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If You Believe in Yidatong (NQ's Largest Purported Revenue Source), You'll Believe in Santa Claus

NQ's largest purported source of revenue, Yidatong ("YDT"), is controlled by NQ, and its primary purpose is facilitating NQ's fraud. Believing NQ's narrative of YDT – that YDT is an independent company annually facilitating billing of approximately $35 million for a variety of developers – at this point requires investors to suspend reason. If the following does not convince an investor that NQ's YDT narrative is fabricated, then the investor is either too emotionally invested in the stock, or is gullible enough to still believe in Santa Claus.

At the end of this report, we include a translation of a recent investigative article by iFeng Finance that concludes YDT is controlled by NQ and Ms. Rong Xu is a front, and that YDT's purported numbers do not tie. (There are other equally disturbing facts and conclusions in the article.)

In order to believe NQ's narrative, you need to believe:

Despite deriving 40% of its business from developers other than NQ, NQ has no interest in being contacted by anybody – including potential clients.

If NQ is to be believed, YDT is one of the rare businesses that do not want to be found. In China, businesses generally want customers. Usually, Chinese businesses that want customers enable potential customers and others to find their places of business.

As we wrote in our initial report, we visited 10 potential YDT addresses. These addresses generally came from YDT's government filings, NQ's SEC filings, online research, and even YDT's own website. Most of these addresses do not even physically exist. At the addresses that do actually exist, YDT was nowhere to be found. We exhausted every possibility of which we could think in order to try to find YDT, and we were utterly unsuccessful.

Yet, according to NQ, the entire time we were chasing dead leads, YDT was cranking away in the back room of an office belonging to another Rong Xu company, 9H.

One of the funny aspects of NQ's claim is that YDT's website still shows its address as being in Tianjin, and there is no mention of Beijing. Note that there is no phone number – just a QQ handle and email address:

www.yidatone.com/contact.jsp

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After NQ released the address of 9H and claimed YDT was co-located there, we visited the office. There is no YDT signage anywhere in the lobby of YDT's purported Beijing office. The 9H sign is visible though.

There is no YDT sign at the entrance to YDT's purported office either. The photo NQ released (below) of the office entrance shows a large sign for 9H. The characters "九合天下" mean 9H.

The characters for "Yidatong" are "易大通". Those characters are not in evidence anywhere.

If NQ's story is to be believed, not only is YDT playing hard to get with potential customers, it is not concerned about the impression the lack of signage or contact information leaves on its existing non-NQ customers.

YDT has been cranking out $35 million in billings without having had many, if any, visitors to its office in the two years it has purportedly been there.

YDT evidently has had few to no visitors in its two years in purportedly operating in the 9H office. We observed, and Bloomberg confirmed, that the reception desk employees of 9H's office building had never heard of YDT. This implies that YDT has very rarely had a visitor.

The office building operates similarly to those in Manhattan in that visitors need to check in – one is not able to operate the elevator without an employee fob. The staircase exit doors are locked as well. Reception desk employees would therefore be familiar with the companies that visitors might visit.

At $35 million, YDT's purported volume is not insignificant. One would have expected job interviewees to show up on occasion, perhaps some existing clients, or even potential clients. Did YDT order no office supplies in its own name in two years? It would be much easier to keep its accounting separate from that of 9H if the invoices were in YDT's name. Did YDT receive no courier shipments in two years? Even Bowfinger eventually received a FedEx package.[1]

It is normal practice in China for virtual offices to only exist virtually.

NQ's response to our inability to find YDT at 10 addresses throughout China is that those addresses are similar to virtual offices. NQ equated these addresses to the mail drop addresses that a Delaware or Cayman company might use. According to NQ, YDT needs an office in each province in which it does business with a mobile carrier. That analogy is not quite apt.

China has a number of virtual offices. Servcorp offers virtual offices in most of the cities in which we struck out trying to find YDT. According to its website, it has virtual offices in Guangzhou, Beijing, and Shanghai, which are among the cities we tried. In our experience, virtual offices are approximately $100 per month. Bulk discounts are likely available.

