

## FRAUD BY MEANS OF TAX EVASION, CONCEALMENT OF COSTS AND EXPENSES, RELATED PARTY TRANSACTIONS, ETC.

### —— GSX: A long-planned listing scam

#### I. GSX'S MAIN SOURCE OF INCOME

According to the 2019 financial report declared by GSX to SEC of the United States, the operating income of GSX from 2017 to 2019 was 97.58 million yuan, 397 million yuan and 2.115 billion yuan respectively.

	For the Year Ended December 31,			
	2017	2018		2019
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Net revenues</b>	<b>97,580</b>	<b>397,306</b>	<b>2,114,855</b>	<b>303,780</b>
Add: VAT and surcharges	6,423	26,202	134,302	19,291
Add: ending deferred revenue	46,307	272,041	1,337,636	192,139
Add: ending refund liability	2,475	11,167	54,567	7,838
Less: beginning deferred revenue	29,848	46,307	272,041	39,076
Less: beginning refund liability	1,094	2,475	11,167	1,604
Less: deferred revenue from the acquisition of Shanghai Jinyou Education Technology Co., Ltd.	—	2,806	—	—
<b>Gross billings (non-GAAP)</b>	<b>121,843</b>	<b>655,128</b>	<b>3,358,152</b>	<b>482,368</b>

(Picture taken from: GSX 2019 Financial Results)

The overseas financial report does not specify which company GSX's revenue mainly comes from. If you want to explore further, you will need to check their domestic tax returns.

As we can see from GSX's prospectus (page 5), GSX's corporate structure is as follows:

GSX Techedu Inc.-- Baijiahulian Hong Kong companies-- Beijing Lexuebang Network Technology Co., Ltd.-- Beijing Baijiahulian Technology Co., Ltd.-- Beijing Gaotuyunji Education Technology Co., Ltd., Beijing Baijiahulian Technology Co., Ltd., Beijing Genshuixue

Technology Co., Ltd., Beijing Jia Zi Technology Co., Ltd., Beijing Baijiachengxi Education Technology Co., Ltd., Shanghai Jinyou Education Technology Co., Ltd.

From the tax returns provided by insiders, we can figure out that more than 90% of the revenue of GSX from 2017 to 2018 comes from Beijing Baijiahulian Technology Co., Ltd., and the main sources of GSX revenue in 2019 are Beijing Baijiahulian Technology Co., Ltd., Beijing Gaotuyunji Education Technology Co., Ltd., and Beijing Lexuebang Network Technology Co., Ltd. Taken together, they account for 100% of GSX's total revenue (overseas income is likely to be adjusted due to differences in Chinese and American accounting standards).

During 2017-2019, the income of Beijing Genshuixue Technology Co., Ltd. was all zero, Beijing Lexuebang Network Technology Co., Ltd. earned less than one million yuan in 2017 and 2018, and Beijing Gaotuyunji Education Technology Co., Ltd. also earned about one million yuan from 2017 to 2018, which is basically negligible compared to the total income of GSX.

2017-2019 GSX Revenue Statistics

	2017	2018	2019
Beijing gaotuyunji Education Technology Co., Ltd.	644089.12	1028495.14	1188706599.76
Beijing Baijiahulian Technology Co., Ltd.	91131515.83	368582643.39	958311932.69
Beijing Genshuixue Technology Co., Ltd.	0.00	0.00	0.00

Beijing Lexuebang Network Technology Co., Ltd.	0.00	970873.79	480176235.54
	91775604.95	370582012.32	2627194767.99
Overseas Earnings	97.58 million yuan	397 million	2.115 billion

(Data from domestic tax returns, Refer to annex )

## II . WEIRD LOSSES AND FALSE PROFITS

GSX's domestic subsidiary showed strange losses in 2017 and 2018.

Beijing Gaotuyunji Education Technology Co., Ltd., with a business income of 644000 yuan and operating costs of more than 17 million yuan in 2017, lost 17.4926 million yuan; in 2018, its operating income was 1.0284 million yuan, costs and expenses were 110 million yuan, and the loss was as high as 109 million yuan.

