

Report Date: January 17, 2020
Company: Qutoutiao, Inc.
Ticker: QTT US
Industry: Interactive Media and Services
Stock Price (USD): \$4.20
Market Cap (USD, Millions): \$1,056.1



QTT's Top 12 Lies and Omissions for the New Year

On December 27, 2019, QTT issued a response to [our report](#) with a headline stating that it was “*false and misleading*,” using the same tired formula of responding (poorly, in our opinion) to only a few points, while ignoring arguably the most serious issues we brought up. QTT only addressed seven points and did so with explanations that were, in our view, vague and, in some cases, contained blatant material misrepresentations.

In this report, we will explain why we believe QTT's explanations for the 7 points it did address are inadequate at best. We will also present some of the new information we have uncovered related to QTT's dealings with another related party, Wutong Holding Group Co., Ltd., a publicly traded company on the Shenzhen Stock Exchange (Ticker: 300292 CH).

We want to point out QTT's biggest lies, as well its key omissions and non-responses to many of our most important points because, as a long-held maxim of common law says, *silence is a tacit admission of guilt*.¹

1. [QTT has failed to explain why its reported revenues in China are significantly lower than those they reported to US investors.](#)
2. [QTT has provided no proof of its cash and short-term investments balance, and we have found additional reasons for concern. Namely, missing interest income in 3Q19.](#)
3. [QTT has failed to address the additional RMB 1.61 billion in customer advances reported by its Chinese subsidiaries that are absent from its SEC filings.](#)
4. [QTT's attempt to blame the inconsistencies in Dianguan's filings in China on gross vs. net revenue presentation only make its situation worse.](#)
5. [QTT's attempt to explain its rationale for the Dianguan acquisition highlight the absurdity of its story.](#)
6. [Dianguan's website, which QTT is apparently so proud of, is far less functional and looks less professional than the websites of the agents QTT claimed to do little-to-no business with. In fact, yesterday the “contact us” button was entirely removed from Dianguan's website.](#)
7. [In our view, QTT has continued to deceive investors with regards to the scope, nature and quantity of its related party transactions.](#)
8. [QTT's explanation of the economics of its “loyalty program” only included the “user engagement” portion of its loyalty program expenses, which our analysis of QTT's filings shows, accounts for less than half of its total loyalty program expenses.](#)
9. [QTT's disclosures regarding insider sales are welcome, but QTT's reluctance to disclose the current holdings of its Insiders and Principal Shareholders raises serious questions.](#)

¹ <https://scholarship.law.cornell.edu/cgi/viewcontent.cgi?article=3598&context=clr>



10. [QTT has accused us of being dishonest regarding its numerous lawsuits, yet QTT has not disclosed the fact that RMB 86 million of its bank accounts were frozen by a Chinese court on December 23, 2019.](#)
11. [QTT has not denied the accuracy of the ad distribution in our sample. Instead, QTT used a series of qualified assumptions to imagine a scenario that could create a skewed distribution of ad traffic on its platform.](#)
12. [QTT has not denied the serious security issues that HybridAnalysis found in QTT's software.](#)
13. [Questions for QTT, PwC Zhong Tian, the SEC and NASDAQ.](#)

1. QTT has failed to explain why its reported revenues in China are significantly lower than those they reported to US investors:

QTT failed to provide any legitimate explanation for the disparity between the revenues it reported in the U.S. and those it reported in China, but what it does say **appears to be an admission that the disparity does exist**. QTT points to the elimination of intercompany transactions in an attempt to explain the differences, but this clumsy response apparently didn't consider that eliminating intercompany revenues could only *decrease* the amount of revenue QTT could have legitimately recognized under U.S. GAAP.

Under U.S. GAAP, all of Dianguan's net revenues would be considered intercompany revenues and should be eliminated in QTT's SEC reported consolidated financial results, as QTT itself stated in its response:

“The consolidated financial statements for Qutoutiao are prepared in accordance with U.S. GAAP. Dianguan and Jifen are both wholly owned subsidiaries of Qutoutiao and any internal transactions between the two are fully eliminated upon consolidation. It is incorrect to simply sum up the accounts of subsidiaries on a standalone basis and draw comparisons with the consolidated statements.”

Contrary to QTT's aspersions, we are actually very familiar with U.S. GAAP accounting – in contrast, we note that QTT's lack of personnel with sufficient knowledge of U.S. GAAP accounting was disclosed to the SEC as a material weakness in QTT's internal reporting.²

Nevertheless, we agree with QTT on one point: it is incorrect to simply sum the revenues of subsidiaries for comparison to U.S. GAAP revenues. We are glad QTT pointed this out – we made the decision not to eliminate intercompany revenues between the subsidiaries in order to be as generous to QTT as possible.

Even using this generous consolidation method, we found only RMB 2.40 billion of revenues, RMB 620 million (~\$90 million) less than the RMB 3.02 billion of revenue that QTT reported in its 2018 20-F.³ Had we eliminated intercompany transactions, as QTT now suggests, we would have eliminated Dianguan's RMB 308 million of net revenues, bringing QTT's total 2018 revenue down to RMB 2.09 billion, or approximately RMB 930 million (~\$135 million) less than its 2018 SEC reported revenue.

This leaves us with a serious question: where is the RMB 930 million (~\$135 million) of missing revenue? We are sure that the SEC and QTT's auditors, PwC Zhong Tian LLP, will demand answers.

2. QTT has provided no proof of its cash and short-term investments balance, and we have found additional reasons for concern. Namely, missing interest income in 3Q19:

In response to our concerns over QTT's cash balance, QTT offered some additional information about its short-term investments balance. However, QTT omits critical information such as the names of the banks it does business with. Furthermore, the company's lack of interest income in Q3 conflicts with QTT's official story.

QTT offered the following new disclosures in an attempt to convince investors of its cash balance:

² 2018 20-F, p. 26-27

³ QTT 2018 20-F, p. F-4

“As of September 30, 2019, the Company had cash, cash equivalents and short-term investments of RMB2,120.1 million, including cash and cash equivalents of RMB525.4 million, and short-term investments of RMB1,594.7 million. As of September 30, 2019, 79.4% of the Company’s short-term investments were time deposits over three months and the remaining 20.6% were wealth management products (“WMPs ”). WMPs are essentially RMB-denominated savings products with interest rates ranging from 2.4% to 2.9% per annum and maturity period within 1 year or on revolving terms.”

Bank	Details	Amount in RMB	% of Total
Bank A	Time deposit (over three months)	353,645,000.0	22.2%
Bank B	Time deposit (over three months)	855,184,339.0	53.6%
Bank C	Time deposit (over three months)	57,997,780.0	3.6%
Bank D	Wealth management products	326,710,000.0	20.5%
Bank E	Wealth management products	1,122,345.6	0.1%
Total		1,594,659,464.6	100.0%

In fact, this new disclosure proves absolutely nothing – it is an unverifiable, unaudited table of numbers in which QTT fails to even name the “state-owned and reputable financial institutions in the PRC” that supposedly hold ~75% of its cash. The names of QTT’s banks is not commercially sensitive information; if the cash is there, just show us the bank statements and receipts for the wealth management products.

We consider this a telling omission: providing this information would allow a third-party to check with these banks, or for the banks to check themselves.

In the same sentence, QTT acknowledges that “there were instances of fraud in the past involving WMPs of other companies” and blames us for questioning the credibility of “all WMPs without any real basis” as if the past instances of fraud aren’t reason enough.

Further, we have not questioned the credibility of “all WMPs,” we only question the credibility of QTT’s purported “short term investments” and have a strong basis for doing so. In addition to the multitude of red flags described in our report, we would ask the following:

What happened to QTT’s interest income in Q3 2019?

In its response to our report, QTT claimed to have RMB 327.83 million invested in wealth management products (“WMPs”) issued by unnamed banks “D” and “E” which pay annual interest rates between 2.4% and 2.9%. These rates imply that the WMPs alone would accrue quarterly interest income between RMB 1.97 million and RMB 2.38 million.⁴

QTT further claims to have RMB 1.267 billion in “time deposits” with unnamed banks “A,” “B” and “C,” although the company chose not to disclose the interest rate it is supposedly earning on these deposits.