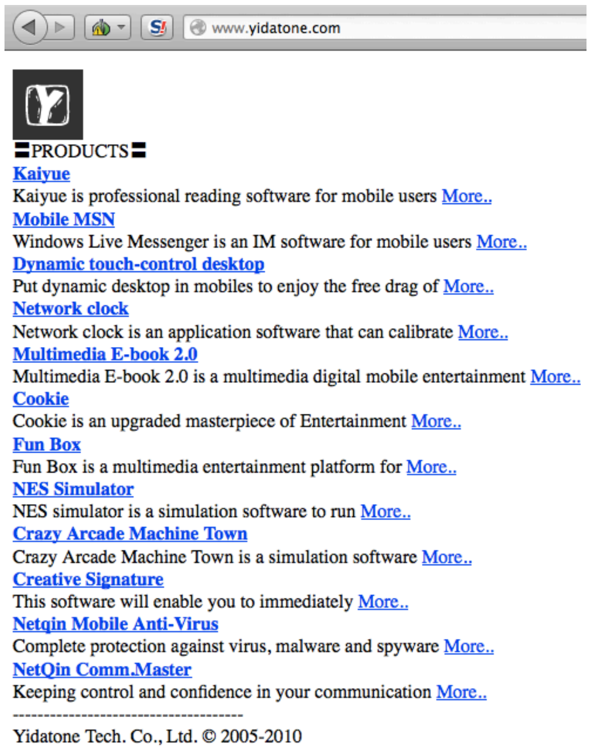
It is therefore puzzling why seven of the 10 addresses either do not physically exist (ghost addresses) or they are not commercial buildings. Two of the 10 addresses were commercial buildings that had other tenants, and nobody had heard of YDT. One wonders where China Mobile sends those big billing statements for YDT.

The other way in which this excuse falls apart is that YDT would be using at least four "virtual", including two ghost, addresses. If YDT were really humming away in Beijing, why not use the real address? Again, YDT would want to get those binders full of download data from the carriers every so often.

[1] The movie "Bowfinger" is a decent analogy for both NQ and YDT.

YDT processes approximately $15 million in billing for network clocks and E-readers.

NQ claims that it only accounts for approximately 60% of YDT's business, meaning that YDT would be processing approximately $15 million annually for other clients. Chinese consumers are more frugal than US consumers are. We doubt that YDT could generate anywhere close to $15 million in volume for its product lineup, which is comprised of 12 products: three e-book readers, two video game simulators, two NQ products, Microsoft's Mobile MSN, and network clocks.



The repeated lies, which quite possibly amount to both 17(a) and 10b-5 securities fraud, about Rong Xu's employment at NQ and when she joined YDT, are not covering up anything nefarious and have been told for sport.

NQ has repeatedly lied about whether NQ is a related party. These lies likely amount to securities fraud. One therefore wonders whether NQ management would run the risk of prosecution if there were nothing to hide about NQ's relationship with YDT.

Rong Xu, who owns 75% of YDT, worked at NQ. That much is not in dispute. The question is whether Ms. Xu simultaneously worked at NQ and YDT, which has always been NQ's largest source of revenue. If Ms. Xu were simultaneously at both firms, then YDT would be a related party. Doing business with related parties – particularly in a high fraud risk environment like China – presents a real risk of fraud. Were YDT disclosed as a related party, the relationship would have been subject to a good deal more scrutiny by the auditor and underwriters.

It is now clear that YDT was a related party during at least 2006 to 2008. Rong Xu became the Executive Director of YDT in February 2006. Government records show this. NQ, after we caught it in the lie about Rong Xu's overlapping timelines, conceded that Ms. Xu was with NQ at least through December 2008. NQ has taken great pains – and risks – to conceal this.

NQ has now told the following four versions of Rong Xu's involvement with NQ and YDT:[2]

- Rong Xu was a consultant to NQ in 2006 and 2007 – NQ May 2011 prospectus.
- Rong Xu consulted for NQ for less than six months in 2007, and bought 75% of YDT at the time she left NQ – NQ August 1, 2013 response to J Capital report.
- Rong Xu was an employee of NQ from September 1, 2006 to December 31, 2008. She bought 75% of YDT after she left NQ – October 25, 2013 conference call.
- Rong Xu was a NQ consultant from spring 2007 until the end of 2007; she was then a NQ employee (Director of Marketing) from December 2007 to August 2008 – Matt Mathison November 2, 2013 narrowly circulated email.

Rong Xu told Bloomberg yet another version – that in 2008, she worked for NQ for a total of seven months.[3]

We are particularly interested that Matt Mathison seems to be the author or speaker of all three 2013 public statements on the Rong Xu matter. These contradicting statements would make his apparent lack of concern about Regulation FD seem to be almost a non-issue in comparison.

The Business Tax YDT paid, which supports total transaction processing volume and therefore gross revenue of only $2.9 million, is irrelevant.

