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### **Chinese Media Exposes Lies About NQ “Partnerships”**

It is beneficial for US investors to read Chinese media coverage of our NQ reports. This update consists of English translations of four articles that have appeared in Chinese media in the past week. There are two articles quoting certain of NQ’s purported partners (e.g., ZTE) as stating that NQ fabricated the partnerships. One article covers the disappearance of NQ / FL Mobile’s games from the iTunes store. One article is an IM exchange between Chinese investors and Chairman Lin. (The host of the chat was Xueqiu.com, a Chinese investment site.) Chairman Lin seems to take pain to avoid directly answering tough questions, such as those stating that NQ’s market share claims do not match with Chinese investors’ observations. The articles also mention Chairman Lin’s (unverified) claim that NQ has sued Muddy Waters in China.

The articles are:

- NQ’s “Business Partners” ZTE, Huawei and Lenovo, Denied There Was Pre-installation Cooperation, The Beijing News, Oct. 30, 2013.
- NQ Accused of Unilaterally Fabricating Reports of Cooperation with ZTE, Money.163.com, Oct. 25, 2013.
- FL Mobile: iOS Games Drop-off Issue Still Under Discussion, Sina Technology, Oct. 29, 2013.
- NQ Mobile CEO Yu Lin: We have filed a lawsuit in China against Muddy Waters, and are considering organizing an anti-Muddy-Waters group, Caijing News, Oct. 29, 2013.

(Source: The Beijing News, 30<sup>th</sup> October 2013: 03:00)

## **NetQin's "Business Partners" ZTE, Huawei and Lenovo, Denied There Was Pre-installation Cooperation**

Some of NetQin's alleged business partners, such as mobile phone-related companies ZTE, Huawei, Lenovo, etc., claimed to have no pre-installation business with NetQin during interviews with the reporter yesterday.

After NetQin was questioned by the short-seller and the media, some of NetQin's alleged business partners, such as mobile phone-related companies ZTE, Huawei, Lenovo, etc., revealed they have had no pre-installation business with NetQin, during the interviews with The Beijing News reporter yesterday. In response to this, NetQin expressed there must be a misunderstanding resulting from internal communication problems with the mobile phone companies. NetQin has adequate evidence to prove it is genuinely doing pre-installations with these companies.

### **NetQin Said It Had Been Cooperating with Huawei, Etc. for Years**

NetQin Mobile, Inc. was established in 2005 as a mobile phone security software company. On May 5, 2011, NetQin was listed on the New York Stock Exchange. Before that, according to the publicly disclosed data by NetQin, the number of paid users was 6 million people.

On October 24, US time, short seller Muddy Waters published an 81-page investigative report, alleging that NetQin manipulated data on turnover, made false market share claims, and overstated the number of paid users. According to the report, the number of NQ paid users is less than 25 thousand people, which is different from the 6 million NetQin claimed.

On the afternoon of October 25, Beijing time, after NetQin's eighth anniversary celebration, when interviewed by the media, NetQin CEO Henry LIN-Yu said NetQin's users are comprised of three pieces: registered users, monthly active users and paid users, and that many of the reports fail to differentiate these three concepts. Half of NetQin's users are located overseas (whereas half are in China), covering over 150 countries. Currently, there are 370 million registered users (excluding FL Mobile), 120 million of which are monthly active users, and 11.3 million of those are monthly paid users. There are two main sources of NetQin's users: pre-installed mobile

phones and online downloads. In the meantime, cooperation exists on pre-installations between NetQin and mobile phone manufacturers ZTE, Huawei, Coolpad, Lenovo, etc.; there are 30 thousand sources on the Internet. The definition of an active user, according to NetQin, is, “NetQin’s software installed by the user, which is able to connect to the server”.

While Lin participated in an online interview yesterday, he again stressed that there has been cooperation on pre-installations between NetQin and a number of mobile phone manufacturers, such as Huawei, ZTE, Lenovo, Coolpad, Gionee, Oppo, etc. over the years. “In the coming year, there will be almost 300 million in output volume for orders from Huawei, ZTE, Lenovo and Coolpad.” Yet, Lin rejected the request of “listing the cooperative mobile phones’ model numbers” from Internet users.