( Beijing Gaotuyunji Education Technology Co., Ltd. )

Item	Amount 2017	2018
I. Business income (fill in A101010\ 101020\ 103000)	644089.12	1028495.14
Minus: operating cost (fill in A102010\ 102020\ 103000)	1297788.92	62065633.45
Business tax and surcharge	1932.27	5899.32
Sales expenses (fill in A104000)	15397629.17	26796786.86
Administrative expenses (fill in A104000)	1439816.00	21604908.14
Financial expenses (fill in A104000)	-460.00	1778.07
Asset impairment loss	0.00	0.00
Plus: fair value change income	0.00	0.00
Income from investment	0.00	0.00
II. Operating profit (1-2-3-4-5-6-7+8+9)	-17492617.24	-109446510.70
Plus: non-operating income (fill in A101010\ 101020\ 103000)	0.00	-1184.00

Minus: non-operating expenses (fill in A102010\102020\ 103000)	0.00	0.00
III.Total profits (10+11-12)	-17492617.24	-109447694.70

Similarly, Beijing Lexuebang Network Technology Co., Ltd. lost 36.4665 million yuan with zero revenue in 2017 and 970800 yuan in 2018 with a loss of 40.3852 million yuan.

( Beijing Lexuebang Network Technology Co., Ltd.) )

Item	Gold 2017	2018
I. Business income (fill in A101010\ 101020\ 103000)	0.00	970873.79
Minus: operating cost (fill in A102010\ 102020\ 103000)	0.00	2821215.69
Business tax and surcharge	0.00	3495.14
Sales expenses (fill in A104000)	10046284.28	12098239.92
Administrative expenses (fill in A104000)	27819415.73	24587645.62
Financial expenses (fill in A104000)	-1399107.68	1845548.87
Asset impairment loss	0.00	0.00
Plus: fair value change income	0.00	0.00
Income from investment	0.00	0.00
II. Operating profit (1-2-3-4-5-6-7+8+9)	-36466592.33	-40385271.45
Plus: non-operating income (fill in A101010\ 101020\ 103000)	0.00	0.00
Minus: non-operating expenses (fill in A102010\ 102020\ 103000)	0.00	0.00
III.Total profits (10+11-12)	-36466592.33	-40385271.45

GSX as an online education company, its subsidiaries lose tens of millions or even hundreds of millions of yuan when there is no operating income or less than 1 million yuan, which is obviously unreasonable and seriously violates Chinese accounting standards.

Online education enterprises are different from traditional industrial enterprises or airlines, such as asset-heavy operating

enterprises, online education enterprises do not have heavy fixed assets, when there is no source of income, they do not need to pay high fixed costs and fees.

And, Beijing Lexuebang Network Technology Co., Ltd., Beijing Baijiahulian Technology Co., Ltd., Beijing Gaotuyunji Education Technology Co., Ltd., Beijing Baijiahulian Technology Co., Ltd., Beijing Genshuixue Technology Co., Ltd., Beijing Jiazi Technology Co., Ltd., Beijing Baijiachengxi Education Technology Co., Ltd. all work at the same address, and even the rental expenses of office space can be reasonably shared among the above-mentioned companies. It should fail to cause a huge loss to a subsidiary with no income.

Beijing Lexuebang Network Technology Co., Ltd., and Beijing Gaotuyunji Education Technology Co., Ltd., made huge losses in years with no or little income, just like a fisherman on a small sampan who did not go fishing but suffered huge losses caused by the mismanagement of the owner of a big oil tanker, which is extremely ridiculous.

This phenomenon appears in the subsidiaries of GSX, which shows that GSX maliciously transfers the costs and expenses of the company, and the costs are transferred randomly among its subsidiaries and even its affiliated enterprises, so as to achieve the purpose of arbitrarily regulating the profits and performance of GSX.

The purpose of fraud is very similar to the exposed Luckin Coffee.

In fact, foreign short sellers have already hinted at this phenomenon.

*“Grizzly Research released a short report on online education company GSX (NYSE:GSX) on the evening of February 25, arguing that GSX exaggerated its 2018 net profit by 74.6% and covered up costs and transferred funds through related party transactions and the purchase of office buildings.*

*Grizzly Research believes that the key role of GSX in falsifying financial statements is Beijing Youlianhuanqiu Education Technology Co., Ltd. (hereinafter referred to as Beijing Youlian).*

*Grizzly Research believes that Beijing Baijiayuntu Technology Co., Ltd., another GSX holding company that has been sold, is located next to the Beijing branch of GSX.*

*GSX may also be using the company to hire people and cover up actual costs.*

”

*Article 11 of China's Enterprise Accounting system stipulates that "in accounting, enterprises shall follow the following basic principles: (1) Accounting shall be based on transactions or events actually occurring, truthfully reflect the financial position, operating results and cash flow of the enterprise.*

*(3) the accounting information provided by an enterprise shall reflect the financial situation, operating results and cash flow of the enterprise, so as to meet the needs of users of accounting information.*

*(9) when an enterprise conducts accounting, its income shall be matched with its costs and expenses, and all revenues and related costs and expenses in the same accounting period shall be recognized within that accounting period. "*

Obviously, GSX violates the above provisions of China's Enterprise Accounting system.