The Business Tax YDT paid, along with its accounts payable and cash balance show that its 2012 gross revenue was only $2.9 million. PRC GAAP provides that YDT's gross revenue and cost of sales include all amounts received on behalf of YDT customers like NQ, and paid to such customers. NQ concedes that YDT recorded only $2.9 million in 2012 revenue and NQ agrees that gross revenue would include all amounts paid onward to NQ. In other words, NQ agrees that YDT's gross revenue must be at least as large as the $20.2 million NQ purports to have booked through YDT in 2012. NQ would therefore seem to agree that if YDT's gross revenue were only $2.9 million, then NQ's YDT-related revenue is massively overstated.

However, NQ argues that YDT's $2.9 million of 2012 revenue was recorded on a "net" basis – i.e., net of what YDT paid NQ and its other customers. In our initial report, we pointed out that there are two other items in YDT's financial statements that evidence the $2.9 million is a gross revenue figure, and not net: YDT's Business Tax payments and its accounts payable. The Company has failed to publicly respond to those points.

YDT's Business Tax (i.e., sales tax) payments prove that the $2.9 million revenue is a gross figure. YDT's Business Tax payments in 2011 and 2012 respectively constituted $42,000 and

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[2] For a comprehensive discussion of the varying explanations, see: http://seekingalpha.com/article/1803082-nq-mobile-1-question-5-answers?source=yahoo

[3] http://www.bloomberg.com/news/print/2013-11-03/nq-mobile-sales-search-leads-to-suburban-beijing-office.html

$97,000. By statute, YDT pays Business Tax of between 3% to 5% of revenue. (The exact percentage is a function of which services YDT sells and where it geographically books the revenues.) YDT's Business Tax accounts are equal to 3.4% of its reported revenue.

It is clear that YDT is paying 3.4% of gross revenue, and not of net revenue. YDT works with NQ (and presumably its other purported clients) in the following way. YDT receives payment directly from the carriers. YDT then deducts its share of the payments, and sends the bulk onward to NQ. In other words, China Mobile would pay YDT RMB 100, and YDT would pay NQ approximately RMB 90. These are the mechanics for which NQ's contract with YDT provide. It is key to understand that China Mobile does not pay YDT RMB 10 and also pay NQ RMB 90. In other words, China Mobile pays all money to YDT.

China's tax system is voucher-based. If China Mobile pays out RMB 100 as cost of sales, it needs a voucher to evidence the expenditure. Without a voucher, the RMB 100 would fall to China Mobile's pretax income line, and it would be taxed on all RMB 100. Therefore, at the time China Mobile pays any vendor – especially a SP like YDT – it would require a voucher for all RMB 100.

When YDT generates a voucher, it must pay business tax on the entire amount of the voucher. In other words, when YDT generates the RMB 100 voucher for China Mobile, it must pay Business Tax of 3% to 5% of the RMB 100. The only way YDT could avoid paying Business Tax on the RMB 100 amount would be if China Mobile paid it only RMB 10, and directly paid NQ the RMB 90. Again, this is not how carriers work with SPs like YDT.

When YDT pays NQ the RMB 90, NQ generates a voucher for that amount, and NQ must pay Business Tax on the RMB 90. That way, YDT has a voucher to show Cost of Sales that offset its revenue.

YDT's 2011 and 2012 Business Tax payments are 3.4% of respective revenue of $1.2 million and $2.9 million. Therefore YDT's 2012 gross revenue was $2.9 million.

The discrepancy between YDT's 12/31/2012 total accounts payable of $3.7 million, versus NQ's purported accounts receivable from YDT of $9.4 million, is meaningless.

On December 31, 2012, NQ's purported accounts receivable from YDT stood at $9.4 million. On the same date, YDT's accounts payable to all parties (presumably including NQ) was only $3.7 million. NQ's purported AR is 2.5x all of YDT's APs. Because YDT would be paying customers and vendors other than NQ, one would expect its APs to be higher than NQ's ARs. Therefore, one of these accounts is clearly wrong.

It has been suggested that there the difference is due to the 30-day lag between when YDT receives funds from carriers, and when YDT pays NQ. This attempted explanation clearly does not hold water. First, this explanation relies on YDT booking its revenue only on a net basis. As we showed with Business Tax and previously explained in our initial report, YDT's revenue is reported in its SAIC financials on a gross basis.[4] Under the suggested alternative (nonsensical) version of accounting, YDT books an AR only for the amount of net revenue it will recognize. It therefore would not have to book the offsetting AP until approximately 60 days later when it receives the cash payment from the carrier.[5] As we showed in the discussion about Business Tax, YDT is recording revenue on a gross basis; therefore, it would book an AP for NQ's portion of the invoice at the same time it books its AR. YDT's AR would equal the amount of the invoice that YDT would issue to the carrier; it would also equal YDT's gross revenue on the transactions. YDT's AR and AP would be recorded at the same time NQ records its AR. There is no lag, thus the alternative explanation holds no water.