⁴ (RMB 327.83 million x 2.4%) / 4 = RMB 1.97 million; (RMB 327.83 million x 2.9%) / 4 = RMB 2.38 million

According to Bloomberg, China's 3 and 6-month deposit rates are currently 1.1% and 1.3% per annum, respectively.⁵ These rates imply that QTT should earn between RMB 3.48 million and RMB 4.12 million of quarterly interest income on these deposits.⁶

QTT Short-Term Investments		
Purported "time deposits"	¥	1,266,827,119
Quarterly interest @ 1.1%	¥	3,483,775
Quarterly interest @ 1.3%	¥	4,117,188
Purported WMPs	¥	328,499,850
Quarterly interest @ 2.4%	¥	1,970,999
Quarterly interest @ 2.9%	¥	2,381,624
Low end quarterly interest	¥	5,454,774
High end quarterly interest	¥	6,498,812

In total, **QTT should have earned between RMB 5.5 million and RMB 6.5 million of interest income on its short-term investments in Q3 2019.** However, they reported net interest expense of nearly RMB 1 million.

QTT reported net interest income of RMB 12.91 million in Q1 2019 and RMB 8.96 million in Q2 2019. However, in Q3 2019, when most of QTT's purported liquidity moved into short-term investments in China, it reported net interest **expense** of RMB 999,076.⁷ We view missing interest income as a reliable indicator of missing cash and a more than reasonable basis for questioning the legitimacy of QTT's cash balance and liquidity.

3. QTT has failed to address the additional RMB 1.61 billion in customer advances reported by its Chinese subsidiaries that are absent from its SEC filings:

In attempting to address our concerns over its reported revenues, QTT provided new information on how Dianguan interacts with other QTT companies and with customers. Their attempt to justify a commercial existence for Dianguan merely highlights the glaring inconsistencies in their story. QTT failed to address the abnormally large customer advance balances reported by Dianguan and Jifen, which equate to 8.5 and 10.7 months of reported gross revenue, respectively. That QTT fails to address such an obvious problem in their extensive rebuttal speaks volumes about this particular issue.

In its rebuttal, QTT stated the following:

“As an agent, Dianguan serves as the Jifen’s sales agent in selling Jifen’s advertising solutions to second tier advertising agents, the end advertisers are the customers of Jifen as they specifically select Qutoutiao to display its advertisement and the performance obligation of Jifen is to provide the underlying advertising display services. Dianguan collects advances from end

⁵ Treasury and Money Markets (BTMM China Deposit Rates) via Bloomberg LP, accessed on December 27, 2019

⁶ (RMB 1.267 billion x 1.1%) / 4 = RMB 3.48 million; (RMB 1.267 billion x 1.3%) / 4 = RMB 4.12 million

⁷ QTT Q1 2019, Q2 2019 and Q3 2019 earnings press releases.

customers, usually through second tier agents. Advances are recognized as revenues when advertisement displays and/or clicks are delivered on Qutoutiao.”

The advertising agencies we spoke to told us that they collect advances from customers and remit amounts, less their fee, to Jifen (not Dianguan) on a monthly basis as services are delivered, which conflicts with QTT’s claims. However, even if Dianguan does collect advances, this doesn’t explain the massive balance of “advances from advertising customers” shown on both Jifen and Dianguan’s credit report balance sheets at the end of 2018.

QTT reported only **RMB 155 Million** of total advances from advertising customers on the group consolidated balance sheet on page F-3 of QTT’s 2018 20-F, while Shanghai Jifen (QTT’s main operating subsidiary in China) reported **RMB 1.76 Billion** in advances from advertising customers on its 2018 credit report balance sheet. QTT provided no explanation for this **RMB 1.61 Billion (~\$230 million)** difference between what it reported in the U.S. and China.

Since QTT validated both the credit reports and SAIC filings in its rebuttal, the significant discrepancies between these Chinese filings and QTT’s SEC filings creates an even bigger issue for QTT to explain to its auditor and U.S. regulators.

This large discrepancy in advances from advertising customers represents RMB 1.61 billion (~\$230 million) of missing cash payments. **Where is the missing RMB 1.61 billion (~\$230 million)?** We would like to know; we believe investors would like to know, and something tells us that the SEC and QTT’s auditor will demand answers. We noted that, interestingly, the amount of missing advances is nearly identical to QTT’s purported “*short-term investments*” balance.

4. QTT’s attempt to blame the inconsistencies in Dianguan’s filings in China on gross vs. net revenue presentation only make its situation worse:

In our report, we exposed the fact that Shanghai Dianguan, a key subsidiary of QTT, reported two materially different sets of financials in China in 2018. QTT attempts to use the difference between net and gross basis accounting to explain these discrepancies:

“The differences between the SAIC report and the credit report for Dianguan are mainly attributable to different presentation methods. In the SAIC report, we presented revenues and costs on a net basis, while in the credit report we were suggested to present on a gross basis. The net profit and net asset (total equity) in the two presentations had no material differences with each other.”

First of all, we appreciate QTT validating both the credit reports and SAIC filings we analyzed, not that we had any doubt. However, QTT’s attempted explanation of the differences between the two and its SEC filings is illogical.

If these differences were actually attributable to gross vs. net basis presentation of Dianguan’s revenue, Dianguan’s RMB 308.01 million of 2018 SAIC reported revenue implies that Dianguan charged Jifen a

16% fee on Jifen’s gross revenues – this is **8x** the 2% commission that QTT claimed Dianguan charged for agency services prior to the acquisition.⁸

In 2017, Dianguan reported revenues of RMB 1,348,000 in both its credit reports and SAIC filings. We found it interesting that these reports matched prior to QTT’s acquisition of Dianguan, which occurred just 7 months prior to QTT’s IPO. We believe this to be further evidence that the difference between Dianguan’s 2018 SAIC filings and credit reports was not a simple difference in accounting methods but indicative of Dianguan’s role as a vehicle for QTT to cook its books. QTT’s clumsy rebuttal now forces them to explain the difference between the methods of presentation of Dianguan’s 2017 and 2018 credit reports. We are sure QTT’s auditor will demand an explanation as well.

5. QTT’s attempt to explain its rationale for the Dianguan acquisition highlight the absurdity of its story about this undisclosed related party acquisition:

QTT went to great lengths to attempt to justify the acquisition of Dianguan. In our opinion, this section of QTT’s response is entirely disingenuous. QTT has once again failed to address the glaring inconsistencies in its own story. In its rebuttal, QTT claimed the following:

*“As our business grew rapidly and substantially, it made perfect sense to start building our own distribution capabilities, i.e., an in-house advertising platform. **The benefit of owning an in-house advertising platform is not only enhanced monetization efficiency as we can improve advertising technology for better matching of supply and demand which results in higher average revenue per user (“ARPU”), it also allows our business to become independent and obtain long-term viability.**”*

At face value, this story for Dianguan is absurd to us. QTT is claiming that Dianguan, the advertising platform it acquired for RMB 15 million (~\$2.2 million) just four months after it was founded with no invested capital by an employee of Eric Tan’s VC fund, Taiyun Capital, has more efficient monetization capabilities and is more technologically advanced than Baidu.

[The website](#) QTT boasted about belonging to Dianguan in its response only further proves our point, as it *still* has little-to-no functionality:

- While the site appears to have a login module, our Chinese investigators were unable to register for an account. The form we submitted more than a month ago has yet to be answered by QTT, Dianguan or anyone else.
- The “contact us” button at the bottom of the page *still* doesn’t function at all – in fact, the “contact us” button was **completely removed from the site** on January 16, 2020.
- The privacy policy appears to have been lazily copied from another company, Shanghai Shenlan Network Technology Co., Ltd.,⁹ which QTT/Dianguan left in section 4.3 of [the agreement](#).
- The domain name was originally registered by an “@innotechx.com” email address in September 2017, two months before Dianguan was founded and 6 months before the acquisition – **Innotech, Ltd.**

⁸ QTT 2018 20-F, p. F-17

⁹ [Shanghai Shenlan Network Technology Co., Ltd.](#): 上海申澜网络科技有限公司

is owned by QTT's CEO Eric Tan, solidifying our belief that the acquisition of Dianguan was a self-dealing transaction.¹⁰

It takes little more than common sense to understand that QTT's claims that it replaced Baidu with Dianguan in order to improve its advertising technology or the efficiency of its advertising platform are false. It remains clear to us that QTT wanted to build its own advertising platform in order to remove Baidu's oversight of its advertising traffic.

