2016, the Company closed the securities purchase agreement (the "Securities Purchase Agreement") with Hangzhou Lianluo and Hangzhou Lianluo completed the purchase of $20 million of the Company's common shares and warrants to purchase common shares (Note 14). As of December 31, 2016, the Company reported a subscription receivable of $1,492,538 from Hangzhou Lianluo which had been collected on April 13, 2017.

On June 8, 2017, the Company held the Annual General Meeting to approve the amend and restate the Company's amended and restated Memorandum and Articles of Association (the "New M&AAs") in order that the Company's authorized share capital be re-classified and re-designated into 6,250,000 Common Shares of par value of $0.021848 each, of which 4,736,111 would be designated as Class A Common Shares of par value of $0.021848 each and 1,513,889 be designated as Class B Common Shares of par value of $0.021848 each.

In 2018, the Company issued an aggregate of 34,375 common shares to a consultant under the Company's incentive plan for advice and services provided concerning the Company's merger and acquisition planning, development and strategy implementation. The 34,375 common shares were issued in two tranches including 17,187 common shares issued on February 21, 2018 and 17,188 common shares issued on March 5, 2018. The fair value of the 34,375 common shares was $835,999, which was calculated based on the grant date stock price of $25.44 on February 21, 2018 and of $23.20 on March 5, 2018. During the year ended December 31, 2018, the Company amortized $835,999 as consulting expenses.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. EQUITY (cont.)

Also in 2018, the Company issued 25,000 common shares to a consulting firm for management consulting and advisory services to be provided for a period of 12 months up to August 15, 2019. The fair value of these shares on the grant date based on the closing price was approximately $288,000. During the year ended December 31, 2019 and 2018, the Company amortized $179,112 and $108,888 as consulting expenses.

On February 14, 2020, the Company consummated a registered direct offering of 323,750 Class A Common Shares and a concurrent private placement of warrants to purchase up to 323,750 Class A Common Shares with certain accredited investors. The purchase price per Class A Common Share in the registered direct offering was $6.80. The warrants sold in the concurrent private placement are exercisable for a period of five and one-half years upon issuance, at an initial exercise price of $6.80 per share, which was thereafter adjusted to $4.9912, subject to full ratchet anti-dilution protection. On February 25, 2020, we consummated a second registered direct offering of 437,500 Class A Common Shares and a concurrent private placement of warrants to purchase up to 437,500 Class A Common Shares with the same accredited investors. The purchase price per Class A Common Share in the second registered direct offering was $5.60. The warrants sold in the second concurrent private placement are exercisable for a period of five and one-half years upon issuance, at an initial exercise price of $5.60 per share, subject to anti-dilution protections. On March 2, 2020, we consummated a third registered direct offering of 612,500 Class A Common Shares and a concurrent private placement of warrants to purchase up to 612,500 Class A Common Shares with the same accredited investors. The purchase price per Class A Common Share in this registered direct offering was $5.60 per share. The warrants sold in the third concurrent private placement are exercisable for a period of five and one-half years upon issuance, at an initial exercise price of $5.60 per share, subject to anti-dilution protections.

On October 21, 2020, the Company completed a share combination of its common shares at a ratio of one-for-eight, which decreased the Company's outstanding Class A common shares from 17,685,475 shares to 2,210,683 shares and the Company's outstanding Class B common shares from 11,111,111 shares to 1,388,888 shares. This share combination also decreased the Company's authorized shares to 6,250,000 common shares of par value of US$0.021848 each, of which 4,736,111 are designated as Class A common shares and 1,513,889 are designated as Class B common shares. Accordingly, all share and per share information has been restated to retroactively show the effect of this share combination.

At December 31, 2020 and 2019, the number of shares of Class A common stock issued and outstanding was 2,210,683 and 836,933 respectively. At December 31, 2020 and 2019, the number of shares of Class B common stock issued and outstanding was 1,388,888.