### **Many Mobile Phone Manufacturers Denied the Said Cooperation**

Yesterday, mobile phone manufacturers ZTE, Huawei, Lenovo, etc., told the Beijing News reporter they have had no pre-installation business with NetQin.

ZTE admitted that there were business discussions with NetQin. However, for reasons including the pre-installation charge, this cooperation never happened. Later, ZTE developed its own security app, “Mi-Assistant (掌心管家)”, so then there was no need to pre-install NetQin’s software. ZTE has never had business cooperation with NetQin on pre-installations.

A related person from Lenovo also indicated that Lenovo has its own “Safe (乐安全)” product, which is a competitor of NetQin; thus, Lenovo never pre-installed NetQin. A related person from Huawei also expressed that Huawei has communicated with NetQin, but has never had formal pre-installation cooperation with NetQin. Coolpad expressed it has not cooperated with NetQin on pre-installation for at least two years.

Regarding these denials, a NetQin contact replied this must have been a misunderstanding resulting from internal communication problems with the mobile phone companies, and that NetQin has adequate evidence to prove that it is genuinely doing pre-installation business with these companies.

### **Stock Price Falls 60% Within 3 Transaction Days**

Further to the large fall last week, on the evening of October 28, NetQin's stock price continued falling 17.22%. The market value of NetQin is USD 453 million now, which is USD 880 million less than last Thursday.

On October 25, NetQin CEO Lin promised during an interview that at 8 pm that night, NetQin would announce an official reply to Muddy Waters's accusation. Nevertheless, as of the time this new article published last night, NetQin still had not announced its said reply.

Due to the nonexistence of the "strong reply", investors showed hesitation about NetQin's business performance, and the stock price continues to drop.

On October 28, NetQin's stock price reached a low of USD 7.58, with the closing price falling 17.22%. The stock price of NetQin fell 62%, from USD 23.05 to USD 8.8 within 3 transaction days; the market value dropped USD 880 million.

*The Beijing Times Reporter: LIN Qiling*

## ■ Related

### **US Law Firm Will Investigate NetQin Based on Muddy Waters's Report**

US law firm Wites & Katpetan announced it would carry out an investigation on NetQin yesterday.

On the second day since the Muddy Waters's report was released, The Rosen Law Firm from the US announced it would carry out an investigation on whether NetQin is engaged in a massive fraud. HAO Junbo, a law practitioner who aggressively represents clients in US stock legal claims, told The Beijing News reporter that he has already been entrusted by a shareholder to file a lawsuit against NetQin for security fraud. Now, he is seeking more shareholders to join this legal action.

Hao said that since China stocks have listed on the US stock exchange, there have been similar cases. He thinks that Muddy Waters short sells only after serious investigation, and does not make fictitious reports. Otherwise, the goodwill, which is accumulated over many years, would be destroyed. "But the truth needs

investigation to get evidence; it also needs time to be questioned.”

Hao reckons that only a strong explanation can eliminate shareholders’ concerns. If it is just a general statement, he is afraid that the investors would not have confidence in NetQin and the stock price would not come back easily in a short period. He said if NetQin presents reasonable explanations and evidence, to please provide a strong counter statement.

NetQin announced there would be a strong reply. However, it was still unavailable as of yesterday. When replying to the question raised by the Internet user on the exact time of the release, Lin only said that the company had a phone conference regarding the issue last Friday, and they have already replied. iMeigu content director ZHONG Rixin revealed that NetQin did not reply to some core issues, the reply is not strong enough. “Now, people still have questions. NetQin claims that it has a large market share, so why aren’t there any NetQin users around us?”  
(LIN Qiling, ZHENG Daosen)

## ■ Reply

### **CEO of NetQin Claimed He Has Sued Muddy Waters**

NetQin has promised that it will never withdraw from the market. NetQin’s target is to be a hundred-year-great-enterprise.