One way of confirming that YDT's ARs are shown on a gross, and not net basis, is looking at YDT's cash account relative to its ARs. If YDT were only recording its ARs on a net basis, one would expect cash to dwarf ARs because YDT would be collecting cash payments that are roughly 10x its ARs. However, as of December 31, 2012, YDT's cash is only $150,000. On the same date, its ARs are $3.6 million. Because YDT has an additional 30 days to pay NQ, there should be cash from the last payment YDT received in its accounts, and that amount would have to dwarf ARs if ARs are recorded net. YDT's revenue, ARs, and APs are recorded on gross bases.

However, even if there were a lag because YDT were recording revenue and ARs on a net basis, the lag would be only 60 days, which is the delay before YDT would receive cash from the carrier. (Under this twisted form of accounting, at the time YDT receives cash from a carrier, YDT would need to book an AP that offsets the cash.) 60 days is 16% of one year. This is hardly enough time to explain a 2.5x differential – particularly considering that YDT's AP balance should include significant amounts owed to other parties. (Other customers purportedly account for 40% of YDT's volumes.)

YDT, which purportedly accounts for 72.1% of NQ's carrier billing, stands a reasonable chance of not showing up even once in 22 carrier subscriptions across 11 provinces (including in NQ's biggest provincial markets), and all three carriers.

We have now activated NQ subscriptions through the carrier-billing channel 22 times, and YDT has never been the SP. YDT does not do any real business. We have made eight attempts across all three carriers with SIMs for NQ's purported largest provincial markets: Henan, Guangdong, Jiangsu, and Zhejiang. Yet, YDT has never been the SP. The SP for China Mobile has always been UM Pay. The SP for China Unicom has always been Unisk. NQ has always been the SP for China Telecom.

NQ criticized our original sample size of 17 SIMs as too small. It states that its proprietary super system "BOSS" dynamically assigns SPs based on the particular circumstances of whatever. First, zero for 22 makes it clear that YDT is processing nowhere near 72.1% of NQ's overall

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4 PRC GAAP standards mandate that when a party receives the entire amount of payment on behalf of another party pursuant to all contracts involved, the payment agent books the gross amount received as revenue. This dovetails with China's voucher-based tax system.

5 As we explain infra, the 60-day carrier payment term claim contradicts NQ's own contract with China Mobile, which provides for payment within 15 to 45 days.

carrier billing. In fact, by disclosing (albeit in a lie) that NQ's third largest revenue source is an international SP (Info2Cell), NQ shows us that YDT purportedly handles well in excess of 72.1% of NQ's China carrier billing. (NQ's disclosed 2012 carrier billing channel revenue of $27.9 million apparently includes revenue from international carriers, making YDT's share of the domestic carrier-billing channel even higher than 72.1%.) It is inconceivable that if YDT is really processing 72.1% or more of NQ's carrier-channel billing, it would not have been the SP in our trials even once so far.

There is no BOSS. 12 China Mobile subscriptions have resulted in UM Pay being the SP 12 times. China Mobile jointly owns UM Pay. Seven China Unicom subscriptions have resulted in Unisk being the SP seven times. Three China Telecom subscriptions have resulted in NQ being the SP three times. China Mobile is NQ's largest carrier billing channel revenue generator among the three carriers. It is clear that NQ uses a sensible, easy to manage, approach to its SPs. It uses one SP for each carrier nationwide. It makes sense to use UM Pay with China Mobile because it is a gigantic SP and is partly owned by China Mobile. Unisk is another gigantic SP. China Telecom apparently works differently with application developers and SPs, which could be why NQ acts as its own SP for Telecom.

When NQ called YDT and other SPs a "necessary payment channel", omitting to disclose that NQ has been a SP itself since 2007, NQ was not attempting to mislead anybody.

As others and we have shown, NQ has told a number of lies of commission. It has also told some important lies of omission. One must believe that there was no nefarious reason for the lies of omission as well. One lie of omission was in NQ's August 1, 2013 response to the J Capital report in which NQ discussed why it uses YDT. NQ wrote:

> "Yidatong is a SP (service provider) which is a necessary payment channel for developers, like NQ, to collect payment from carriers like China Mobile. It is a necessary payment channel."

NQ forgot to qualify "necessary" by admitting that it has had its own SP license since 2007. It is therefore not necessary for NQ to use a small SP like YDT, but rather a choice. NQ told this lie of omission because interposing YDT as a layer between it and carriers does not make business sense from a legitimate perspective. Using YDT as a layer only makes sense if one wants to have a counterparty with which to generate fraudulent transaction records.