Statutory Surplus Reserves

A PRC company is required to make appropriations to statutory surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC ("PRC GAAP"). Appropriations to the statutory surplus reserve is required to be at least 10% of the after-tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entity's' registered capital.

The statutory 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 shareholding or by increasing the par value of shares currently held by them, provided that the remaining statutory surplus reserve balance after such issue is not less than 25% of the registered capital.

No amount was allocated to the statutory surplus reserve account as both the subsidiaries in China had incurred accumulated losses as of December 31, 2020 and 2019.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. EQUITY (cont.)

Stock Option Plan

Under the employee stock option plan, the Company's stock options generally expire ten years from the date of grant. On December 29, 2011, the Company entered into five-year agreements with its employees and directors, pursuant to which, the Company issued an aggregate of 56,250 options at an exercise price of $11.60 per share. The options vest in equal annual installments over the five years of the agreements ending December 28, 2016.

On October 7, 2013, pursuant to the Company's Share Incentive Plan, the Company granted a non-statutory option to acquire 11,750 of the Company's common shares at an exercise price of $18.40 per share to Mr. Ping Chen, the CEO of the Company. The options vest in equal annual installments over the five years of the agreement ending October 6, 2018.

On August 20, 2014, pursuant to the Company's Share Incentive Plan, the Company granted additional option to acquire 16,375 of the Company's common shares at an exercise price of $42.48 per share to Mr. Ping Chen. The options vest in equal annual installments over the five years of the agreement ending August 19, 2019.

On August 7, 2015, the Company entered into two-year agreements with its employees and directors, pursuant to which the Company issued an aggregate of 43,625 options at an exercise price of $13.12 per share. The options vest in equal annual installments over the two years of the agreements ending August 6, 2017.

On March 21, 2016, the Company entered into two-year agreements with its employees and directors, pursuant to which the Company issued an aggregate of 72,608 options at an exercise price of $15.04 per share. The options vest in equal annual installments over the two years of the agreements ending March 20, 2018.

In 2018, 1,375 options were exercised for cash to purchase 1,375 shares of the Company's common shares for an aggregate consideration of $17,851, and 5,000 options were exercised on a cashless basis to purchase 1,000 common shares of the Company.

As of December 31, 2020, all outstanding options have been vested.

The Company valued the stock options using the Black-Scholes model with the following assumptions:

Expected Terms (years)	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Grant Date Fair Value Per share
10	126% – 228%	0%	0.73% – 1.65%	$9.76 – $41.20

The following is a summary of the option activity:

Stock options	Shares	Weighted average exercise price	Aggregate intrinsic value[(1)]
Outstanding as of January 1, 2019	110,233	$ 18.72	
Forfeited	(10,875)	—	
Exercised			
Outstanding as of December 31, 2019	99,358	$ 19.20	
Forfeited	(33,000)		
Exercised	—		
Outstanding as of December 31, 2020	66,358	$ 21.82	$ —

(1) The intrinsic value of the stock options at December 31, 2020 is the amount by which the market value of the Company's common stock of $4.15 as of December 31, 2020 exceeds the exercise price of the options.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. EQUITY (cont.)

Following is a summary of the status of options outstanding and exercisable at December 31, 2020:

Outstanding options			Exercisable options		
Average exercise price	Number	Average remaining contractual life (years)	Average exercise price	Number	Average remaining contractual life (years)
$ 11.60	11,250	1.00	$ 11.60	11,250	1.00
$ 18.40	11,750	2.77	$ 18.40	11,750	2.77
$ 42.48	16,375	3.64	$ 42.48	16,375	3.64
$ 15.04	26,983	5.22	$ 15.04	26,983	5.22
	66,358			66,358	

For the years ended December 31, 2020, 2019 and 2018, the Company recognized $0, $69,176 and $247,134 respectively, as compensation expense under its stock option plan.

As of December 31, 2020, unrecognized share-based compensation expense related to options was nil.