Yesterday, NetQin CEO Lin said during an online interview that his company has sued short seller Muddy Waters in Beijing. And, they are considering taking the same legal action in Hong Kong and in the US as well.

### **Lin Said He Feels Heartbroken on the Loss to Shareholders**

Lin said he feels heartbroken on shareholders’ losses, due to the great decline of NetQin’s stock price, but that the loss is caused by investors’ fears, induced by Muddy Waters’s defamatory statements.

Lin also said he hopes Chinese companies listed in the US will consider establishing an “Anti Muddy Waters Alliance” to fight against short sellers like Muddy Waters. “It is very hard to fight alone with so many short sellers in the market. But if we can be united and work together, then it will be easy to face the

challenges,” said Lin.

Lin also said the company would release a more concrete message on their company website on October 29. Nevertheless, as of the time this new article was published last night, NetQin still has not released the said message. In addition, Lin has also promised that NetQin will never withdraw from the market. NetQin strives to be a hundred-year-great-enterprise.

### **The Company Published Its Accounts As Proof of Its Strong Business**

On October 24, US time, Muddy Waters released a report questioning mobile phone security software company NetQin about the fake figures from turnover, to the number of paid users. Muddy Waters claimed in the report that at least 72% of NetQin’s revenue from mobile phone security products in China is manipulated, and that they overstated their market share in China. Muddy Waters also pointed out that the M&A deals made by NetQin may involve corruption, and that its cash deposit amount may be fake.

In the telephone conference convened on October 25, Beijing time, NetQin made a verbal reply to the Muddy Waters’s report. Lin said that the accusation made by Muddy waters was completely fabricated. The company announced that the board of directors has formed an independent special committee to independently access the content on of the report. The committee will be comprised of four independent directors.

In addition, to prove the strength of the company, NetQin published some figures of major time deposits. And, NetQin also expressed that after the release of the results of the 3rd quarter of 2013, and after the blackout period, the company will carry out a USD 35 million stock repurchase scheme.

NetQin feels very sorry about the stockholders’ loss due to the great decline of stock price. However, the loss was caused by the defamatory comments made by Muddy Waters; therefore, NetQin has taken legal action in Beijing to sue Muddy Waters and the report’s writer.

--NetQin CEO Lin  
(Source: The Beijing News)

## **NQ Accused of Unilaterally Fabricating Reports of Cooperation with ZTE**

2013-10-25    Source: *Money.163.com*

On October 25, NQ's reply to the short-seller states there are two main sources of NQs users: from pre-installations on mobile phones, and from online downloads. In the meantime, there is cooperation on pre-installation between NQ and the mobile phone manufacturers ZTE, Huawei, Coolpad, Lenovo, etc.; there are 30 thousand sources on the Internet.

However, NQ-alleged business partner ZTE told money.163.com that there is no business cooperation between ZTE and NQ, and that the information regarding the business cooperation was released unilaterally by NQ.

On NQ's official webpage, there is a "NQ's news" with the heading, "NQ Helps ZTE Pass the National Safety Test Level 5," dated September 28. The article claims that ZTE, whose mobile phone passed safety test level 5 from the Ministry of Industry and Information Technology of the People's Republic of China, maintains long-term, close cooperation with NQ. NQ provides technical support for the anti-virus, spam SMS blocker and junk call blocker on ZTE's mobile security app "Mi-Assistant (掌心管家)".

There is also news claiming that on September 26, NQ announced it signed agreements with Huawei, ZTE and Lenovo, and these three companies will pre-install NQ's mobile security solution on their smartphones.

That report claimed, "Huawei revealed that some of the Android mobile phones to be sold in the international market will pre-install NQ's Anti-virus solution. Lenovo said that it would provide overseas users with the latest NQ mobile security service. And, ZTE stated that parts of the Android devices to be sold in the global market will pre-install NQ's mobile security solution."