Despite having its SP license, NQ prefers to use YDT "whose entire business and organization is around the SP process" and "who [is] entirely focused on that particular job function". However, NQ provides vital YDT infrastructure, such as YDT's carrier liaisons and even its email server.

In our initial report, we revealed that NQ has its own SP license, and we stated that there is no legitimate reason to use a small SP like YDT. NQ responded with the aforementioned statements, claiming that NQ somehow benefits from using YDT because YDT's business is geared to be a SP.

However, as we showed in our initial report, NQ is YDT's contact point for multiple carriers, the Ministry of Information Industry and Telecommunications, and the State Administration of Industry and Commerce. NQ even hosts YDT's email server. In other words, NQ is providing infrastructure for YDT's SP operation. It is therefore hard to see how YDT is significantly more specialized in the SP business than NQ is. This argument does not hold water.

YDT takes 60 days to collect from China Mobile when NQ takes no more than 45 days.

NQ's DSO from YDT at the end of 2012 was a whopping 167 days.[6] NQ attempts to justify its high receivables balance from YDT by explaining that YDT needs 60 days to be paid by the carriers. First, this explanation does not explain away DSO of 167 days. More to the point, it is strange that YDT takes 60 days to receive funds from China Mobile when NQ, which is purportedly less efficient as a SP, takes no more than 45 days to receive payment from China Mobile.

According to NQ's contract with China Mobile, China Mobile must pay NQ for subscription fees billed in a given month with 15 days of the end of the month.[7] In that way, the time during which NQ waits for payment from China Mobile could be as much as 45 days, and as short as 15 days.

YDT repeatedly needs loans despite having NQ subsidize its overhead, employing no more than 15 people, and receiving NQ's money before NQ does.

As we stated in our initial report, if the relationship between YDT and NQ were legitimate, YDT would not be receiving interest-free loans from NQ that totaled approximately $5 million. We believe that these "loans" were actually ways of providing YDT a way to pay down fictitious ARs until cash could be raised from sales of NQ stock. In other words, were YDT really processing over $20 million in transactions annually for NQ, it would have regular cash inflows that would enable it to pay down ARs. Because there are no legitimate inflows, and YDT presumably needs to pay down some ARs with real cash from time-to-time, it needs cash. We believe that the real cash that circulates throughout NQ's fraud largely comes from offering proceeds and the sales of NQ's prolifically-issued shares. Particularly with China's FX regime, it can be difficult to time the movements of cash; therefore, it is conceivable that YDT might have needed to "borrow" cash from NQ in order to make properly timed payments of fake ARs.

YDT would seem to have no legitimate need for repeated loans from NQ. According to NQ, it co-locates in a 90 sq. ft. room for which 9H pays the rent. NQ takes on some of YDT's infrastructure burden by hosting its email server and providing its points of contact with carriers. YDT sits on NQ's money for 30 days before it pays it onward. YDT's business model is not investment or capital intensive. It has no legitimate need for repeated loans.

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[6] Calculation methodology is purported NQ revenue received from YDT in 2012 of $20.2 million, divided by 365 days, and then divided into NQ's purported AR from YDT of $9.4 million.
[7] NQ 2011 F-1, ex. 10.13.

One Chinese news outlet, iFeng, also concluded that YDT is really controlled by NQ and Xu Rong is just a front, and that YDT's purported numbers do not tie. The following is a translation of the full article.

Getting to the Bottom of NQ's Bizarre Road to Riches[8]

At 12:46 on November 3, 2013
Source: iFeng Finance, Author: Liu Liping， Li Lei

Behind the scenes of NQ's unusual rise to fortune there has been "a Ghost founder" operating out of sight, directing the company's fate. The largest source of NQ's profits is actually a company it controls, Tianjin Yidatong (YDT).   After NQ received 640 million RMB from its IPO, Mr. Zhou Xu began fading into the background, all the while using increasingly obfuscated means to receive his continuous streams of wealth from NQ.

The company [NQ] had a weak start in October of 2005 and the following two years were similarly lackluster. Then in May of 2001 it went public in the US.   Over the past six years, and up to the present, NQ has sustained a record of being the fastest growing among US-listed Chinese tech companies.

Then on November 30th an 81 page short report from Muddy Waters caught NQ by surprise. After a few days, the company countered with a 97-page reply. Among the core issues was the question of whether a company by the name of Tianjin Yidatong was set up as a shell company beneath NQ's banner.