14. WARRANTS

On April 28, 2016, the Company signed Share Purchase Agreement (“SPA”) with Hangzhou Lianluo. In this SPA, Hangzhou Lianluo is entitled with 125,000 warrants to acquire from the Company 125,000 common shares at purchase price of $17.60 per share. The warrants will be exercisable at any time. The Company recognized the warrants as a derivative liability because warrants can be settled in cash. Warrants are remeasured at fair value with changes in fair value recorded in earnings in each reporting period.

There was a total of 125,000 warrants issued and outstanding as of December 31, 2020 and 2019.

The fair value of the outstanding warrants was calculated using the Black Scholes Model with the following assumptions:

	December 31,		
	2020	2019	2018
Market price per share (USD/share)	$ 4.15	$ 3.12	9.04
Exercise price (USD/share)	17.60	17.60	17.60
Risk free rate	0.41%	1.81%	2.60%
Dividend yield	0%	0%	0%
Expected term/Contractual life (years)	5.3	6.3	7.3
Expected volatility	341.88%	279.93%	256.20%

The following is a reconciliation of the beginning and ending balances of warrants liability measured at fair value on a recurring basis using Level 3 inputs:

	December 31,		
	2020	2019	2018
Beginning balance	$ 389,630	$ 1,129,246	$ 1,729,111
Warrants issued to Hangzhou Lianluo	—	—	—
Warrants redeemed	—	—	—
Fair value change of the issued warrants included in earnings	129,036	(739,616)	(599,865)

Ending balance	$ 518,666	$ 389,630	1,129,246

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. WARRANTS (cont.)

The following is a summary of the warrants activity:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding as of January 1, 2019	125,000	$ 17.60	
Granted	—		
Forfeited	—		
Exercised	—		
Redeemed	—		
Outstanding as of December 31, 2019	125,000	$ 17.60	
Granted	—		
Forfeited	—		
Exercised	—		
Redeemed	—		
Outstanding as of December 31, 2020	125,000	$ 17.60	

From February to March 2020, the Company consummated three registered direct offerings of 1,373,750 Class A Common Shares and concurrent private placements of warrants to purchase up to 1,373,750 Class A Common Shares with three investors. In late January 2021, 1,255,000 of these warrants were exercised and leaving 118,750 warrants that remain outstanding.

Amount of Underlying Class A Common Shares		118,750
Exercise price	$	5.60
Floor Price	$	1.44
Expiration Date		September 2, 2025
Issuance Date		March 2, 2020

In accordance with ASC 815-40, the Company accounted for the Warrants as equity instruments.

15. SELLING EXPENSES

The Company's selling expenses consist of the followings:

	Year ended December 31,		
	2020	2019	2018
Salaries and social welfare	$ 58,915	$ 761,774	$ 1,765,019
Travelling expenses	1,256	34,244	170,931
Service fee	—	12,369	41,437
Advertising & promotion	27,908	19,811	56,259
Entertainment fee	3,377	4,848	42,656
Office expense	—	—	1,960
Others	364	2,224	4,567
Total Selling expenses	$ 91,820	$ 835,270	$ 2,082,829

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. GENERAL AND ADMINISTRATIVE EXPENSES

The Company's general and administrative expenses consist of the followings:

	Year ended December 31,		
	2020	2019	2018
Salaries and social welfare	$ 787,700	$ 1,358,629	$ 1,068,643
Service fee	1,469,810	750,734	1,493,403
Office expense	79,733	268,555	391,850
Research & Development	—	—	301,713
Depreciation &Amortization	83,531	138,811	79,177
Stock compensation	—	69,176	247,134
Entertainment fee	3,348	4,176	22,593
Travel Expense	57,237	1,056	17,902
Others	842	2,671	53,050
Total General and administrative expenses	$ 2,482,201	$ 2,593,808	$ 3,675,465

17. LOSS PER SHARE

The following is a reconciliation of the basic and diluted loss per share computation for the years ended December 31, 2020, 2019 and 2018:

	Year ended December 31,		
	2020	2019	2018
Net loss attributable to the Company's common shareholders	$ (3,241,697)	$ (4,450,994)	$ (8,910,002)
Weighted average shares outstanding – Basic and diluted	3,389,069	2,225,821	2,202,176
Loss per share – Basic and diluted	$ (0.96)	$ (2.00)	$ (4.05)

The Company has been authorized to issue Class A and Class B common stock. The two classes of common stock are substantially identical in all material respects, except for voting rights. Since the Company did not declare any dividends during the years ended December 31, 2020 and 2019, the net loss per common share attributable to each class is the same under the "two-class" method. As such, the two classes of common stock have been presented on a combined basis in the consolidated statements of operations and comprehensive income and in the above computation of net loss per common share.

For the years ended December 31, 2020, 2019 and 2018, all the outstanding warrants and options were anti-dilutive.

18. INCOME TAXES

British Virgin Islands

Lianluo Smart is a tax-exempt company incorporated in the British Virgin Islands.

PRC

PRC enterprise income tax is calculated based on the Enterprise Income Tax Law (the "EIT Law"). Under the EIT Law, a unified enterprise income tax rate of 25% and unified tax deduction standards will be applied equally to both domestic-invested enterprises and foreign-invested enterprises.

The tax rate for Lianluo Connection is 25%.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. INCOME TAXES (cont.)

The BVI and PRC components of loss before income taxes consisted of the following:

	Years Ended December 31,		
	2020	**2019**	**2018**
BVI	$ (1,650,230)	$ (1,385,394)	$ (957,973)
PRC	(1,591,467)	(3,065,600)	(7,952,029)
Loss before income taxes	$ (3,241,697)	$ (4,450,994)	$ (8,910,002)

The income taxes (benefit) provision for the years presented is as follows:

	Years Ended December 31,		
	2020	**2019**	**2018**
Current:			
BVI	$ —	$ —	$ —
PRC	—	—	—
	—	—	—
Deferred:			
BVI	—	—	—
PRC	—	—	—
Income taxes (benefit) provision	$ —	$ —	$ —

A reconciliation of the provision for income taxes determined at the statutory income tax rate to the Company's income taxes is as follows:

	Years ended December 31,		
	2020	**2019**	**2018**
Loss before provision for income tax and non-controlling interests	$ (3,241,697)	$ (4,450,994)	$ (8,910,002)
PRC corporate income tax rate	25%	25%	25%
Income tax benefit computed at PRC statutory corporate income tax rate	(810,424)	(1,112,749)	(2,227,500)
Reconciling items:			
Allowances and reserves	26,352	20,414	4,940
Impairment on intangible assets	—	—	818,935
BVI tax rate and PRC tax law differential	412,557	346,349	239,493
Others	5,301	40,828	300
Valuation allowance on deferred tax assets	366,214	705,158	1,163,832
Income tax benefit	**$ —**	**$ —**	$ —

Deferred taxes assets

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. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2020 and 2019 are presented below:

	2020	2019
Deferred tax assets		
Allowances and reserves	$ 181,706	$ 155,354
Impairment on intangible assets	—	818,935
Net operating loss carried forward	2,418,846	3,789,703
Valuation reserve	(2,600,552)	(4,763,992)
Deferred tax assets, non-current	$ —	$ —

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. INCOME TAXES (cont.)

As of December 31, 2020, the Company's PRC subsidiaries had net operating loss carry forwards of $9,675,383, which will expire in various years through year 2025. Management believes it is more likely than not that the Company will not realize these potential tax benefits as these operations will not generate any operating profits in the foreseeable future. As a result, a valuation reserve was provided against the full amount of the potential tax benefits.

Uncertain tax position

The accounting for uncertain tax positions prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is required to recognize in the financial statements the impact of a tax position, if that position is more-likely than-not of being sustained on audit, based on the technical merits of the position. The Company recorded a net charge for unrecognized tax benefits in 2020 and 2019 of $0 and $0, respectively. The Company includes interest and penalties related to unrecognized tax benefits, if any, within the benefit from (provision for) income taxes.

