



Aug 30, 2012

Open Letter to Mr. Kai-Fu Lee:

After reading your article on Citron Research and Chinese stocks, we believe that you did not properly represent the statements made by Citron on valuation comparison of Sohu vs. Qihu. You also chose to ignore Citron's 11-year track record of exposing bad investments in over 130 companies, both in the United States and China.

But there is no reason for us to go back and forth on Qihoo and Sohu, as the market will tell the truth over time. Citron respects your education and intelligence, as well as your knowledge and impressive credentials in the technology industry.

But we believe it is very risky for investors when they are encouraged to ignore common sense and obvious signs of management misdeeds. We have extended an open invitation to you to debate the topic on CNBC Asia if you ever agree to appear live for a discussion.

Meanwhile, a challenge that will allow you to clear up a major issue and do good for the world at the same time: As you know the major driver behind Qihoo profit growth over the past year has been their revenue from online games, which the company claims generates a massive monthly ARPU of 400 RMB, more than six times the most average of publicly traded gaming companies in China, and triple that of ARPU's of publicly traded game companies in any country.

Citron believes this claim is fraudulent. A chart is attached, reflecting data from a comprehensive CCB report on the computer gaming industry in China.

If you can factually explain and defend Qihoo's gaming revenue claims, Citron Research will donate 100k RMB in your name to a charity of your choice. Prove us wrong and the donation will be made by wire, and the receipt posted online.

Andrew Left, Editor,
Citron Research