In the course of just a few days research iFeng Finance found that Tianjin Yidatong actually does exist, is located at the address of a different company, employs less than ten people, and has been fortune enough to survive for eleven years. However, all of the evidence reveals that Ms. Xu Rong is presented as the owner on the surface only to deceive the public and obscure true ownership by another.   The real owner is one of NQ's founders, and its second largest shareholder.

In June of 2007, NQ's mysterious "founder" joined the company, Mr. Zhou Xu has since continuously found a way to direct the company's destiny, but like a ghost, he is hard to find and difficult to trace. After NQ received 640 million RMB from its IPO, Mr. Zhou Xu began fading into the background, all the while using increasingly obfuscated means to receive his continuous streams of wealth from NQ.

<u>Who is Yidatong?</u>

If we were to draw out NQ's bizarre company history on a chart, it would contain a sharp 90-degree turn and its vertex resides the "honored persona" of Yidatong. From mid-2007 on, this company has continuously been NQ's greatest source of profit.

[8] http://finance.ifeng.com/business/special/ruigongsi11/index.shtml

Of course, Tianjin Yidatong is not simply a "shell company" as the American short-seller Muddy Waters described. The company does indeed actually exist, operates at the address of another company, does not post its name on the sign, has less than 10 employees, and has been fortune enough to remain in business for 11 years.

"In 2006, I bought my 75% interest from four individuals," stated Ms. Xu Rong, General Manager of Tianjin Yidatong, at their Beijing Fengtai District Headquarters Center District office. The explanation was that she acquired the majority of Yidatong because it had a mobile telecom SP license, making Yidatong a unique asset.

However you need to understand the background of this industry. There were a series of the ups and downs in the ten years since the launch of the value added service provider (SP) business, with telecom operators upstream and the content providers (CP) downstream. In 2004, the SP's were embroiled in corruption scandals, [such was the impact that] in 2006 the SP's remained in the depths of a long down cycle. In that year, the telecom operators' profit split with the SP's was changed from 15:85 to 40:60; and simultaneously the payment channels were expanded, thereby greatly compressing the profit margin and vitality of the SP industry.

"The SP's were hit very hard at that time and the whole volume of business fell off," Ms. Xu Rong recognized. But why then would she buy a majority interest in Yidatong? "It was foresight, a bet on the future of the mobile internet," she explained.

Strangely, although the Yidatong's Legal Representative, Ms. Xu Rong seems unfamiliar with the company itself. [Among her comments were:] "Tianjin's headquarters may have a few staff." "In all of China there are about 20 people in total." "In all of China there may be a few different office addresses." "Guangzhou may have one or two staff."

Research by iFeng Finance into the acquisition of Yidatong found that Ms. Xu Rong might have been brought to the table on behalf of others.

"I witnessed the growth of the internet in China" Ms. Xu says. She graduated with a Master's degree from the Materials Science and Engineering Department of Qinghua University. Accordingly to iFeng Finance's description, after graduating she entered China's first internet company HaiYingWei. From 2000 to 2002 she worked at Lenovo FM365, then from 2003 to 2005 joined WanXiang, and became a Vice President in the Data Division, in 2006 she purchased the enterprise Yidatong, and in early 2007 co-founded 9H.

iFeng Finance verified that an important part of her resume was withheld, after leaving WanXiang, she joined Beijing Polywin Technology Co. and while serving as the Deputy General Manager acquired Yidatong.

So what kind of company is Beijing Polywin Technology Co.? This company was established in 2005, its legal representative, founder, and CEO is Mr. Zhou Xu (yes, one and the same as the co-founder and second largest shareholder of NQ.) As with Yidatong, it too is a company in the SP industry. But between 2006 and 2010 it was ordered by China mobile's provincial level companies and MIIT to undergo rectification, even terminating cooperation in Inner Mongolia as well as Guangxi Province before ultimately taking their business offline. In 2011 Beijing Polywin Technology Co. was cancelled and its SP qualifications terminated.

It was during this period, on November 30th, 2007 to be precise that Mr. Zhou Xu founded Jiu He Tian Xia Technology Co. (Beijing) [herein called 9H], located on the 3rd floor of Building No. 4, 11 Hepingli East Street, Dongcheng District. After Polywin Technology Co. was deregistered all of its assets were transferred to 9H and its web traffic was redirected to the official game page operated by 9H. In 2012, the company moved to Fengtai District Headquarters Base District 16. Mr. Zhou Xu was 9H's legal representative up until 2009, and thereafter, the legal representative changed to Ms. Xu Rong. Mr. Zhou Xu is the real founder of 9H.

Additionally, it must be pointed out that after Yidatong was purchased, its few employees were collocated with 9H's, as was confirmed by both Ms. Xu Rong as well as employees at 9H.