QTT went on to justify the acquisition price of Dianguan, which was itself an undisclosed related party transaction, by tossing investors the old story of a "valuation report":

"This was why in February 2018 we made the decision to acquire Dianguan which then became our in-house advertising platform. At the time of this acquisition, Dianguan had built up a good technical base as it owned several intellectual properties, which were valuable assets for us to further develop our proprietary advertising platform related technology. The acquisition decision was made after thorough due diligence, the purchase consideration of RMB15 million was supported by a valuation report."

QTT didn't even have the brass to call it an "independent valuation" – we presume this valuation report was prepared by QTT or a related party, if it exists at all. If Dianguan was valued based on the purported "several intellectual properties" Dianguan owned, what method was used? More importantly, this statement contradicts QTT's earlier statement that Dianguan had one piece of intellectual property – its "proprietary programmatic advertising system," AICLK. We will go into detail on this later, but that system is far from proprietary and, in our opinion, has little (if any) value.

Setting aside that we disagree with QTT on the business discussion around Dianguan, we again find ourselves focusing on what QTT didn't respond to and doesn't seem to want to discuss: **Dianguan was an undisclosed related party transaction.**

Let us just spell out the order of events here, which QTT has not denied or even addressed:

- **September 2017:** Dianguan's domain name was created by Innotech, Ltd. – a company owned by QTT's CEO, Eric Tan. This is the same company that holds Eric Tan's shares of QTT.
- **October 2017:** Dianguan is incorporated with no invested capital and Liang Xiang, an employee of Eric Tan's VC fund manager Taiyun Capital, as sole shareholder, according to SAIC filings.
- **October 2017 to February 2018:** QTT is the only customer of Dianguan.¹¹
- **February 2018:** QTT acquires Dianguan from Liang Xiang for RMB 15 million.

We believe it's possible that Dianguan paid out dividends during the four months between its incorporation on November 9, 2017 and its acquisition by QTT in February 2018. In this sense, the scale of this related party transaction may be much larger than the RMB 15 million (~\$2.2 million) transaction price. It is also worth noting that Eric Tan became an investor in a fund run by [Woofoo Capital](#), another firm where Liang Xiang is a Domestic Director, in February 2018 – the same month that QTT acquired Dianguan from Liang Xiang.

¹⁰ Domaintools WhoIs History Report for "adv.aicl.com"

¹¹ In fact, in its 2018 20-F, QTT claimed that Dianguan accounted for more revenues in 2017 than Dianguan reported in its 2017 SAIC filings. So, it appears that QTT was more than just Dianguan's only customer.

6. Dianguan’s website, which QTT is apparently so proud of, is far less functional and looks less professional than the websites of the agents QTT claimed to do little-to-no business with. In fact, yesterday the “contact us” button was entirely removed from Dianguan’s website:

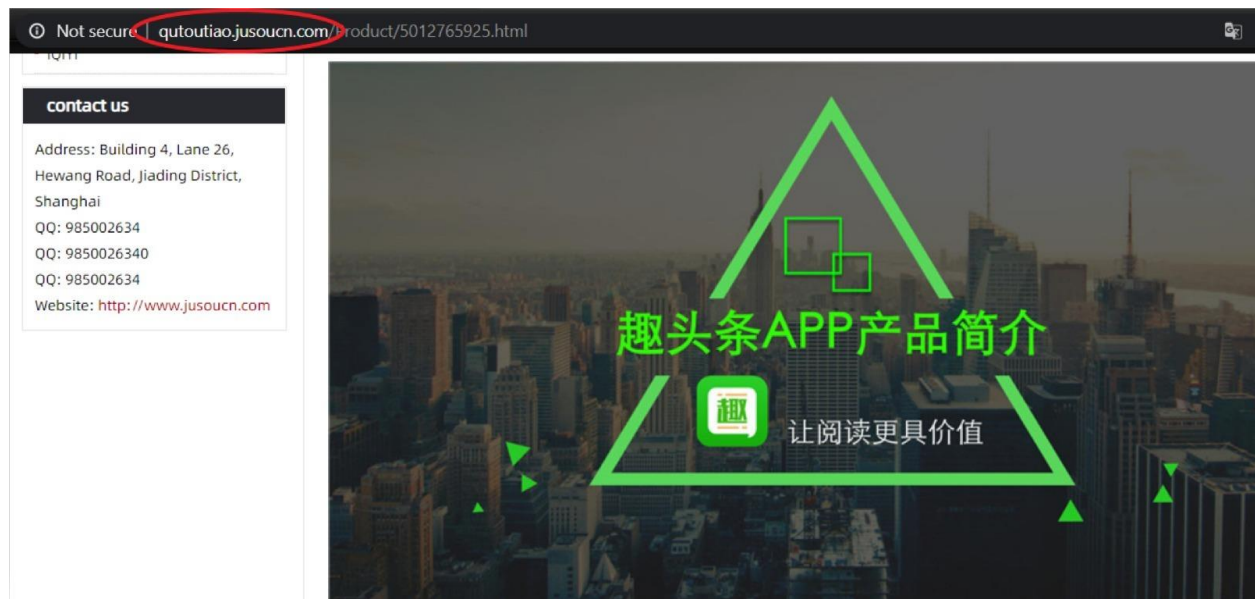
In our report, we provided details of two advertising agencies which claimed to us to be important trading partners of QTT, something which QTT disclaimed. QTT’s response contains information which directly contradicts the facts on the ground, and our ongoing research has identified a concerning relationship between QTT and an old friend, Wutong Holding Group Co., Ltd. (Ticker: 300292 CH).

QTT made the following claims in their response:

“The Report also quotes two advertising agents who claimed to be “core” advertising agents for QTT - the truth is, Hunan Jie Jisuan Computer Tech Company (湖南皆计算网络科技有限公司) is one of QTT’s agents with year-to-date transactions amounting to only RMB0.4 million; as for Shanghai Jusou Info Tech Co.(上海聚搜信息技术有限公司), we do not have any direct business relationships with that particular advertising agent per our internal check.”

QTT’s claim that it has no trading relationship with Shanghai Jusou is strange given what we see on Jusou’s website and [Dianguan’s website](#) as of today:

<http://qutoutiao.jusoucn.com/M/Support/index.html>



Further, if these two agents have only generated year-to-date revenues of RMB 400,000, it raises the question of which other “second-tier” agents might have accounted for the rest. That seems like an easy disclosure for QTT to make in order to disprove our research – unless that answer is potentially incriminating?

7. In our view, QTT has continued to deceive investors with regards to the scope, nature and quantity of its related party transactions:

Related party transactions are a major feature of the QTT story. While developing our report, the Wolfpack team debated at length which of the many undisclosed related party transactions we should include. QTT’s claims of appropriate disclosure are demonstrably invalid. We can show numerous examples of how their disclosure follows neither the sentiment nor the letter of SEC regulations, and we provide two additional examples below. Before doing so, let’s look at QTT’s response, which, like its SEC filings, provided an equal balance of empty claims, omissions and falsehoods.

“Qutoutiao follows three important steps to present and disclose related party transactions:

“Identify” - Our financial reporting team maintains and regularly updates a full list of affiliate companies to facilitate our identification of related party transaction.

What “full list of affiliates” is QTT referring to here? Is this the same “full list of affiliates” that we spent months putting together using hundreds of filings we obtained from China? In what safe, hidden under what body of water, is this list of affiliate companies and why is it not included in QTT’s SEC filings? For this list of affiliates to provide any value to investors whatsoever, it would need to be disclosed publicly and we would ask QTT to do so.

“Report and approve” - The Audit Committee of the board of Qutoutiao is now composed of independent directors only. Qutoutiao abides by all relevant U.S. securities laws and regulations and NASDAQ listing rules in reporting potential related party transactions to the Audit Committee and obtaining its approvals before entering into such transactions.

We have two serious problems with this claim. First, we do not believe the Audit Committee is made up of truly independent directors. For instance, according to Chinese filings, the Chairman of QTT’s Audit Committee, Li Feng (李峰), appears to be a 12% shareholder of one of QTT’s most significant undisclosed related party advertisers, Shanghai “Tujin” Network Technology Co., Ltd.¹² (i.e., the company that accounted for more than 25% of the ad traffic in our sample).