The first quarter of 2019 is the period when GSX prepares to list on the New York Stock Exchange of the United States.

Thanks to the fraud method of GSX, which randomly distributes and regulates costs and expenses, the costs of Beijing Baijiahulian Technology Co., Ltd. in 2018 are transferred to other subsidiaries or related enterprises such as Beijing Youlianhuanqiu Education Technology Co., Ltd., thus packaging GSX as a profit-making enterprise, enabling GSX to successfully list in the United States as the first profitable online education company in China.

In other words, GSX is listed on a large scale of financial fraud like Luckin Coffee, and in this way it will continue to be "profitable" in 2019!

### **III. Serious consequences**

Fraudulently listing in violation of American law is a felony!

It is also a serious illegal act of financial fraud in China, and it has

seriously violated the provisions of China's tax law, resulting in the fact of tax evasion of 50 million yuan!

According to the provisions of Article 14 of the Company Law of the people's Republic of China (amended in 2018), "the company may establish subsidiaries, which shall have the status of a legal person and independently bear civil liability in accordance with the law."

At the same time, according to the provisions of Article 8 of the Enterprise income tax Law of the people's Republic of China (revised in 2018), "reasonable expenses actually incurred by an enterprise related to the acquisition of income, including costs, expenses, taxes, losses and other expenses, it is allowed to be deducted in calculating taxable income."

And the provisions of Article 41, if the business dealings between the enterprise and its related parties do not comply with the principle of independent transactions and reduce the taxable income or the amount of income of the enterprise or its related parties, the tax authorities shall have the right to adjust in accordance with reasonable methods.

Each subsidiary of GSX shall account for the income, cost and expenses separately in accordance with the principle of independent transaction, and shall not be included in the costs that have nothing to do with the company's income.



Therefore, during the period from 2017 to 2018, Beijing Gaotuyunji Education Technology Co., Ltd. and Beijing Lexuebang Network Technology Co., Ltd. falsely listed the costs and expenses that had nothing to do with the company's income, and their operating profits should be adjusted in accordance with the principle of independent transactions to reduce the losses that can be made up for in future years.

According to the 2019 enterprise income tax return of Beijing Gaotuyunji Education Technology Co., Ltd., thanks to the large loss in **2018**, 141.8 million of its operating profit in **2019** was exempted from corporate income tax. According to the tax law, Beijing Gaotuyunji Education Technology Co., Ltd. should make tax adjustment and need to pay enterprise income tax  $141.8 \text{ million} * 15 \approx 22 \text{ million yuan}$ .

( Beijing Gaotuyunji Education Technology Co., Ltd. )

Category	Item	2019
Calculation of total profit	I. Business income (fill in A101010\ 101020\ 103000)	1188706599.76
	Minus: operating cost (fill in A102010\ 102020\ 103000)	261438098.59
	Business tax and surcharge	5140966.41
	Sales expenses (fill in A104000)	298923711.32
	Administrative expenses (fill in A104000)	426962633.78
	Financial expenses (fill in A104000)	-2783900.63
	Asset impairment loss	0.00
	Plus: fair value change income	0.00
	Income from investment	0.00
	II. Operating profit (1-2-3-4-5-6-7+8+9)	199025090.29
	Plus: non-operating income (fill in A101010\ 101020\ 103000)	1632328.75

	Minus: non-operating expenses (fill in A102010\ 102020\ 103000)	212982.60
	III. Total profits (10+11-12)	200444436.44
Calculation of taxable income	Minus: overseas income (fill in A108010)	0.00
	Plus: tax adjustment increase (fill in A105000)	10330588.13
	Minus: tax adjustment reduction (fill in A105000)	30988261.89
	Minus: tax exemption, income deduction and additional deduction (fill in A107010)	37943349.28
	Plus: overseas taxable income deducts domestic losses (fill in A108000)	0.00
	IV. Income after tax adjustment (13-14+15-16-17+18)	141843413.40
	Minus: deduction (fill in A107020)	0.00
	Minus: deduction of taxable income (fill in A107030)	
	Minus: make-up for losses in previous years (fill in A106000)	133438668.61
	V. Taxable income (19-20: 21-22)	8404744.79
Calculation of tax payable	Tax rate (25%)	0.25
	VI. Income tax payable (23 × 24)	2101186.20
	Minus: income tax deduction (fill in A107040)	840474.48
	Minus: deduction of income tax (fill in A107050)	0.00
	VII. Tax Payable (25-26-27)	1260711.72
	Plus: Income tax payable on overseas income (Fill in A108000)	0.00
	Minus: Income tax for overseas income credit (Fill in A108000)	0.00
	VIII. Actual Income Tax Payable (28+29-30)	1260711.72
	Minus: the amount of income tax actually paid in advance this year	11336775.06
	IX. Income tax payable (refunded) this year (31-32)	-10076063.34
	Thereinto, Apportionment of income tax payable (refunded) by the head Office this year (fill in A109000)	0.00
	Income tax payable (refunded) this year for centralized Financial Distribution (fill in A109000)	-
	Apportionment of income tax payable (refunded) this year by the main production and operation department of the head office (fill in A109000)	-

Beijing Lexuebang Network Technology Co., Ltd. should pay 200.9 million yuan \* 15% ≈ 30 million yuan in enterprise income tax.