Thus, regardless of whether it was during her time at WanXiang, at Beijing Polywin, or even at 9H, Ms. Xu Rong has continuously operated as Mr. Zhou's loyal lieutenant, thereby allowing the real owner of Yidatong to avoid disclosing himself. Indeed, even in 2007, when Mr. Zhou Xu became a founder of NQ, Ms. Xu Rong followed along and served as a consultant.

<u>"The Ghost Founder"</u>

In NQ's family genealogy, Mr. Zhou Xu is the mysterious founder who seems able to continuously direct the company's fate, but like a ghost, he himself is hard to find and difficult to trace.

NQ's co-founder and CEO Lin Yu expressed that prior to May of 2007, NQ was constantly facing crisis and facing the possibility of imminent collapse, it was its period of hardship. "The company had no money, few value-added services, no brand, the products were just in the early stages, everything had to be done by ourselves, it was continuously operating poorly, and almost closed down several times."

But in May of 2007, its bitter days came to a close. Coincidentally, according to the Company's IPO prospectus, it was in June of 2007, that Mr. Zhou Xu joined the company taking on the title of "founder." From this year, NQ began to receive funding from Sequoia, GSR, Ceyuan Ventures, Fidelity Asia and a stream of other venture investments.

In NQ's IPO prospectus, Mr. Zhou Xu's resume states that "from 2006 to 2007 he served as the Chairman of Beijing Chineseall Cultural Development Co., Ltd.,; 2005-2006 CEO of Polywin Technology Co., and earned an MBA from China Europe International Business School （CEIBS）."

Moreover a publicly disclosed resume shows that Mr. Zhou Xu graduated from Beijing Institute of Computer Science, was the Vice President of HuaYou Starcomm Communications, UT Starcomm (China) Communications Director of Marketing, and finally in approximately early 2003 joined WanXiang Group's subsidiary company WanXiang Telecommunication as a Vice President, and assumed the duties of the General Manager of the Online Games Division.

Therefore it is after Mr. Zhou Xu became a "founder" at NQ that the volume of SP business between NQ and Yidatong enjoyed explosive growth. According to the data revealed to ifeng financial by Ms. Xu Rong, NQ has always been their largest customer in terms by volume of business, representing 70% of their revenue.

As at May 5, 2011, when NQ went public in New York, the prospectus reported that Mr. Zhou Xu held a 31.1% stake prior to the listing, and that after it went public that his shares declined to 22.9%. His 51,832,941 shares increased in value to over 600 million RMB, and Mr. Zhou's stake became worth even more than that of an earlier founder, Shi Wenyong.

After NQ's listing, Mr. Zhou Xu's personal wealth realized explosive growth, and in 2011 according to "Money Weekly's" publishing of the wealthiest overseas Chinese, Mr. Zhou Xu's fortune reached 640 million RMB.

However, from day one, Mr. Zhou Xu seems to have had no involvement in NQ's management. The management roles at NQ are: Dr. Lin Yu is NQ's CEO, Mr. Shi Wenyong is the COO, but Mr. Zhou Xu is listed only as a "founder." After NQ went public, Mr. Zhou Xu never required matching voting rights, with his voting rights being only16.7%. Even one year after having gone public, he resigned his position on the audit committee, retaining only the role of a director.

It is worth considering, as iFeng Finance observed, that Mr. Zhou Xu is a man who has maintained a very low profile, seemingly wishing to avoid contact with the outside world, such that it is even difficult to obtain information about his public activities. iFeng Finance searched through media photos, and even on the day of the IPO, Mr. Zhou does not appear, so much so that NQ's Vice President Zou Shihong was taken to be one of the thee founders.

From Zhou Xu's unknown background we can see an interesting phenomenon, he seems to like to give to the companies that he founds the name "Poly", besides "Polywin Technology Co.," he founded another software developer and wholesaler company called "Beijing Poly Intelligence Technology Company", and in the recruitment information for 9H the company originally introduced itself as "a member of the Poly Communications Holding Co," but iFeng Finance was unable to locate information connecting this company to the [well known] Poly Group. The Poly Group's representatives also deny any knowledge of these companies.

Additionally, during the period of time when the SP's were running amok, MIIT initiated several rectification efforts, but Mr. Zhou Xu's Polywin Technology Co., Communications group committed multiple violations yet survived, and on the eve of NQ's IPO, when the scandal regarding NQ and Beijing Feiliu Jiutian Technology Co.'s[9] conspiracy to compel additional cell phone billing charged was exposed, Yidatong as an SP was not subject to any punishments.

iFeng Finance learned that Mr. Zhou Xu's present official duties are that of one of partners in a private enterprise called Guan Yu Ventures. iFeng Finance attempted to reach him, but each time we called Beijing Poly Communications, the phone rang but there was no answer.