However, ZTE replied to money.163.com that the news items mentioned above were unilaterally released by NQ, and that there is no such business cooperation between ZTE and NQ. "We have requested that NQ delete this news numerous times; nevertheless, as of now, NQ still has not deleted it."

ZTE revealed during discussions with NQ regarding this news, that NQ also admitted this news was published unilaterally. "But, regarding the pre-installation on

mobile phones, ZTE has never cooperated with NQ.”

Money.163.com has noticed on NQ’s official webpage that ZTE is listed in the business partners’ column.

On October 25, NQ’s stock price dropped greatly, due to Muddy Waters’ short sale. Muddy Waters alleged that for NQ’s claimed business revenue from national security products in 2012, at least 72% of the revenue is fabricated. NQ also seriously overstated its market share in China. The market share of NQ in China is only 1.5%, instead of the claimed 55%; the number of paid users is less than 250 thousand people, instead of the claimed 6 million people.

Source: money.163.com      Reporter: ZHAO Ting      Editor-in-Charge: NF003

## FL Mobile: iOS Games Drop-off Issue Still Under Discussion

Sina Technology: Oct. 29 morning news. NetQin's FL Mobile games were dropped off of the iOS system as Muddy Waters continued to short sell their stock. In its previous official response to this issue, FL Mobile says it is still under discussion. They have also revealed that they will compensate their business partners. So far, there is still no result from their discussion.

Some of FL Mobile's games cannot be used right now. A source speaking on behalf of the company revealed that executives are in talks with related partners and that they have started collecting evidence to take legal measures against Muddy Waters. Meanwhile, FL Mobile has announced the following measures to protect the interests of their users and partners:

First, they apologize to all FL Mobile game players for the inconvenience and say they will make compensation in future games if players cannot currently play games normally or cannot add money to games.

Second, they will try their best to protect the interests of their partners and proactively conduct talks and compensate them.

Third, they will communicate with related partners, provide related explanations and documents, and restore some games back to normal as soon as possible.

Fourth, they will collect related evidence on how they believe the short seller Muddy Waters conspired to attack them. FL Mobile reserves the right to take legal measures against responsible parties.

**NetQin Mobile CEO Yu Lin: We have filed a lawsuit in China against Muddy Waters, and are considering organizing an anti-Muddy-Waters group.**

**[Caijing News]** At noon on October 29, after days of delay on a response, NetQin Mobile (hereafter, NQ) CEO Yu Lin accepted a Q&A session with web users at Xueqiu Net, openly addressing the report from Muddy Waters. In his response, Yu mentioned that a lawsuit has already been filed in China against Muddy Waters LLC, and he expects over \$51 million in third-quarter revenue. An English version of the telecom notes will be released on their IR site later.

Previously, Muddy Waters released a harsh report of NQ being a fraud that caused NQ stock to fall by half.

Below are from the Q&A session with web users:

*Xudong Zhu:* NQ divided users into registered users, active users and paid users. How does NQ define registered users? Do we have to download NQ software to become a registered user? Thanks!

*NQ Yu Lin:* You'll need to download, install and activate the software in order to become a registered user.

*Pixiu Chen:* What is the expected market profit for NQ this year? Why did Muddy Waters say that the company was a "zero" after NQ issued its convertible bonds sale? If NQ delists itself from the New York Stock Exchange, does the company need to pay back the debt? Or do we not need to worry about the creditors in the U.S. because we are in China? What other business does NQ plan to do after delisting itself?

*NQ Yu Lin:* NQ will never quit. We are not planning on delisting our company. Our goal is to make NQ a great company that will last 100 years!

*Duan Jian:* I have three questions. First, when can you provide the proof of the company's savings in the bank? Is the \$1.6 billion at the Standard Chartered Bank from the convertible bonds? Second, ZTE Corporation openly denied any collaboration with your company, and requests you to take back the false statements. What is your explanation on this matter? Third, your company has been keeping track of the number of registered users. Could you tell me how many users NQ has now? Also, could you name a few cell phone models that has NQ software preinstalled and are still available in the market? Thanks.