The Company only files income tax returns in PRC. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or its withholding agent. The statute of limitations extends to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion.

19. RELATED PARTY TRANSACTIONS AND BALANCE

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company had the following material related party transactions:

(1) During the years ended December 31, 2020, 2019 and 2018, the Company purchased from Hangzhou Lianluo, its controlling shareholder, and subsidiary of Hangzhou Lianluo for services in amounts of $44,614, $42,000 and $204, respectively. As of December 31, 2020, the Company reported $3,019 in service charge payable to Hangzhou Lianluo's subsidiary. On January 19, 2021, this balance was fully paid.

(2) During the years ended December 31, 2020, 2019 and 2018, the Company sold equipment of $nil, $9,588 and $nil, respectively, to a related party company in which its previous CEO, Mr. Ping Chen holds 51% ownership. As of December 31, 2020, the Company reported an outstanding receivable of $11,455 due from the related party company.

(3) On July 1, 2018, the Company leased office premises from Hangzhou Lianluo for a period of 1 year, with an annual rental of $84,447 (RMB580,788). Rental payments charged as expenses in 2020, 2019 and 2018 were $0, $35,892 and $39,942, respectively. As of December 31, 2020, the Company reported an outstanding rental payable of $81,126 to Hangzhou Lianluo.

(4) Short-term borrowing from related party companies:

i) Borrowings from Hangzhou Lianluo

During the fiscal year 2019, the Company borrowed an aggregate of $942,500 from Hangzhou Lianluo and repaid $0. As of December 31, 2020, the loan balances were $996,450. These loans were extended, interest-free as of December 31, 2020 and without specific repayment date, which is based upon both parties' agreement.

During 2018, the Company borrowed from Hangzhou Lianluo $3,682,592 carrying an annual interest rate of 5%-8%, which was fully settled through a debt offset agreement among the Company, Hangzhou Lianluo and DGHKT as described below "iv) Borrowings to DGHKT." As of December 31, 2018, the loan balance was zero.

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCE (cont.)

ii) Borrowings from DGHKT

During 2019, the Company borrowed $33,000 interest free from DGHKT, and repaid $0. On July 14, 2020, the Company repaid the principal of $33,000 to DGHKT. As of December 31, 2020, the loan balance was zero.

iii) Borrowings from Mr. Ping Chen:

Starting from 2019, the Company borrowed from Mr. Ping Chen, its former CEO, free of interest to fund its operation. During 2020, 2019 and 2018, the borrowings were $498,191, $387,182 and nil, and Mr. Ping Chen forgave a debt of $143,301 of the borrowings in 2019. The balances were $787,608, $243,881 and nil as of December 31, 2020, 2019 and 2018, respectively.

iv) Loans to DGHKT

On March 15, 2018, the Company entered into a loan agreement with DGHKT (an affiliate of Hangzhou Lianluo), pursuant to which the Company loaned $6 million to DGHK for a term of 12 months. The Company also borrowed RMB34.3 million (approximately $5.2 million) from Hangzhou Lianluo, its principal shareholder.

Pursuant to an agreement dated December 27, 2018, the Company, DGHKT, Hangzhou Lianluo agreed that the outstanding amount owed by DGHKT to the Company of RMB35.6 million be repaid by Hangzhou Lianluo on behalf of DGHKT, to the Company. This repayment is agreed to be settled in the form of offset against the amount owed by the Company to Hangzhou Lianluo of RMB35.6 million (approximately $5.2 million). As a result, the Company no longer owed or was owed by Hangzhou Lianluo or DGHKT any amount as of December 31, 2018.

20. CONCENTRATIONS

Major Customers

For the year ended December 31, 2020, two customers accounted for approximately 84% and 7%, respectively, of the Company's revenues. For the year ended December 31, 2019, two customers accounted for approximately 21% and 15%, respectively, of the Company's revenues. For the year ended December 31, 2018, two customers accounted for approximately 16% and 13%, respectively, of the Company's revenues.