Shareholder information 3		View Ownership Structure 	
Shareholder type	shareholder	Contributions (amount / time)	Paid-up capital (amount / time)
Natural person shareholder	Shen Jianming	800,000 RMB 	- 
Corporate	Shanghai Bimeng Information Technology Co., Ltd.	8 million RMB 	- 
Natural person shareholder	Li Feng	1.2 million RMB 	- 

Secondly, we found numerous examples of related party transactions which are neither disclosed appropriately nor appear to be in the best interests of shareholders. The claimed independence of the Audit Committee is only valuable if that committee is indeed provided with the opportunity to review all

¹² <https://www.qixin.com/company/3550bca9-5867-48c1-a6d1-db47d2ab9953>

details of all related party transactions, and then takes the steps to veto those that are not in the best interests of shareholders. The evidence on the ground shows this is not happening.

“Disclose” - Qutoutiao has fully disclosed its material related party transactions in its previous filings with the SEC. For related party transactions that occurred between 2016 and 2018, including those with companies controlled by or affiliated with Mr. Tan and those with other related parties, we have disclosed such transactions appropriately on page 111 and page F-45 of our annual report on Form 20-F for the fiscal year ended December 31, 2018 and on page 167 and page F-82 of our prospectus dated on September 14, 2018.

For related party transactions that occurred in the six months ended June 30, 2019, including those with companies controlled by Mr. Tan, we have disclosed such transaction appropriately on page F-41 of Exhibit 99.1 on Form 6-K dated on November 19, 2019.”

The “full list of affiliate companies” QTT claims to keep track of is never disclosed in its SEC filings. On the pages of SEC filings that QTT lists in its response, the only companies mentioned by name are AdIn Media (Shanghai) Co., Ltd., Shanghai Yinnuo Management Consulting Co., Ltd. and Youxuan Information Technology Co., Ltd. QTT attempts to fall back on its blanket statement “a company under common control of the founder” but frankly, we think that is bullshit. If the actual name of the related party company doesn’t appear in a single SEC filing, it has not been “disclosed.” **We would like QTT to show us a single place where the following companies’ names appear in any past SEC filing:**

- Shanghai Tujin Network Technology Co., Ltd. 上海突进网络科技有限公司
- Shanghai Fangce Network Technology Co., Ltd. 上海方策网络科技有限公司
- Shanghai Bi Meng Information Technology Co., Ltd. 上海彼萌信息科技有限公司

Our analysis of QTT’s advertising traffic, as well as several Chinese media outlets, identified these undisclosed related parties as either owners or direct publishers of major advertisers on the QTT platform.^{13,14} There are many more examples of undisclosed related party transactions in the QTT story; we provide details of two more below.

a. QTT’s trading relationship with Wutong Holding Group

One of the very few related parties QTT discloses by name is AdIn Media (Shanghai) Co., Ltd., also known as Huzhong Advertising (Shanghai) Co. Ltd. (“Huzhong”). Huzhong is a wholly owned subsidiary of Wutong Holding Group, a publicly traded company on the Shenzhen Stock Exchange in China (Ticker: 300292 CH).

In 2018, Eric Tan was an executive of Huzhong and owned more than 5% of Wutong’s stock, which means that both QTT and Wutong were required to disclose transactions between the two as related party transactions. Wutong disclosed more related party transactions with QTT’s main operating entity Shanghai Jifen alone in its 2018 annual report than QTT reported for all related parties in its 2018 20-F:¹⁵

QTT’s related party transactions disclosure from page F-45 of its annual report on Form 20-F:

¹³ <https://finance.sina.cn/stock/relnews/us/2019-08-23/detail-ihytcern2952293.d.html>

¹⁴ <http://www.zhuoyue5.com/news/hulianwang/2294.html>

¹⁵ QTT 2018 20-F, p. F-45

Related Party transactions

As of December 31, 2017 and 2018, the transaction and balance amount due to/from related parties was as follows:

Transaction amount with related parties

	Year ended		December 31, 2018
	December 31, 2016	December 31, 2017	
Services provided by the Group			
Prepaid to a related party ⁽¹⁾	5,000,000	—	—
Agent and platform service provided to a related party ⁽²⁾	—	—	29,597,143
Advertising and marketing service provided to related parties ⁽³⁾	—	—	17,447,475
	Year ended		December 31, 2018
	December 31, 2016	December 31, 2017	
Services received by the Group			
Received from a related party ⁽¹⁾	—	5,000,000	—
Service fee charged from a related party ⁽⁴⁾	3,024,000	16,788,160	—
iCloud server and other service fee charged from a related party ⁽⁵⁾	—	—	13,875,839
Advertising service fee charged from related parties ⁽⁶⁾	—	—	15,815,201

Wutong discloses the following related party transactions in its 2018 annual report:¹⁶

Related party transactions (RMB)	Related transaction content	Amount
Shanghai Jifen Cultural Communication Co., Ltd.	Purchase media traffic	6,522,937.91
Shanghai Jifen Cultural Communication Co., Ltd.	Sales of media traffic and MIFI products	128,277,718.55
Total		134,800,656.46

QTT disclosed a total of RMB 76.7 million of total related party transactions in 2018, while Wutong disclosed RMB 134.3 million of related party transactions with QTT's main operating subsidiary alone. Either QTT made material misrepresentations to the SEC or Wutong made material misrepresentations to the CSRC – which one is it, Mr. Tan? Maybe your good friend and Chairman of Wutong Holding Group, Mr. Wan Weifang¹⁷ would prefer to answer this one.

b. QTT's acquisition of Beijing Churun

QTT acquired Beijing Churun through a VIE structure in November 2018 for RMB 72 million (~\$10 million). Like the acquisition of Dianguan, there are numerous reasons to be suspicious of this transaction. Not least, the history of Churun would raise serious questions about whether it contained any assets of value when acquired by QTT. However, what is indisputable is that this was another related party transaction, and yet was not disclosed as such.

QTT acquired Churun from two selling shareholders, one of whom was Chen Sihui, a founder executive of QTT. Furthermore, Chinese filings show that Churun was under the direct control of QTT directors for months prior to its acquisition, and QTT had even owned a share in the company for a time earlier in 2018 before transferring that stake to Chen Sihui.

Clearly, Churun was a related party entity and so its acquisition should have been disclosed in QTT's filings. In fact, QTT obscured the fact they acquired this company at all by treating the transaction as an

¹⁶ 300292 CH 2018 Annual Report, p. 275

¹⁷ Chairman of Wutong Holding Group

acquisition of fixed assets. QTT's cash flow statement for 2018 shows no acquisition of a business entity, other than the RMB 15 million (~\$2.2 million) it paid for Dianguan. This accounting treatment appears to be an attempt to obfuscate the acquisition of Churun altogether.

Churun was run by QTT executives and part owned by a QTT executive, yet its acquisition (for ~\$10.5 million) was not disclosed as a related party transaction.

8. QTT's explanation of the economics of its "loyalty program" only included the "user engagement" portion of its loyalty program expenses, which our analysis of QTT's filings shows, accounts for less than half of its total loyalty program expenses:

In our original report we briefly highlighted the cash incinerator that is QTT's "loyalty program." QTT claims its loyalty program "*works in exactly the same way as any other loyalty programs offered by any businesses such as airlines, hotels, restaurants, etc.*" However, we contend that there are two very significant differences between QTT's loyalty program and others:

1. **QTT awards users "loyalty points" which are redeemable for cash.** Most loyalty programs don't work this way because it is horrifically expensive.
2. Loyalty programs employed by airlines, hotels, restaurants, etc. **require the customer/user to purchase things to earn loyalty points.**

QTT makes the statement that "*nobody would take a flight solely for the purpose of earning miles unless she/he does need to travel to a particular destination.*" However, this is not an appropriate analogy; if flights were free and miles were redeemable for cash, people would fly just about anywhere. Maybe QTT should start an airline to test out this disruptive "free to fly" model. The existence of this fallacy in QTT's analogy contradicts its conclusion:

"Therefore, there does not exist "fake user growth" or "fake ad traffic" as the author erroneously presumes."

We would argue that QTT's business model is inherently reliant on fake user growth and fake traffic, as monetary incentives replace genuine engagement; how many real DAUs would QTT retain if it stopped paying them? The author of [this Caixin Global article](#) makes the same argument, referring to QTT specifically as a "fake traffic generator."