[9] Since acquired by NQ and renamed FL Mobile.

Examining NQ's Data
"A company can make mistakes during its development," said Ms. Xu Rong, and from her perspective, the mistakes NQ made were "mistakes of experience."

On the 8th Anniversary of NQ's formation, the American short seller Muddy Waters published its 81-page report accusing NQ of being a "massive fraud." One of its core tenants is that NQ's largest customer Yidatong is a company that does not exist. This is based on its research into ten different listed registered addresses it maintains throughout China.

Clearly, from the findings presented by iFeng Finance, this argument and contention can be easily rebutted, however. Muddy Waters theory seems quite close to the truth, Yidatong is actually a company owned by NQ.

Additionally, critical data from NQ's 2012 annual financial report shows that of its $90.8 million USD annual revenue, NQ received 20.2 million USD, or approximately 120 million RMB from Yidatong, equaling 22% of its total annual revenues. But when iFeng Finance compared this to the data provided by from Ms. Xu Rong, there was a substantial discrepancy between the two.

Yidatong's staffer even told iFeng Finance that after the Muddy Waters report, NQ advised them to "provide the media with good communication."

But according to the data revealed to iFeng Finance by Ms. Xu Rong, the Company's monthly revenues were stable at 10 million RMB/mo, or 120 million RMB per year. Moreover they provide to NQ a portion equaling between 60% and 70%, such that the highest amount would still only be 84 million RMB, a far cry from120 million RMB.

Simultaneously, a review of the SAIC file data shows that in 2012 Yidatong's total revenue was $2.9 million USD, or approximately 17.4 million RMB. Both NQ and Ms. Xu Rong insisted that these were net numbers.

But the data Ms. Xu Rong provided regarding the SP industry indicated that their gross profit margin was only 10% or thereabouts. If so, then according to the 120 million RMB revenue calculation, Yidatong's gross margin would be only 12 million RMB, there again revealing a considerable discrepancy with the 17.4 million RMB.

Within the composition of revenues presented in NQ's 2012 financial reports is the item "Wireless Carriers and Mobile Payment Service Providers" which equaled 27.9 million USD. After deducting NQ's $20.2 million USD and the additional $1.8 million USD from China Mobile, there remains only $5.9 million USD.

During the recent investor meeting, NQ revealed that the number two and number three largest customers were Beijing UMPAY and Info2Cell. These two companies' revenues also belong to the revenue segment originating from "Wireless Carriers and Mobile Payment Service Providers."

These two companies separately represent 11% and 8% of NQ's 2012 total revenue, or a total of $17.4 million USD; so clearly, between these numbers and the $5.9 million USD there remains an enormous gap.

The existing hole in data constitutes the main source of NQ's profits, and is approximately equal to NQ's pre-IPO total capital.

iFeng Finance checked NQ's IPO prospectus. In the three years 2008, 2009, and 2010, Yidatong separately stood at 52.7%, 20.0% and 21.4% of the Company's revenue and the SP was the primary source of the Company's profits.

After 2010, NQ's primary source of income was derived from NQ's recharge cards. This data is also receiving considerable skepticism from outsiders, because intuitively speaking, NQ's Qin coins have been a rare sight in the market.

On a recent conference call NQ revealed that throughout China there were 5000 pre-paid card points of sale, three different distributors, these were off-line sales, and that every month 600,000 cards were pre-sold, most of which were three month pre-paid cards with an ARPU of 11 rmb.

On the afternoon of October 31st, iFeng Finance visited the booths B1108, B1112, and B2178 located in the basement of the Dinghao shopping center sub levels 1 and 2 identified as points of sale [for pre-paid cards] in NQ's counter –attack conference call to carry out some fact-finding. We found that sales were less than ideal.

In response to this finding, NQ's Executive Vie President Li Yu expressed that sales of NQ's pre-paid cards in first tier cities were not robust, but that its key markets were third and fourth tier cities, and even lower tier cities, and additionally that the announcement chose to include Tier I cities from their network because the media generally tended to focus more on these places.

After iFeng Finance purchased a 13 RMB prepaid card at booth B2178, the salesperson explained that for each pre-paid card they sell they receive 1 RMB, but that in the last two days there has been really not much business, stating that, "on average, in a given day, we can sell 6 or 7 cards." While iFeng Finance was in the middle of making its inquiries, two young men suddenly turned up, hurriedly purchased 10 pre-paid cards, and then vanished almost as quickly as they appeared.