Major Suppliers

For the year ended December 31, 2020 and 2019, one supplier accounted for 100% of the Company's purchases. For the year ended December 31, 2018, two suppliers accounted for approximately 31% and 17%, respectively, of the Company's purchases.

Disaggregation of Revenue from Contracts with Customers

The following represents the revenues by products, all derived from China:

	For the years ended December 31,		
	2020	**2019**	**2018**
Sale of medical equipment			
Abdominal CPR Compression	$ 301,549	$ 58,750	$ 221,414
Mobile Medicine (sleep apnea diagnostic products)	21,776	153,644	120,930
OSAS service (analysis and detection)	35,211	171,064	217,042
Total Revenues	**$ 358,536**	**$ 383,458**	**$ 559,386**

LIANLUO SMART LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. CONTINGENCIES

On October 23, 2020, the Company entered into an agreement and plan of merger (the "Merger Agreement") with Lightning Delaware Sub, Inc., its wholly owned subsidiary ("Merger Sub"), and Newegg Inc., a Delaware corporation ("Newegg"), whereby Merger Sub will merge with and into Newegg, with Newegg continuing as the surviving corporation and a wholly owned subsidiary of the Company (the "Merger"). Under the Merger Agreement, at the effective time of the Merger, each share of the capital stock of Newegg issued and outstanding immediately prior to the effective time of Merger (other than treasury shares and any shares of Newegg capital stock held directly by us or Merger Sub) will be converted into the right to receive 5.8417 common shares of the Company and, if applicable, cash in lieu of fractional shares. The closing of the Merger is subject to customary conditions, including regulatory approval and approval by our shareholders. If the Merger are not consummated for these or any other reasons, the Company may be required under certain circumstances to pay Newegg a termination fee of $450,000;

On October 26, 2020, the Company filed the Form F-4 with the SEC to seek its shareholders' approval of the Restructure as well as other related proposals including the elimination of its dual class share structure, an increase of the authorized shares, share combination, name change, and amendment of our memorandum and articles of association. Once the Form F-4 has been declared effective by the SEC, the Company intends to set a date for a special meeting for our shareholders to approve the proposals associated with the Merger.

On October 23, 2020, the Company also entered into an equity transfer agreement (the "Disposition Agreement") with Beijing Fenjin Times Technology Development Co., Ltd. ("Beijing Fenjin") and its wholly owned subsidiary, Lianluo Connection, pursuant to which Beijing Fenjin will acquire 100% of the equity interests in Lianluo Connection for RMB0 immediately following completion of the Merger. In exchange for all of the equity interests in Lianluo Connection, Beijing Fenjin agreed to contribute RMB87.784 million to Lianluo Connection's registered capital by September 23, 2023 in accordance with the articles of association of Lianluo Connection. In addition, as an inducement for Beijing Fenjin entering into the Disposition Agreement, the Company agreed to convert the indebtedness in the aggregate amount of $11,255,188.47 that Lianluo Connection owes to the Company into additional paid-in capital of Lianluo Connection immediately prior to the closing of the disposition.

22. SUBSEQUENT EVENTS

Exercise of warrants

As a result of the private placements that closed on February 14, 2020, February 25, 2020, and March 2, 2020, the Company issued to several investors warrants to purchase 1,373,750 of the Company's Class A common shares. In late January 2021, 1,255,000 of these warrants were exercised resulting in aggregate cash proceeds to the Company of $6.8 million and leaving 118,750 warrants that remain outstanding.

NEWEGG INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Newegg Inc.
City of Industry, CA

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Newegg Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), temporary equity and equity (deficit), and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited the retrospective adjustments to the 2018 consolidated financial statements to reclassify the Series A and AA convertible preferred stock to temporary equity as described in Note 2(y) to the consolidated financial statements. In our opinion, such retrospective adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 consolidated financial statements of the Company other than with respect to the retrospective adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2018 consolidated financial statements taken as a whole.

Change in Accounting Method Related to Leases

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases during the year ended December 31, 2019, due to the adoption of Accounting Standards Codification 842, "Leases."