That being said, our disagreements with QTT's business model aren't important here – let's focus on the false and misleading statements in QTT's response to our report.

QTT attempts to obfuscate the soaring costs of its loyalty program by misquoting its own reported financials, we can only imagine hoping the reader would just accept it at face value. In its response to our report, QTT made the following statement:

"The author's allegations regarding our loyalty program are the unfortunate result of not understanding our business. The author does not at the least take due care to quote the correct financial figures, as the author claims that "as of Q2 2019, trailing twelve-month loyalty program expenses totaled \$701.8 million, or 100.2% of its SEC reported revenue", while our reported figures were RMB 2,074 million (or approximately USD 300 million), or 43% of SEC reported revenue."

First of all, we found it ironic that QTT accused us of quoting incorrect financial figures just before quoting an actual incorrect financial figure in the same paragraph. We want to be as clear as possible here – QTT’s loyalty program has two distinct parts:

- “User acquisition points” are awarded for referring new users and registering on other apps made by QTT.
- “User engagement points” are awarded for using QTT’s apps (i.e., clicking on ads, reading articles, etc). Together, these two components make up the full cost of QTT’s loyalty program.

The number QTT quoted in its response is its **user engagement expenses only**. During that same 12-month period, QTT also incurred user acquisition expenses of RMB 2.743 billion (\$399.6 million). This makes QTT’s **total loyalty program expenses (user acquisition expense + user engagement expense) \$701.8 million, or 100.2% of SEC reported revenue**. These numbers were pulled directly from QTT’s own quarterly reports. However, in its response to our report, QTT even referred to its loyalty program expenses as “*a paltry amount in monetary terms.*”

It is clear to us, and to anyone else looking at QTT’s financial statements, that user acquisition and user engagement expenses are the company’s most significant costs. In our opinion, any management team that considers a growing annual expense of \$700,000,000+ a “paltry amount” of money has little-to-no potential of ever making that business profitable.

We thought we would use this opportunity to show the abhorrent unit economics of QTT’s “business model,” which QTT claims we don’t understand. The only thing we don’t understand about it is how anyone could ever think this was a good idea:¹⁸

QTT Unit Economics (RMB, millions unless otherwise noted)	Color Code:		Blue font = reported		Black font = calculations			3Q19 TTM	2Q19 TTM
	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19		
Net revenues (RMB)	¥ 236.4	¥ 481.4	¥ 977.3	¥ 1,327.0	¥ 1,118.8	¥ 1,385.9	¥ 1,406.9	¥ 5,238.6	¥ 4,809.0
Net revenues (USD)	\$ 34.4	\$ 70.1	\$ 142.4	\$ 193.4	\$ 163.0	\$ 201.9	\$ 205.0	\$ 763.3	\$ 700.7
COGS (RMB)	¥ 64.0	¥ 82.0	¥ 153.8	¥ 203.8	¥ 279.2	¥ 361.4	¥ 496.1	¥ 1,340.5	¥ 998.2
Gross profit (RMB)	¥ 172.4	¥ 399.4	¥ 823.5	¥ 1,123.2	¥ 839.6	¥ 1,024.5	¥ 910.8	¥ 3,898.1	¥ 3,810.8
User engagement expenses	¥ 192.3	¥ 245.8	¥ 481.0	¥ 563.3	¥ 580.8	¥ 449.5	¥ 536.1	¥ 2,129.7	¥ 2,074.6
User engagement expenses (USD)	\$ 28.0	\$ 35.8	\$ 70.1	\$ 82.1	\$ 84.6	\$ 65.5	\$ 78.1	\$ 310.3	\$ 302.3
User acquisition expenses	¥ 153.5	¥ 204.7	¥ 532.2	¥ 746.9	¥ 675.3	¥ 787.9	¥ 788.3	¥ 2,998.4	¥ 2,742.3
User acquisition expenses (USD)	\$ 22.4	\$ 29.8	\$ 77.5	\$ 108.8	\$ 98.4	\$ 114.8	\$ 114.9	\$ 436.9	\$ 399.6
Total loyalty program expense (RMB)	¥ 345.8	¥ 450.5	¥ 1,013.2	¥ 1,310.2	¥ 1,256.1	¥ 1,237.4	¥ 1,324.4	¥ 5,128.1	¥ 4,816.9
Total loyalty program expense (USD)	\$ 50.4	\$ 65.6	\$ 147.6	\$ 190.9	\$ 183.0	\$ 180.3	\$ 193.0	\$ 747.2	\$ 701.8
Loyalty expense % of revenue	146.3%	93.6%	103.7%	98.7%	112.3%	89.3%	94.1%	97.9%	100.2%
Other sales and marketing expenses	¥ 17.0	¥ 23.6	¥ 31.8	¥ 57.9	¥ 40.9	¥ 84.3	¥ 178.8	¥ 361.9	¥ 214.9
Total sales and marketing expenses	¥ 362.8	¥ 474.1	¥ 1,045.0	¥ 1,368.1	¥ 1,297.0	¥ 1,321.8	¥ 1,503.2	¥ 5,490.1	¥ 5,031.9

¹⁸ All numbers were pulled directly from [QTT’s quarterly financial reports](#) or calculated using the reported numbers