*NQ Yu Lin:* First, we have already made all the bank savings public. We are probably the first listed company globally that is this transparent. Further work is still ongoing. The \$1.6 billion in the Standard Chartered Bank is the investment money from the convertible bonds. Second, the issue with ZTE Corporation is a misunderstanding by the media. The interviewee does not have enough knowledge

of the collaboration between NQ and ZTE. We have announced the global collaboration with ZTE three weeks ago. We have been a long-term strategic partner with ZTE. This will be clarified today.

*Hao Duo:* Your subsidiary company, FL Mobile's games, has recently been removed from the Apple App Store. What is the reason for that? When do you expect to have the games back to the App Store? Also, Apple has improved its algorithm against ranking fraud. Will this affect the future development of NQ?

*NQ Yu Lin:* Many companies (e.g., Tencent, Baidu, Renren Network, etc.) have encountered similar problems. Our products are not the only ones being removed this time. We have already communicated with the Apple App Store, and expect to resolve this issue in three weeks. It will not affect the future development of our company. We are very optimistic about the mobile gaming industry.

*Hao Duo:* What is NQ's plan on the electric-charging supporting service for the BYD Qin (note: an electric car model in China)? I think this area has a lot of room for future development, and will be a great help to the strategy of your company.

*NQ Yu Lin:* We are investing in the INMOTION SCV, which, in our view, is the next generation of intelligent mobile robot. It is the next billion-dollar industry. We plan to combine NQ's sound and vision searching technology with the INMOTION SCV, and build the next generation intelligent mobile robot.

*Rossiloo:* How do you explain the fact that ZTE Corporation denied collaboration with NQ? I hope it is not because NQ was collaborating with ZTE's sales partners to fake rankings.

*NQ Yu Lin:* We have just announced our global partnership with ZTE three weeks ago. NQ and ZTE have been strategic partners for many years. We will further clarify this issue today.

*Mao Wang:* Could you give some robust data on daily active users and paid users?

*NQ Yu Lin:* The active users we have currently, based on the number of users connecting to the server every month in the last quarter, is about 120 million.

*Jiu Chen:* Among all the allegations from Muddy Waters, the key one is about the company Yidatong (YDT). They claimed to have visited 10 sites purportedly occupied by YDT, all of which were empty or did not exist. The management of NQ has released the address of YDT headquarters in a meeting. Could you release more information on the business of YDT, the locations of its individual sites, the number of employees at each location, and management background? This information is easily verified and very persuasive information, and would solve 80% of the current problems in my opinion.

*NQ Yu Lin:* YDT is a service provider and provides mobile billing service, which is one

of the billing channels for NQ. We also have other payment methods such as 19pay and Alipay. For small bills, mobile billing services such as YDT are very easy options. For large bills, Shenzhoufu and Alipay are better.

*Danielz:* NQ has 60% of the market in China, and millions of downloads from Google abroad. However, a lot of Internet users in China have never heard of NQ. I suspect it is not that well known overseas either. Does the company realize that there is a huge gap between the amount of installation and recognition? What is the cause of this gap, and is there any plan to solve this issue?

*NQ Yu Lin:* Every company's development is a process, just like a child growing up is a process. If our brand has the same reputation as Tencent, Baidu or 360, NQ should not have been only a \$1 billion company, but a \$10 billion company. In the early stage of our development, we put our emphasis on the investment of products, technology and sale channels. From this year on, we are strengthening our marketing, brand name, and communication with the capital markets. You need to allow time for a child to grow up.

*To\_Dominic:* Muddy Waters apparently has some misunderstandings on the savings of NQ. Could you answer the savings issue objectively, and directly respond to the issue regarding the paid users? For instance, you can list the models and the sale numbers for the top 10 paid cellphones.

*NQ Yu Lin:* We have responded many times to similar questions before. To put it simply, NQ and many cell phone companies, such as Huawei, ZTE, Lenovo, Coolpad, Gionee and oppo, have long-term collaborations on software pre-installation. The global market for Huawei, ZTE, Lenovo and CoolPad alone is close to \$0.3 billion next year. Our users are mostly in the Tier 2 – 6 cities, instead of the top tier cities where the investors live.