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Vendor Incentive Receivables

As described in Note 2 to the consolidated financial statements, the Company's vendor incentive receivables totaled $40.3 million. The Company participates in various vendor incentive programs including purchasing-based volume discounts, sales-based volume incentives, marketing development funds, including for certain cooperative advertising, and price protection agreements.

We identified management's measurement of vendor incentive receivables as a critical audit matter because the Company has significant number of vendor agreements with various terms and conditions. Auditing these receivables was complex and subjective due to the extent of effort required to evaluate whether the vendor incentive receivables were recorded in accordance with the terms and conditions of vendor agreements.

The primary procedures we performed to address this critical audit matter included:

- Evaluating management's accounting policies and practices including the reasonableness of management's judgments and assumptions relating to the Company's accounting for vendor incentive receivables.
- Testing a sample of vendor agreements and underlying relevant supporting documents to evaluate the appropriateness of management's recording vendor incentive receivables including assessment of various terms and conditions in these agreements.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2019.

Los Angeles, California
March 31, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Newegg Inc.:

Opinion on the Consolidated Financial Statements

We have audited, before the effects of the adjustment to retrospectively apply the change in the classification of the Series A convertible Preferred Stock and Series AA convertible Preferred Stock to temporary equity as described in Note 2(y), the consolidated statements of operations, comprehensive loss, temporary equity and equity (deficit), and cash flows of Newegg Inc. and subsidiaries (the Company) for the year ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). The 2018 consolidated financial statements before the effects of the adjustment described in Note 2(y) are not presented herein. In our opinion, the consolidated financial statements, before the effects of the adjustments to retrospectively apply the change in the classification of the Series A convertible Preferred Stock and Series AA convertible Preferred Stock to temporary equity as described in Note 2(y), present fairly, in all material respects, the results of operations of the Company and its cash flows for the year ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in the classification of the Series A convertible Preferred Stock and Series AA convertible Preferred Stock to temporary equity as described in Note 2(y) and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2014 to 2019.

Irvine, California
April 18, 2019

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NEWEGG INC.
Consolidated Balance Sheets
December 31, 2020 and 2019
(In thousands, except par value)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	$ 156,635	$ 79,750
Restricted cash	1,111	797
Accounts receivable, net	66,465	54,185
Inventories	182,056	109,509
Income taxes receivable	2,510	2,521
Prepaid expenses and other current assets	19,834	14,206
Due from related parties	—	6,625
Total current assets	428,611	267,593
Property and equipment, net	46,466	47,130
Noncurrent deferred tax assets	669	1,041
Equity investment	9,655	6,457
Investment at cost	15,000	15,000
Right of use assets	46,557	38,099
Other noncurrent assets	10,510	6,448
Total assets	$ 557,468	$ 381,768
Liabilities, Temporary Equity and Equity		
Current liabilities:		
Accounts payable	$ 241,502	$ 165,653
Accrued liabilities	83,939	49,396
Deferred revenue	47,398	25,846
Line of credit	5,276	6,379
Current portion of long-term debt	281	258
Lease liabilities – current	9,695	8,585
Total current liabilities	388,091	256,117
Long-term debt, less current portion	2,088	2,223
Income taxes payable	696	675
Lease liabilities – noncurrent	39,043	30,643
Other liabilities	53	66
Total liabilities	429,971	289,724
Commitments and contingencies (note 16)		
Temporary Equity:		
Series AA convertible Preferred Stock, $.001 par value; 25,890 shares authorized as of both December 31, 2020 and 2019; 24,870 shares issued and outstanding as of both December 31, 2020 and 2019	187,146	187,146
Series A convertible Preferred Stock, $.001 par value; 59,000 shares authorized; 36,476 shares issued and outstanding as of both December 31, 2020 and 2019	655	655
Total Temporary Equity	187,801	187,801