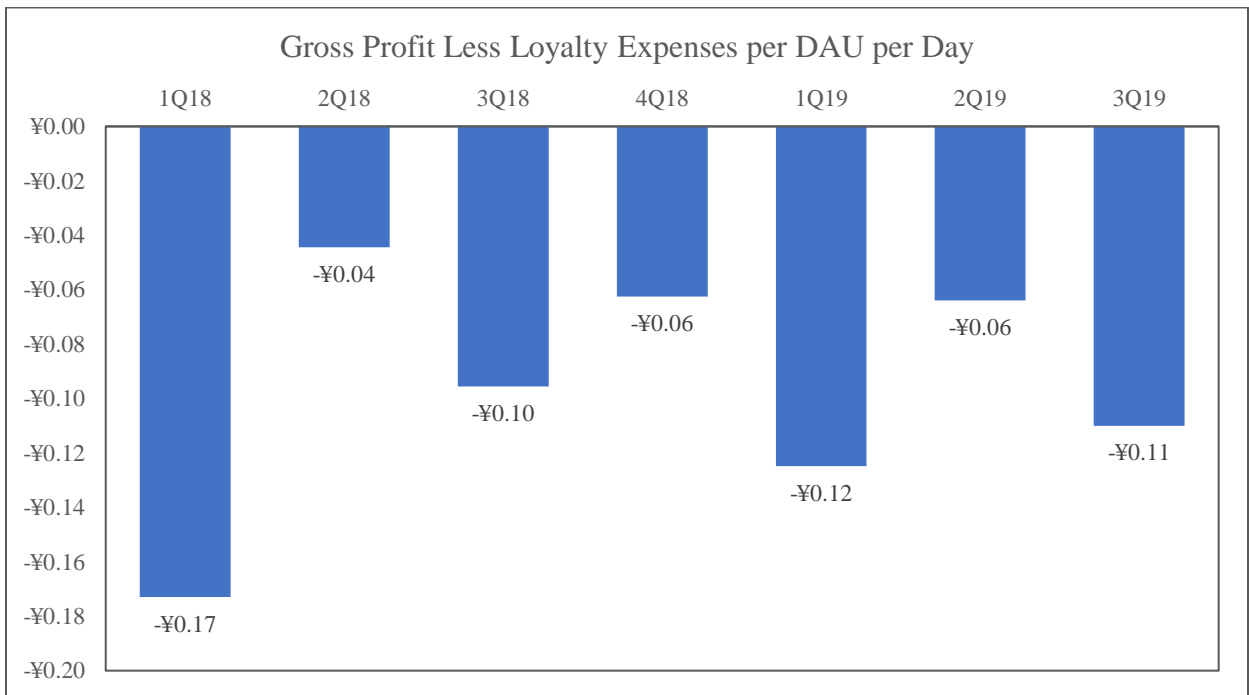
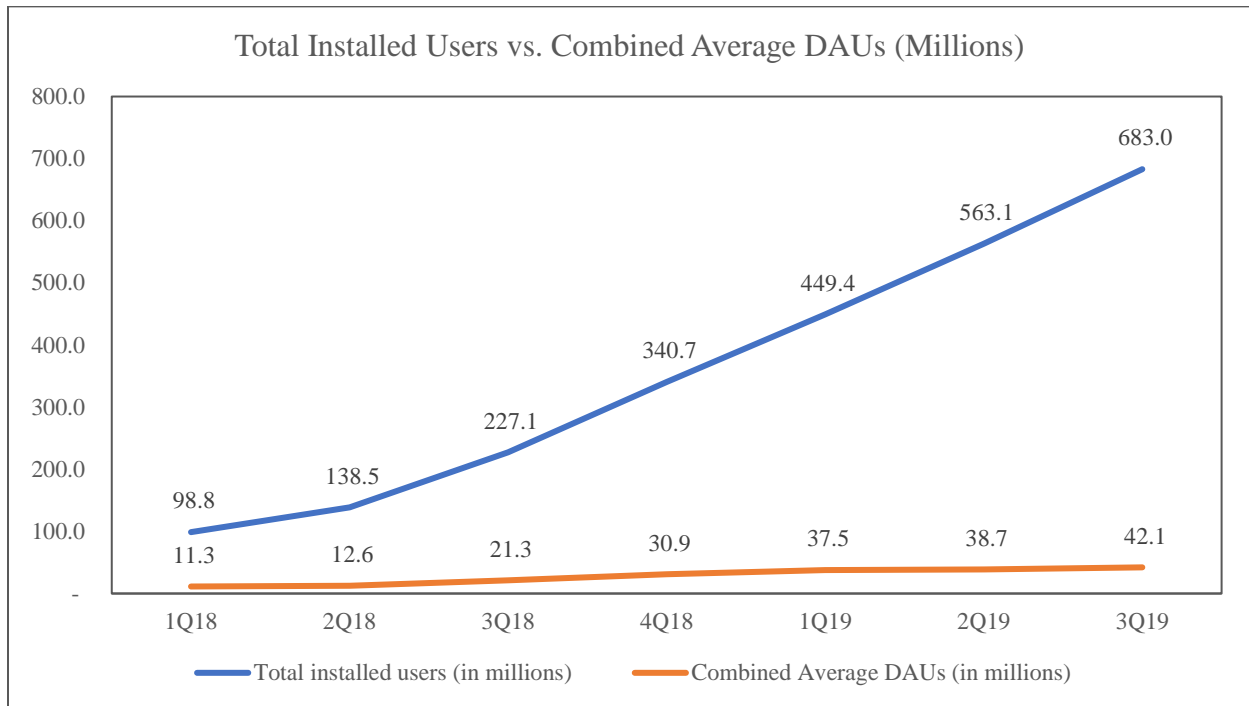
MAUs	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Combined Average MAUs (in millions)	28.0	34.1	65.2	93.8	111.4	119.3	133.9
New combined average MAUs (millions)	3.7	6.1	31.1	28.6	17.6	7.9	14.6
User acquisition cost per new combined average MAU (RMB)	¥41.49	¥33.56	¥17.11	¥26.12	¥38.37	¥99.73	¥53.99
User acquisition cost per new combined average MAU (USD)	\$6.04	\$4.89	\$2.49	\$3.81	\$5.59	\$14.53	\$7.87
DAUs	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Combined Average DAUs (in millions)	11.3	12.6	21.3	30.9	37.5	38.7	42.1
New combined average DAUs (millions)	1.8	1.3	8.7	9.6	6.6	1.2	3.4
User acquisition cost per new combined average DAU (RMB)	¥85.28	¥157.46	¥61.17	¥77.80	¥102.32	¥656.58	¥231.85
User acquisition cost per new combined average DAU (USD)	\$12.43	\$22.94	\$8.91	\$11.34	\$14.91	\$95.67	\$33.78
Engagement cost per combined average DAU (RMB)	¥17.02	¥19.51	¥22.58	¥18.23	¥15.49	¥11.61	¥12.73
Engagement cost per combined average DAU (USD)	\$2.48	\$2.84	\$3.29	\$2.66	\$2.26	\$1.69	\$1.86
Net revenues per combined average DAU (RMB)	¥20.92	¥38.21	¥45.88	¥42.94	¥29.83	¥35.81	¥33.42
Net revenues per combined average DAU (USD)	\$3.05	\$5.57	\$6.69	\$6.26	\$4.35	\$5.22	\$4.87
Installed users	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Total installed users (in millions)	98.8	138.5	227.1	340.7	449.4	563.1	683.0
New installed users (in millions) ⁽¹⁾	25.7	39.7	88.6	113.6	108.7	113.7	119.9
DAU Conversion Rate	nm	3.3%	9.8%	8.5%	6.1%	1.1%	2.8%

(1) Based on 73.1 million reported total installed users at the end of 2017 (Source: QTT F-1, p. 13)

Unit Economics	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Net Revenues per DAU per day	¥0.23	¥0.42	¥0.50	¥0.47	¥0.33	¥0.39	¥0.36
COGS per DAU per day	¥0.06	¥0.07	¥0.08	¥0.07	¥0.08	¥0.10	¥0.13
Gross profit per DAU per day (a)	¥0.17	¥0.35	¥0.42	¥0.40	¥0.25	¥0.29	¥0.23
User engagement expenses per DAU per day	¥0.19	¥0.21	¥0.25	¥0.20	¥0.17	¥0.13	¥0.14
User acquisition expenses per DAU per day	¥0.15	¥0.18	¥0.27	¥0.26	¥0.20	¥0.22	¥0.20
Total loyalty program expenses per DAU per day (b)	¥0.34	¥0.39	¥0.52	¥0.46	¥0.37	¥0.35	¥0.34
Gross profit less loyalty expenses per DAU per day (a) - (b)	-¥0.17	-¥0.04	-¥0.10	-¥0.06	-¥0.12	-¥0.06	-¥0.11

Based on the tables above, which were created using only numbers disclosed by QTT in SEC filings and calculations based on numbers disclosed by QTT it is abundantly clear to us that this business is structurally unprofitable and will inevitably fail without constant injections from the capital markets. QTT knows this, which is why it resorted to attempting to pass off “user engagement expenses” alone as its total loyalty program expenses, despite QTT clearly stating in numerous SEC filings that the loyalty program consists of both “user engagement expenses” and “user acquisition expenses.”

The charts below illustrate QTT's disastrous business model:



9. QTT’s disclosures regarding insider sales are welcome, but QTT’s reluctance to disclose the current holdings of its Insiders and Principal Shareholders raises serious questions:

“Mr. Tan has not sold a single share of Qutoutiao during the IPO or after the IPO, and has taken on the CEO role to drive the business forward. All the shares owned by Mr. Tan are founder’s shares, and Mr. Tan has not earned any share rewards for his role as the CEO or Chairman of the Company. Mr. Tan has not pledged any of his shares to obtain cash advances either.”

We thank QTT for disclosing this and putting it in writing for the first time. However, the language here naturally leads to further questions:

- Has Innotech Ltd., the entity that holds Eric Tan’s QTT shares, sold any shares?
- Why hasn’t QTT disclosed the current holdings of its insiders and principal shareholders since the 424B4 filed on April 3, 2019?
- Mr. Tan is reported to have pledged/sold millions of shares of Wutong Holdings Group.¹⁹ Would Mr. Tan like us to detail his dealings with Wutong?
- More importantly, would Mr. Wan Weifang like us to write a full report on Wutong?
- What about QTT’s original CEO, Lei Li? How many shares has he sold? Why did he resign?
- Why was Lei Li’s resignation followed by many more resignations of mid and upper level management, including Editor-in-Chief Xiao Houjun?²⁰

10. QTT has accused us of being dishonest regarding its numerous lawsuits, yet QTT has not disclosed the fact that RMB 86 million of its bank accounts were frozen by a Chinese court on December 23, 2019:

QTT made the following claim in their rebuttal on December 27, 2019:

“At the time of this response, the pending litigation shall not have material impact on our daily normal business operations, and we do not record any contingent liabilities relating to this pending litigation.”

QTT claimed that we are dishonest, yet they failed to disclose that 5 of Shanghai Jifen’s subsidiaries had [their equity frozen](#) by the Chinese courts the day before their response was published. Shanghai Jifen is QTT’s core operating subsidiary which operates the Qutoutiao app. In our opinion, this is hypocrisy of the highest order.