*Lao Yu:* I heard that NQ has enough data in hand to respond the 81-page report. The response is only delayed due to some process difficulties. Could you elaborate on what the difficulties are?

*NQ Yu Lin:* In the investors' telecom last Friday, we made a lot of detailed responses, including answers to almost every question. We will organize the notes and release them on our IR website later today, for easy access by our investors. Currently, only the English version is available.

*Xudong Zhu:* Thanks for all the answers! Could you tell me which city in China has the most registered NQ users? And how many users are there in that city? Thanks!

*NQ Yu Lin:* The provinces with most users are Guangdong, Jiangsu, Zhejiang, and Henan.

*Lao Yu:* You mentioned previously that NQ would file a lawsuit against Muddy Waters. When will that happen?

*NQ Yu Lin:* We have already filed the lawsuit in China. We will file more lawsuits in

Hong Kong and in the U.S. later. We want to solve this issue through the legal process.

*Chao Wang:* Search portals have become the focus of mobile competition now. At its 8-year anniversary, NQ announced that it would build advertisement and search platforms in the future. Could you elaborate on the intention of this decision? What does NQ have to compete with international giants?

*NQ Yu Lin:* NQ aims to become the global mobile Internet platform company. We do not do business on mobilizing the Internet service, as that is the advantage of traditional giants in the field. We only design Internet services that are exclusively for mobile phones. This is the advantage of NQ being a mobile-only and mobile-first platform company.

*Si Ren:* What is the business model of NQ? Are there any statistics on the activation rate of pre-installed mobile phones? Or is it all included in the number of users?

*NQ Yu Lin:* NQ has become a global mobile Internet platform company. Our income is from mobile security, games, advertisements, a mobile search engine, and service for mobilizing businesses. This year, mobile security is about 50% of the income; the others constitute the remaining 50%. In the next two years, with the fast development of the platform service, we will have a more balanced ratio of all 5 major businesses; each will range between 15% and 30%. NQ as a platform company will have a high growth rate and stronger anti-risk capability.

*Winwin20092010:* When will the detailed and strong response to the report be out? Is NQ actively working on it? Do you plan on increasing publicity?

*NQ Yu Lin:* In the investors' telecom last Friday, we gave a lot of detailed responses, including answers to almost every question. We will organize the notes and release them at our IR website later today, for easy access by our investors. Currently only the English version is available.

*Horace:* Do you have any word for the previous NQ shareholders? The huge loss this time is a huge hit on shareholders' confidence in NQ.

*NQ Yu Lin:* We are very sorry for the losses of our shareholders. However, the losses were caused by Muddy Waters' false allegations and the induced panic among investors. We have already filed a lawsuit in Beijing against Muddy Waters and the author of the report.

*Xudong Zhu:* You mentioned that NQ has collaborations with ZTE, Huawei, Coolpad and Lenovo. But the \$0.3 billion you mentioned is the total market from these four cellphone companies. Could you give the details on the specific cellphone models that NQ collaborates on? (Previously in a telecom, the models NQ provided were mostly from Samsung. NQ claimed that these were the top 10 sellers.)

*NQ Yu Lin:* In the investors' telecom last Friday, we made a lot of detailed responses, including answers to almost every question. We will organize the notes and release them at our IR website later today, for easy access by our investors. Currently only the English version is available.

*Luo Yin:* There are no previously successful cases suing short-sellers. Why does NQ think it will succeed?

*NQ Yu Lin:* NQ has come a long way since the establishment of the company with \$0.1 million. We have the world's best and most fighting team. Our team is very calm this time. We will solve any problem! We think it is the best time to invest in NQ.