Equity (deficit):		
Class A Common Stock, $.001 par value; 142,000 shares authorized; 849 shares issued and outstanding as of both December 31, 2020 and 2019	1	1
Class B Common Stock, $.001 par value; 59,000 shares authorized; none issued or outstanding as of December 31, 2020 and 2019	—	—
Additional paid-in capital	2,366	744
Notes receivable	(15,186)	(15,029)
Accumulated other comprehensive income (loss)	3,057	(505)
Accumulated deficit	(50,542)	(80,968)
Total equity (deficit)	(60,304)	(95,757)
Total liabilities, temporary equity and equity (deficit)	$ 557,468	$ 381,768

See accompanying notes to consolidated financial statements.

NEWEGG INC.
Consolidated Statements of Operations
Years ended December 31, 2020, 2019 and 2018
(In thousands, except per share data)

	2020	2019	2018
Net sales	$ 2,114,872	$ 1,533,928	$ 2,022,437
Cost of sales	1,841,243	1,369,054	1,816,834
Gross profit	273,629	164,874	205,603
Other operating income (loss)	—	28,314	(1,555)
Selling, general, and administrative expenses	250,239	229,192	247,174
Income (loss) from operations	23,390	(36,004)	(43,126)
Interest income	1,124	586	1,484
Interest expense	(664)	(2,945)	(1,595)
Other income, net	5,320	4,184	1,599
Gain from sale of and equity income from equity method investments	3,197	21,777	9,617
Income (loss) before provision for income taxes	32,367	(12,402)	(32,021)
Provision for income taxes	1,941	4,589	1,582
Net income (loss)	$ 30,426	$ (16,991)	$ (33,603)
Less: Undistributed net income allocable to Series A and Series AA convertible Preferred Stocks	(30,012)	—	—
Less: Dividend or deemed dividend paid to Series A convertible Preferred Stock	—	—	(19,960)
Net income (loss) attributable to common stock	$ 414	$ (16,991)	$ (53,563)
Basic earning (loss) per share	$ 0.49	$ (20.01)	$ (80.68)
Diluted earning (loss) per share	$ 0.09	$ (20.01)	$ (80.68)
Weighted average shares used in computation of earning (loss) per share:			
Basic	849	849	664
Diluted	4,562	849	664

See accompanying notes to consolidated financial statements.

NEWEGG INC.
Consolidated Statements of Comprehensive Income (Loss)
Years ended December 31, 2020, 2019 and 2018
(In thousands)

	2020	2019	2018
Net income (loss)	$ 30,426	$ (16,991)	$ (33,603)
Foreign currency translation adjustments	3,562	(1,133)	(2,974)
Comprehensive income (loss)	$ 33,988	$ (18,124)	$ (36,577)

See accompanying notes to consolidated financial statements.

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NEWEGG INC.
Consolidated Statements of Temporary Equity and Equity (Deficit)
Years ended December 31, 2020, 2019 and 2018
(In thousands)

	Series AA convertible preferred stock		Series A convertible preferred stock		Total temporary equity	Class A common stock		Additional paid-In capital	Notes receivable	Accumulated other comprehensive income	(Accumulated deficit)/ Retained earnings	Total equity
	Shares	Amount	Shares	Amount		Shares	Par value					
Balance at December 31, 2017	24,870	$187,146	42,898	$ 770	$187,916	709	$ 1	$ 15,242	$ —	$ 3,602	$ (4,873)	$(13,972
Net loss	—	—	—	—	—	—	—	—	—	—	(33,603)	(33,603
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(2,974)	—	(2,974
Issuance of Common Stock	—	—	—	—	—	234	—	380	—	—	—	380
Stock-based compensation	—	—	—	—	—	—	—	3,895	—	—	—	3,895
Deemed dividend	—	—	—	—	—	—	—	(19,517)	—	—	(443)	(19,960
Share repurchases	—	—	(6,422)	(115)	(115)	(94)	—	—	—	—	(25,058)	(25,058
Balance at December 31, 2018	24,870	$187,146	36,476	$ 655	$187,801	849	$ 1	$ —				