Furthermore, a portion of Shanghai Jifen’s [bank accounts were frozen](#) with value RMB 86 million on January 3, 2020, apparently related to the same legal action as the equity freezes.²¹ We believe that both of these developments should be considered “*material legal proceedings*,” which are one of the few events the SEC requires foreign private issuers such as QTT to disclose to investors on Form 6-K.²²

It appears to us that QTT is having significant legal issues in China, which we believe is, in itself, more than enough reason to stay as far away from this stock as possible.

¹⁹ “300292 Holder Ownership” via Bloomberg LP, accessed January 12, 2019

²⁰ <https://tech.sina.com.cn/i/2019-09-25/doc-iicezrq8239515.shtml>

²¹ <http://wenshu.court.gov.cn/website/wenshu/181107ANFZ0BXSK4/index.html?docId=32940acd16c04bdca0e8ab34009c02f8>

²² <https://www.sec.gov/divisions/corpfin/internatl/foreign-private-issuers-overview.shtml#IIIB3>

11. QTT has not denied the accuracy of the ad distribution in our sample. Instead, QTT used a series of qualified assumptions to imagine a scenario that could create a skewed distribution of ad traffic on its platform:

In our report, we showed how QTT is directing a large portion of its traffic to related parties, many of which are owned by Eric Tan and his relatives. Using basic techniques that would easily be blocked by any reputable advertising platform, we were able to analyze the traffic on QTT's platform. The results showed an extreme concentration of advertising traffic: 88.3% of the advertisements was directed to the top 10 advertisers. Even worse, more than 35% of the total advertising traffic was directed to related parties.

In QTT's response, they point to sample size and methodology as problems with our approach, but in doing so they inadvertently admit their platform's complete lack of technical prowess:

"The total number of advertisements placed on Qutoutiao's platform per day exceeds 2,000,000,000. Therefore, analyzing 50,000 advertisements (i.e., only 0.0025% of total) concentrated in a very confined period (i.e., four hours on September 12, 2019) on Qutoutiao's platform would lead to skewed results, especially considering that behind the very limited sample size is a very limited number of test phones that are not capable of replicating the diverse behaviours exhibited by our 42 million daily active users.

*As our programmatic advertising system considers a wide range of parameters to determine which advertisement to display, including price bid, predicted click-through rate and content relevance, any results generated by a miniscule sample through a tiny group of fake users (i.e., test phones) **could** inevitably be skewed. That is to say, as the test phones **probably** have some identical or similar characteristics, when these test phones frequently send requests to our advertising system in a short period of time, it **could** respond to these "fake requests" by recommending similar contents, so that the advertisements received by these fake users are concentrated in a specific type, which cannot represent the actual overall situation."*

QTT never denied the accuracy of the ad distribution in our sample. Instead, QTT used a series of qualified assumptions to imagine a scenario that could create a skewed distribution of ad traffic. We provided our methodology in our report – shouldn't they be able to make an unqualified, definitive statement regarding the accuracy of our sample?

Nonetheless, QTT's qualified assumptions about our sample were incorrect. In collecting the data for our sample, we took the following steps to ensure the accuracy of the distribution:

- We took many samples over a period of time, using a variety of techniques that included phones, web browsers and other automated tests.
- We tweaked one variable at a time (location, device type, time of the request, member ID, ad slots) in our early samples to see how the server reacted to each.
- For the 50,000-ad sample we cited in our report, these variables were randomized for each request in order to replicate a highly diverse user base, with little-to-no similar characteristics like QTT imagined.
- Most importantly, the resulting traffic distribution was effectively the same in every sample we ran, indicating that QTT's server was not processing/using this data to direct advertising traffic in the way it claimed, if at all.



Our methodology ensured the integrity of our sample – which proved the lack of integrity in QTT’s advertising platform. In Appendix B of our report, we never made the claim that a phone was even needed to carry out this analysis and even explained how to do this analysis yourself. Apparently QTT didn’t read that section, or perhaps it was too technical for them to understand.

QTT’s attempt at a rebuttal is an admission in itself: QTT’s advertising platform is not nearly as sophisticated as they claim. If QTT’s system detects the advertisement requests are duplicates, or appear to be fake, the system should blacklist the user, or *at a minimum* not return any ads at all in order to protect the integrity of the advertising platform for QTT’s customers. Instead, QTT admits to either feeding ads to users it knows aren’t authentic or being unable to identify inauthentic traffic altogether.

We would ask QTT to provide further information regarding its ability (or inability) to detect inauthentic ad requests and, if it is able to detect this activity, to provide an explanation for returning ads to requests it has identified as fake. It is advertising fraud to serve ads when you know the traffic looks fake, it is advertising fraud to skew your advertising traffic towards apps that you own and control and it is advertising fraud to tell customers that you can identify fake traffic when you can’t, especially with most of your advertising customers paying on a CPC basis. QTT inadvertently admits to at least one of these three forms of ad fraud in its response.

12. QTT has not denied the serious security issues that HybridAnalysis found in QTT’s software:

While QTT addressed privacy concerns in its response, it did not dispute the fundamental security risks that Hybrid Analysis and Virustotal found in its platform. There have been updates of the Qutoutiao App since our report was published, but even today these malware analysis tools identify Qutoutiao’s software as “malicious.”

Which brings us to the broader point that QTT should not be taking this issue up with us – they should talk to Hybrid Analysis and Virustotal, the third-party malware analysis tools that analyzed QTT’s software. We simply published the results of these scans, which are already available on their respective websites.

You can use the following URL to see a quick search for the term “qukan” on Hybrid Analysis.

<https://www.hybrid-analysis.com/search?query=qukan>

The link above shows the full history of Hybrid Analysis’s scans of QTT’s application. As you can see, it has always had some level of malicious rating. The fact that these security issues have gone unmitigated even *after* we highlighted them in our report is, at best, indicative of QTT’s technical ineptitude or apparent apathy regarding the security of its users.

No company running an “advanced software platform” with “leading-edge AI systems” would allow its core application to be categorized as malicious on leading anti-virus sites. The fact that QTT chose to completely ignore these serious security issues points to something much more insidious than ineptitude or apathy.

13. Questions for QTT, PwC Zhong Tian, the SEC and NASDAQ:

- QTT reported net revenues of RMB 3.02B to the SEC in its 2018 20-F. Yet, the sum of QTT's subsidiaries' 2018 SAIC reported revenue was only ~RMB 2.09B (excluding RMB 308M of intercompany revenues attributable to Dianguan, eliminated in consolidation). Where is the ~RMB 930M (~\$135M) of revenue that QTT reported to the SEC but not to the SAIC in 2018?
- What happened to QTT's interest income in Q3 2019? We ask this question because QTT reported net interest income of RMB 12.91 million in Q1 2019 and RMB 8.96 million in Q2 2019 but reported net interest *expense* of nearly RMB 1 million in Q3 2019 – the same quarter QTT purportedly moved 75% of its total liquidity into short-term investments in China.
- Where is the missing RMB 1.61 billion (~\$230 million) in purported advance payments from advertising customers that were reported on Shanghai Jifen's 2018 credit report balance sheet but absent from the balance sheets in QTT's 2018 20-F filed with the SEC?
- Is Li Feng, one of QTT's "independent" Directors and Chairman of QTT's Audit Committee,²³ the same Li Feng (李峰) that owns a 12% equity interest in one of QTT's related parties, Shanghai Tujin Information Technology Co., Ltd. (上海突进网络科技有限公司)?²⁴
- Why did QTT only disclose RMB 76.7 million of total related party transactions in 2018, while Wutong Holding Group Co., Ltd. (300292 CH) disclosed RMB 134.3 million of related party transactions specifically with QTT's main operating subsidiary, Shanghai Jifen, in 2018?²⁵
- Between Shanghai Dianguan's incorporation on November 9, 2017, and its acquisition by QTT in February 2018, Dianguan was financially dependent upon QTT, even while a related party, Liang Xiang, owned it. Can QTT confirm what dividends Dianguan paid out to Liang Xiang during that period of time?
- Did QTT launch a consumer lending product within the Qutoutiao App in March 2019?
 - See [this article](#) from Sina Finance for reference.
 - Iyio.com [also reported](#) that *millions* of people had applied for these loans.
 - [Recent articles](#) report that QTT's financial division was dissolved in November 2019.
 - Why weren't these material developments disclosed to investors on a Form 6-K?
- Does the term "Our Mobile Applications"²⁶ refer only to "Qutoutiao," "Qudoupai," "Midu Novels" and "Midu Lite," and does the term "relevant mobile applications" and the phrase "all of our mobile applications" exclusively refer to those four applications? We ask this question because we noted QTT's use of different terms to calculate its key user metrics such as "combined average DAUs" and "combined average MAUs" in its quarterly financial reports on Form 6-K, beginning in Q4 2018.²⁷ If there are additional, undisclosed apps included in these calculations, it would be impossible for

²³ <https://ir.qutoutiao.net/corporate-governance/board-of-directors>

²⁴ <https://www.qixin.com/company/3550bca9-5867-48c1-a6d1-db47d2ab9953>

²⁵ [Wutong Holding Group Co., Ltd. \(300292 CH\) 2018 Annual Report](#), p. 275

²⁶ As defined on pages 119-120 of QTT's 424B4 filed on April 3, 2019.