*Lao Yu:* In the 81-page report, Muddy Waters pointed out that your employees are farmers from Jiangxi Province, and are only good at farming. From what I gathered, Muddy Waters' CEO, Carson Block, was in China from 1997 to 2008, trying to make some money. During the 10 years, he has experienced many difficulties. His plan to open a financial service company in China did not succeed in 1997, and he lost a lot in 2008 on his private storage company in Shanghai. His love for China gradually turned into hate after all these events, and he has been interested in killing the successful Chinese companies to expand business overseas ever since. Do you think this report has anything to do with Muddy Waters' hate for Chinese companies? Will you pursue justice for your employees?

*NQ Yu Lin:* Who says farmers cannot program? Poor people can also have the Chinese dream! They are pointing at the CEO of one of our sub companies, Ruide. The CEO himself will sue Muddy Waters for it. He is a computer science major college graduate. I'd say he has higher education than Steve Jobs and Bill Gates.

*Haitian Wang:* How much is the cost for NQ to pre-install software on mobile phones?

*NQ Yu Lin:* The price is changing with the market. This is confidential business information. It is about 1 - 2 RMB per user activation.

*Haitian Wang:* Will the third quarter revenue increase substantially as predicted?

*NQ Yu Lin:* Of course, we have already predicted that the third quarter revenue will be over \$51 million.

*Youzi:* You have been avoiding the real question. How many users does NQ have?

*NQ Yu Lin:* In the investors' telecom last Friday, we made a lot of detailed responses, including answers to almost every question. We will organize the notes and release them at our IR website later today, for easy access by our investors.

*Chao Wang:* In the press release conference, NQ revealed that Bo Lin is a CEO who sleeps in the couch, and Dr. Shi is a CEO who eats fast food lunch boxes. Are other

employees the same as these two? Do your employees work as hard as those from some of the IT companies? What employee benefits do they have? Also, please take care of your own health. Don't work too hard.

*NQ Yu Lin:* All employees at NQ work very hard. Our efficiency is much higher than fellow companies in the same industry. Our principle is always hiring the best people, and providing the best environment.

*Lao Yu:* I was at your company's 8-year anniversary press release conference. It was proposed that the open platform, advertisement, and search service would make 15% of the revenue. Another business would make 25% of the revenue. Is there any concrete plan on how to promote these businesses?

*NQ Yu Lin:* For example, we have over 3 million searches on our music searching service. The largest music search engine in the world, Shazam, has 10 million searches per day. We predict that our service will exceed Shazam and become the largest music search engine in the world. We have our own music radar client, which is also installed on the smart watches by Samsung. Also, a lot of music client cloud search such as kugou and tiantiandongting are using our music search service.

*Pegg:* May I ask why Suhai Ji left his post?

*NQ Yu Lin:* Suhai was invited to join another IPO company. He led NQ to successfully get listed while we were facing the difficulties from 315, and brought the company value to \$1 billion. A lot of companies have invited him to be their CFO. We have invited KB to become our trusted CFO. KB was the managing director from the investment bank that contributed to NQ's success.

*Lao Yu:* Rumor has it that ZTE had a representative who denied collaboration with NQ, while at the same time NQ has already released the contract with ZTE to money.163.com. So the misunderstanding was caused by that one ZTE employee providing false information to the media. Since it damaged the reputation of NQ, will you take any action on that ZTE employee?

*NQ Yu Lin:* NQ believes in a company culture based on trust. We hope to build long-term trusting relationship with our partners and the media. I personally think it is very important to be tolerant. The more tolerant one is, the more successful his business is.

*Chao Wang:* NQ is a mobile security company in transition to a mobile Internet company. What do you see as the biggest difficulty and challenge the company is facing right now?

*NQ Yu Lin:* We already overcame the biggest difficulties and challenges over the last 1 to 2 years. We currently have a very clear strategy and complete product line, based on NQ Live platform, mobile security, games, advertisements, services on searching and the mobile businesses.

*Bujie Long:* From this June to September, a lot of Chinese companies' stocks have increased substantially. Why did Muddy Waters decide to challenge NQ?