( Beijing Lexuebang Network Technology Co., Ltd. )

Category	Item	2019
Calculation of total profit	I. Business income (fill in A101010\ 101020\ 103000)	480176235.54
	Minus: operating cost (fill in A102010\ 102020\ 103000)	3769907.12
	Business tax and surcharge	1861665.72
	Sales expenses (fill in A104000)	331171265.17
	Administrative expenses (fill in A104000)	78172018.36
	Financial expenses (fill in A104000)	-819512.09
	Asset impairment loss	0.00
	Plus: fair value change income	0.00
	Income from investment	0.00
	II. Operating profit (1-2-3-4-5-6-7+8+9)	66020891.26
	Plus: non-operating income (fill in A101010\ 101020\ 103000)	874837.99
	Minus: non-operating expenses (fill in A102010\ 102020\ 103000)	0.00
	III.Total profits (10+11-12)	<b>66895729.25</b>
	Calculation of taxable income	Minus: overseas income (fill in A108010)
Plus: tax adjustment increase (fill in A105000)		240740188.65
Minus: tax adjustment reduction (fill in A105000)		41605818.56
Minus: tax exemption, income deduction and additional deduction (fill in A107010)		65116791.86
Plus: overseas taxable income deducts domestic losses (fill in A108000)		0.00
IV. Income after tax adjustment (13-14+15-16-17+18)		<b>200913307.48</b>
Minus: deduction (fill in A107020)		0.00
Minus: deduction of taxable income (fill in A107030)		
Minus: make-up for losses in previous years (fill in A106000)		167654769.81
V. Taxable income (19-20: 21-22)		33258537.67
Calculation of tax payable	Tax rate (25%)	0.25
	VI. Income tax payable (23 × 24)	8314634.42
	Minus: income tax deduction (fill in A107040)	8314634.42
	Minus: deduction of income tax (fill in A107050)	0.00
	VII. Tax Payable (25-26-27)	0.00
	Plus: Income tax payable on overseas income (Fill in A108000)	0.00

	Minus: Income tax for overseas income credit (Fill in A108000)	0.00
	VIII. Actual Income Tax Payable (28+29-30)	0.00
	Minus: the amount of income tax actually paid in advance this year	0.00
	IX. Income tax payable (refunded) this year (31-32)	0.00
	Thereinto, Apportionment of income tax payable (refunded) by the head Office this year (fill in A109000)	0.00
	Income tax payable (refunded) this year for centralized Financial Distribution (fill in A109000)	-
	The main production and operation department of the main institution shall share the amount of income tax payable (refund) for the current year (fill in A109000)	-
Calculation of tax payable	Income tax payable (refunded) this year for centralized Financial Distribution (fill in A109000)	
	Apportionment of income tax payable (refunded) this year by the main production and operation department of the head office (fill in A109000)	

Beijing Gaotuyunji Education Technology Co., Ltd., Beijing Lexuebang Network Technology Co., Ltd., together should pay enterprise income tax of about 2200003000 = 52 million yuan.

At the same time, in accordance with Article 63 of the tax Collection and Administration Law of the people's Republic of China, a taxpayer who forges, alters, conceals or destroys account books and vouchers without authorization, or lists more expenditure or no or less income in the account books, or refuses to declare or makes false tax returns after notification by the tax authorities, and fails to pay or underpays the tax payable shall be tax evasion.

If a taxpayer evades taxes, the tax authorities shall recover the

unpaid or underpaid taxes and late fees, and impose a fine of not less than 50% and not more than five times of the unpaid or underpaid taxes; if the case constitutes a crime, he shall be investigated for criminal responsibility according to law.

As a result, GSX's subsidiaries Beijing Gaotuyunji Education Technology Co., Ltd., and Beijing Lexuebang Network Technology Co., Ltd. violate the provisions of China's tax law and will be punished by supplementary taxes, fines and late fees, with a total amount of between 100 million and 250 million yuan. GSX will have a serious risk of breaking the law, and the interests of investors will be seriously harmed.

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