²⁷ QTT Form 6-K, exhibit 99.1, filed on March 6, 2019, May 21, 2019, September 5, 2019 and December 4, 2019.

investors to determine whether growth in these metrics is due to authentic user growth in existing apps or merely attributable to new apps being added to the calculation.

- QTT claimed that it earned 26% of its net revenues through Dianguan in 2017.²⁸ On a net basis, given the 2% agency fee disclosed by QTT, Dianguan’s 2017 revenue of RMB 1,348,000 would represent RMB 67,400,000 of advertising revenue for QTT – only 13% of its 2017 SEC reported revenues, half of what QTT claimed. Is there an explanation for this significant discrepancy?
- What platform(s), other than Qutoutiao and Midu, does Dianguan act as an advertising agent for?
- QTT’s COO and Co-Founder, Chen Sihui, was a significant shareholder in Beijing Churun, which QTT acquired for RMB 72.1 million (~\$10.5 million) on November 1, 2018.²⁹ Why was this not disclosed as a related party transaction?
- How does QTT justify having RMB 5.4 million in interest-free loans and advances to employees outstanding at the end of 2018?³⁰ Which employees has QTT given interest-free loans and advances to?
- In QTT’s 2018 20-F, it discloses that *“In November 2017, a shareholder of the Company sold certain ordinary shares to third party investors at US\$7.28 per share.”*³¹ This price represents a discount of nearly 70% to QTT’s next private sale of ordinary shares, which occurred just over a month later in January 2018. Who are the “third-party investors” involved in the November 2017 transaction? How many shares were sold in the November 2017 transaction? Why were these particular investors given such a significant discount?
- Does the Qudoupai App still exist? Have there been lawsuits related to Qudoupai and its software from Beijing Fast Hand Technology Co., Ltd. (i.e., Kuaishou)? Is Kuaishou’s prominence in QTT’s advertising traffic related to the settlement of that lawsuit?
- Why hasn’t QTT disclosed the fact that a Chinese court froze RMB 86 million of Jifen’s bank accounts and the equity of five of Jifen’s subsidiaries on December 23, 2019?³² We believe this qualifies as a “material legal development,” which QTT is required to disclose to investors on an SEC Form 6-K.³³

²⁸ QTT 2018 20-F, p. F-28

²⁹ QTT 2018 20-F, p. F-31

³⁰ QTT 2018 20-F, p. F-29, F-30

³¹ QTT 2018 20-F, p. F-39

³² <http://wenshu.court.gov.cn/website/wenshu/181107ANFZ0BXSK4/index.html?docId=32940acd16c04bdca0e8ab34009c02f8>

³³ <https://www.sec.gov/divisions/corpfin/internatl/foreign-private-issuers-overview.shtml#IIIB3>



Financial Disclaimer

Please be advised that WPR,LLC, Wolfpack Research (WPR) is a research and publishing firm, of general and regular circulation, which falls within the publisher's exemption to the definition of an "investment advisor" under Section 202(a)(11)(A) – (E) of the Securities Act (15 U.S.C. 77d(a)(6) (the "Securities Act"). WPR is not registered as an investment advisor under the Securities Act or under any state laws. None of our trading or investing information, including the Content, WPR Email, Research Reports and/or content or communication (collectively, "Information") provides individualized trading or investment advice and should not be construed as such. Accordingly, please do not attempt to contact WPR, its members, partners, affiliates, employees, consultants and/or hedge funds managed by partners of WPR (collectively, the "WPR Parties") to request personalized investment advice, which they cannot provide. The Information does not reflect the views or opinions of any other publication or newsletter.

We publish Information regarding certain stocks, options, futures, bonds, derivatives, commodities, currencies and/or other securities (collectively, "Securities") that we believe may interest our Users. The Information is provided for information purposes only, and WPR is not engaged in rendering investment advice or providing investment-related recommendations, nor does WPR solicit the purchase of or sale of, or offer any, Securities featured by and/or through the WPR Offerings and nothing we do and no element of the WPR Offerings should be construed as such. Without limiting the foregoing, the Information is not intended to be construed as a recommendation to buy, hold or sell any specific Securities, or otherwise invest in any specific Securities. Trading in Securities involves risk and volatility. Past results are not necessarily indicative of future performance.

The Information represents an expression of our **opinions**, which we have based upon generally available information, field research, inferences and deductions through our due diligence and analytical processes. Due to the fact that opinions and market conditions change over time, opinions made available by and through the WPR Offerings may differ from time-to-time, and varying opinions may also be included in the WPR Offerings simultaneously. To the best of our ability and belief, all Information is accurate and reliable, and has been obtained from public sources that we believe to be accurate and reliable, and who are not insiders or connected persons of the applicable Securities covered or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. However, such Information is presented on an "as is," "as available" basis, without warranty of any kind, whether express or implied. WPR makes no representation, express or implied, as to the accuracy, timeliness or completeness of any such Information or with regard to the results to be obtained from its use. All expressions of opinion are subject to change without notice, and WPR does not undertake to update or supplement any of the Information.

The Information may include, or may be based upon, "Forward-Looking" statements as defined in the Securities Litigation Reform Act of 1995. Forward-Looking statements may convey our expectations or forecasts of future events, and you can identify such statements: (a) because they do not strictly relate to historical or current facts; (b) because they use such words such as "anticipate," "estimate," "expect(s)," "project," "intend," "plan," "believe," "may," "will," "should," "anticipates" or the negative thereof or other similar terms; or (c) because of language used in discussions, broadcasts or trade ideas that involve risks and uncertainties, in connection with a description of potential earnings or financial performance. There exists a variety of risks/uncertainties that may cause actual results to differ from the Forward-Looking statements. We do not assume any obligation to update any Forward-Looking statements whether as a result of new information, future events or otherwise, and such statements are current only as of the date they are made.



You acknowledge and agree that use of WPR Information is at your own risk. In no event will WPR or any affiliated party be liable for any direct or indirect trading losses caused by any Information featured by and through the WPR Offerings. You agree to do your own research and due diligence before making any investment decision with respect to Securities featured by and through the WPR Offerings. You represent to WPR that you have sufficient investment sophistication to critically assess the Information. If you choose to engage in trading or investing that you do not fully understand, we may not advise you regarding the applicable trade or investment. We also may not directly discuss personal trading or investing ideas with you. The Information made available by and through the WPR Offerings is not a substitute for professional financial advice. You should always check with your professional financial, legal and tax advisors to be sure that any Securities, investments, advice, products and/or services featured by and through the WPR Offerings, as well as any associated risks, are appropriate for you.

You further agree that you will not distribute, share or otherwise communicate any Information to any third-party unless that party has agreed to be bound by the terms and conditions set forth in the Agreement including, without limitation, all disclaimers associated therewith. If you obtain Information as an agent for any third-party, you agree that you are binding that third-party to the terms and conditions set forth in the Agreement.

Unless otherwise noted and/or explicitly disclosed, you should assume that as of the publication date of the applicable Information, WPR (along with or by and through any WPR Party(ies)), together with its clients and/or investors, has an investment position in all Securities featured by and through the WPR Offerings, and therefore stands to realize significant gains in the event that the price of such Securities change in connection with the Information. We intend to continue transacting in the Securities featured by and through the WPR Offerings for an indefinite period, and we may be long, short or neutral at any time, regardless of any related Information that is published from time-to-time.