*NQ Yu Lin:* NQ is a global mobile Internet company that is getting attention from more and more investors. We had 350 investors calling in the telecom last Friday, which demonstrated the attention NQ gets. It is inevitable to experience some difficulties and challenges in the process of building a great company. Companies such as Baidu, New Oriental, Focus Media Holding, and 360 all had similar experiences.

*Fu Sheng:* Affected by the NQ case, all Chinese companies' stocks had a fall on their share values when the stock market opened yesterday. What do you think of the influence of the NQ case?

*NQ Yu Lin:* We hope that all listed Chinese companies in the U.S. will form an anti-Muddy-Waters group, to fight against short-selling firms like Muddy Waters. It is hard for one company alone to fight with many short-selling firms, but will be a lot easier when we unite and support each other.

*Bake Xing:* What is the cost for NQ's overseas operation? Why it cannot be processed with level 1? Is it NQ's fault or PwC's fault? Or neither?

*NQ Yu Lin:* This is misleading. Level 1 is for prices that can be proved through public channels. For instance, stock assets are Level 1. Fixed-term deposit is the safest and least risky way in China, but it is Level 2 in financial evaluation methods.

*Yangyang:* Can you release the stock shares of everybody in the management team of NQ?

*NQ Yu Lin:* Our founders have about 23%, plus options. The whole team holds over 40%. Our employees have over 22%, the highest among all Internet companies.

*Shuli:* According to the 2012 annual report of NQ, your company has 283.4 million registered users until Dec 31, 2012, among which 164 million users (57.9%) are in China; The average active users are 97.7 million per month, among which 56.9 million (58.2%) are in China; The average paid users are 89 million per month, among which 59 million (66.3%) are in China. From these data, Chinese users are the majority of NQ's total users and paid users. The Chinese market is the major market of NQ. However, people around me do not feel that they can support these data. What is your explanation on this? PS, the reason I listed these data is because a lot of NQ fans have been claiming that NQ's main market is overseas, and stating that NQ has never mentioned that its market is mainly inside China.

*NQ Yu Lin:* This is the third party report by SINO Market Research Company. Different reports have different definitions on market and research methods. This is the main reason for discrepancies in data. We suggest our users to read reports from SINO, Yiguan and iResearch to get a more complete and less biased opinion.

*Shouzhen:* I have two questions. First, is INMOTION SCV a product of NQ? It is very different from the main business area of NQ. Why does NQ not focus on mobile Internet security? Is it because NQ does not have enough confidence in the business model of mobile Internet security area? Second, it has been reported previously that NQ invited Jackie Chan to be the product spokesman. Is it true? The mobile Internet security field is a relatively new business. Your users were mostly born after 1980. Jackie Chan does not have a lot of supporters in this age group. What was the reason NQ invited Jackie Chan as spokesman?

*NQ Yu Lin:* NQ platform is the result of deliberate thoughts of the management team, and is also our ambition to become the international giant in the mobile Internet company space. We have made solid progress toward our goal in the last two years. Last Friday, we revealed the future strategy for NQ in our 8-year anniversary event. We will post videos from the event online in the near future. All are welcome to take a look. I believe it will help the public to know NQ better.

*Abbey1991:* I am using the GEAR watch from Samsung, but I cannot see any software from NQ. Could you explain this?

*NQ Yu Lin:* Music Radar is there. It's developed by a subsidiary company of NQ.

*Fengzi Zhang:* You are too busy to respond to my question. I am waiting for the stock to go up.

*NQ Yu Lin:* The Capital market is like the Pacific Ocean. There could be waves at any time. NQ will continue working for the best benefits for our users, employees and shareholders. The way to reward our investors is to keep a healthy long-term development on the core business of our company.

*Duoduo:* I have a question from an American friend. NQ has a lot of very good partners such as China mobile and Samsung. Why can't these partners come out to clear the lies from Muddy Waters?

*NQ Yu Lin:* We have just announced our partnership with international mobile giants such as China mobile and Samsung. Muddy Waters is trying to make profit by generating panic among investors.